



LEGISLATIVE MEMORANDUM

TO: Honorable Mayor and Members of the City Council

FROM: Lisa Morrell, City Manager

REQUESTING DIRECTOR: Yvonne McDonald, Finance Director

DATE: May 21, 2020

RE: Non-Competitive Refinancing of Energy Performance Lease/Purchase Agreement

SUMMARY:

On July 6, 2018, the City of Palm Bay entered into a Lease Purchase Agreement with the Bank of America for the purpose of funding energy conservation measures pursuant to an energy performance contract between the City of Palm Bay and Honeywell Building Solutions. A total of \$4,369,350 was funded for a period of 19 years. The lease purchase agreement, which is subject to annual appropriation, matures on July 6, 2037. One annual debt payment has been made to date.

Because of the current low interest rate environment and period when lease/purchase refinancing can occur, there is a short window of opportunity to reduce the current interest rate on the lease/purchase agreement with Bank of America. Under the current lease/purchase agreement, the City can pay off the lease by refinancing at the end of each annual lease period, at a prepayment premium of 102% of the Outstanding Balance. Bank America was contacted regarding refinancing the lease/purchase agreement in lieu of the City having to go out for competitive Request for Proposals in the current market.

Bank of America has offered to refinance the agreement at a rate of 2.55%. The current rate is 3.597%. The amount refinanced would include the current principal balance, the prepayment cost and issuance cost. Based on the proposed rate, the City would reduce its July 6, 2020 payment by \$18,716 for FY 20 and realize total savings of \$336,895 over the 18 years the lease purchase agreement is outstanding. The lease/purchase payments are funded by the General Fund.

The City's Financial Advisor has advised that the rate offered seems reasonable given the structure of the loan. As a lease/purchase financing, the lease is subject to annual appropriation and offers limited recourse to the lender if funds are not appropriated. The attractiveness of the refinancing to other lenders, given the non-appropriation and length of time remaining, if placed out to bid is unknown, with no guarantee that the City would receive a lower or higher rate than the rate being offered by Bank of America. Timing is another factor if the City wants to benefit from the reduced

payment for July 6, 2020. Staff also does not currently have the capacity to seek proposals, review responses, produce/execute the required documents and close the financing by July 6, 2020.

The purpose of this memo is to ascertain Council direction as to whether or not to move forward with the offer received from Bank of America, so that staff and the bank can move forward with the necessary steps required to refinance the lease/purchase agreement and close on or before July 6, 2020.

REQUESTING DEPARTMENTS:

Finance Department

FISCAL IMPACT:

General Fund Savings: FY 20 - \$18,716, and FY 20 thru FY 37 - \$336,895

RECOMMENDATION:

Motion to approve the non-competitive refinancing of the Energy Performance Lease/Purchase Financing with the Bank of America, and authorize execution of all required documents by the Mayor or City Manager.

Attachment:

1) Bank of America Tax Exempt Lease/Purchase Refinancing Proposal (available upon request)