



## THE CITY OF KEY WEST

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MEMORANDUM

### EXECUTIVE SUMMARY

**TO:** Bogdan Vitas, City Manager  
E. David Fernandez, Asst. City Manager

**FROM:** Jay Gewin, Utilities Manager

**DATE:** August 8, 2013

**SUBJECT:** **Approving a Resolution to Authorize the City of Key West to Accept a \$19,963,753 Bank Loan from Regions Capital Advantage, Inc. in Order to Re-Finance the Series 2003 Sewer Bonds.**

#### ACTION STATEMENT:

This resolution will allow the City of Key West to authorize a \$19,963,753 loan from Regions Capital Advantage, Inc. at 2.65% interest to re-finance the Series 2003 Bonds originally issued for already-completed sewer capital projects. This is a bank loan to replace our existing Series 2003 Bonds that should result in an annual savings for the City of approximately \$200,000. This resolution will also allow the City to pay the costs relating to securing the loan agreement.

#### BACKGROUND:

On September 21, 1999, the City of Key West adopted Resolution No. 99-346 which authorized the issuance of Sewer System Revenue Bonds in an amount not to exceed \$23,000,000 to finance the cost of design, permitting, acquisition, construction, and reconstruction of improvements to the sewer system. The issuance of these bonds was subject to a bond referendum held on November 2, 1999, wherein a majority of Key West voters approved the issuance of said bonds.

Pursuant to the 1999 Referendum, on February 9, 2001, the City entered into a Clean Water State Revolving Fund Construction Loan Agreement with the Florida Department of Environmental Protection for the purpose of constructing certain wastewater treatment plant improvements in an amount equal to \$5,252,639.07, which then left authority under the 1999 Referendum at \$17,747,360.93.

*Key to the Caribbean – Average yearly temperature 77° F.*

On June 17, 2003, the City enacted Ordinance No. 03-15, and per that ordinance on July 23, 2003, the City issued its Sewer System Refunding Revenue Bonds, Series 2003 to refinance prior indebtedness, which did not require any use of authority under the 1999 Referendum since it was a refunding for savings.

Pursuant to the Original Ordinance and the 1999 Referendum, on February 14, 2012, the City issued its Sewer System Revenue Bond, Series 2012 in the aggregate principal amount of \$4,065,000 for the purpose of repaying a grant made by the Florida Department of Emergency Management which had previously paid for sewer system capital improvements, which then left authority under the 1999 Referendum at \$13,682,360.93.

The State Revolving Fund Loan is junior and subordinate in all respects to the Series 2003 Bonds and the Series 2012 Bond as to source of security.

### **PURPOSE & JUSTIFICATION:**

Current economic conditions have resulted in interest rates at a lower percentage than what the City is currently paying for our Series 2003 Bonds. Therefore City Staff and our financial consultants believe it is in the best interests of the City and its sewer system customers to authorize the issuance of not exceeding \$23,500,000 Sewer System Refunding Revenue Bonds for the purpose of refunding all or a portion of the Series 2003 Bonds and/or the State Revolving Fund Loan for net present value savings, which will not require any use of authority under the 1999 Referendum since it would be a refunding for savings.

The Series 2003 Bonds allow for us to now capitalize on these low interest rates to secure a bank loan that will help lower our annual payments by approximately \$200,000. Our financial analysts with PFM believe that a bank loan rather than a bond would offer the City the lower annual payment sum.

The principal of and interest on the Series 2013 Bond shall be payable solely from the Net Revenues on parity and equal status with the Series 2012 Bonds. The State Revolving Fund Loan, if not refinanced, would be junior and subordinate in all respects to the Series 2013 Bond and the Series 2012 Bonds as to source of security.

Our financial consultants issued a RFP for the bank loan that is consistent with City purchasing ordinances. A total of 8 institutions responded to the bid. After a detailed review of the proposal and terms offered from each prospective lender, both City Staff and PFM believe that the proposal from Regions Capital Advantage, Inc. offers the combined best interest rate (2.65%) and conditions for the City.

### **OPTIONS:**

1. Approve the resolution that will allow the City to enter into a bank loan that would lower the City's annual payments for the Series 2003 Sewer Bonds by approximately \$200,000 per year.

2. Do not approve the resolution. This option is not recommended, because it is in the best financial interest of the City's sewer utility to capitalize on the current low interest rates so that we can achieve over \$200,000 in savings on the annual payments towards our Series 2003 Bonds.

## FINANCIAL IMPACT:

The annual savings in annual payments for the Series 2003 Bonds is expected to be approximately \$200,000. This figure was included in the FY 2014 budget that was presented to the City Commission. These annual savings from the bonds is a key reason why City Staff is recommending a 2% rate cut for next fiscal year.

The approximate repayment schedule, which could be very slightly modified from these figures depending on factors such as final fee calculations, would be as follows:

City of Key West, Florida				
Sewer System Refunding Revenue Bond, Series 2013				
Period Ending	Principal	Coupon	Interest	Debt Service
10/1/2013	256,436.00	2.65%	57,312.61	313,748.61
10/1/2014	1,287,574.00	2.65%	522,243.90	1,809,817.90
10/1/2015	1,327,144.00	2.65%	488,123.18	1,815,267.18
10/1/2016	1,360,626.00	2.65%	452,953.88	1,813,579.88
10/1/2017	1,391,845.00	2.65%	416,897.28	1,808,742.28
10/1/2018	1,430,742.00	2.65%	380,013.40	1,810,755.40
10/1/2019	1,471,994.00	2.65%	342,098.72	1,814,092.72
10/1/2020	1,509,802.00	2.65%	303,090.88	1,812,892.88
10/1/2021	1,556,061.00	2.65%	263,081.14	1,819,142.14
10/1/2022	1,590,572.00	2.65%	221,845.52	1,812,417.52
10/1/2023	1,628,447.00	2.65%	179,695.36	1,808,142.36
10/1/2024	1,669,563.00	2.65%	136,541.52	1,806,104.52
10/1/2025	1,716,588.00	2.65%	92,298.10	1,808,886.10
10/1/2026	1,766,359.00	2.65%	46,808.52	1,813,167.52
Total	19,963,753.00	-	3,903,004.01	23,866,757.01
*Preliminary Numbers, subject to change				

## RECOMMENDATION:

Staff recommends option #1, that the City Commission approves the loan from Regions Capital Advantage allowing the City to secure a \$19,963,753 bank loan that will lower the current annual payment compared to the existing Series 2003 Bonds.