

December 2, 2019

Memorandum

To: City of Fort Lauderdale, Florida
From: PFM Financial Advisors LLC
Re: Recommendation – Line of Credit for Stormwater System

The purpose of this memorandum is to briefly summarize the proposals received from lending institutions to provide the City of Fort Lauderdale, Florida (the “City”) with a tax-exempt Line of Credit (the “Line”) and summarize the recommendation of PFM Financial Advisors LLC (“PFM”) to move forward in order to fund the first phase of stormwater system capital projects.

On November 1, PFM, on behalf of the City, distributed a request for proposals to a broad pool of lenders that are active in municipal lending. PFM’s recommendation to proceed with a competitive process for the Line relies upon the facts that: (1) the City desired to implement the Line as expeditiously as possible in order to fund the projects; (2) the Line was viewed as an interim step until permanent financing is realized; (3) the security for the Line was well understood by market participants and better suited for a direct placement that limited the administrative burden and minimized costs of issuance. Additionally, the City desired the flexibility to dictate the terms of the Line according to the timing the best served its purpose, resulting in a request for a five-year draw period and a ten-year term out period (minimums).

On December 20th, two (2) proposals were received. The summary table below lists the proposer and interest rates. Interest rates are shown for the current rate (as of the date of this memorandum), as well as the average rate over the prior ten years. A full summary of the proposing firms, along with a brief summary of the key points from each proposal is included in the matrix at the end of this memorandum.

Proposal	PNC	JP Morgan
Index/Formula	(A) SIFMA +111bps (B) 79% Fed Funds + 76bps	80% 1-mo LIBOR +90bps
Current Rate*	(A) 2.180% (B) 1.985%	2.261%
10yr Average	(A) 1.610% (B) 1.265%	1.495%
Annual Cost of Line (Interest)**	\$1,389,500	\$1,582,896
Unutilized Fees***	10bps, applicable unless 50% of Line is utilized four (4) months after closing	None Applicable

*As of date of this memorandum

**Based on current rate (lowest available option)

***Stated willingness to delay closing

The two responses provided attractive interim borrowing rates during the draw period. For purposes of the calculation in the table, we assumed a drawn amount of \$70 million. The lowest interest rate proposal from PNC results in approximately \$193,000 of interest cost savings versus the cover bid from JP Morgan. There are however a couple of important nuances to each proposal. These are summarized as follows:

- JP Morgan did not provide a term out feature. The full principal amount drawn would be due at the end of the five-year draw period.
- JP Morgan did not have a fee for unutilized amounts (undrawn amount).
- PNC provided a full ten-year term-out at the conclusion of the draw period. The term out would be priced at the Prime Rate plus 1%, can be paid off at any point without penalty.

- PNC requires a covenant that the City take out drawn amounts of the Line with any parity borrowing.
- PNC included an unutilized fee if the City has not drawn at least 50% of the Line within four (4) months after closing. They have also stated flexibility in the actual closing date such to provide the City with additional time to move projects forward to achieve 50% drawn.

At this time, PFM recommends moving forward with the line of credit option from PNC. We view the results of this proposal to be generally consistent with what other recent lines of credit (or similar interim borrowing facilities) have yielded. Our recommendation is based on the fact that PNC offered the full term and amount requested, had a more advantageous utilized rate, and provided a ten-year term-out feature. Although PNC also included an unutilized fee of ten basis points, which would add approximately \$70,000 to the annual interest cost on the Line (assuming none had been drawn), the difference in the underlying drawn rate more than offsets this unutilized fee. Also note that per PNC, they are agreeable to a flexible closing date and a four month grace period to achieve 50% drawn before the unutilized fee is applied. Further while the term-out feature may never be executed, it provides a safety feature that the City would not absolutely have to rush to market to find an alternative financing at the end of the five-year period. Based on the PNC proposal, and assuming the amount is fully drawn, the interest cost to the City would be approximately \$1.39 million based on current rates, or \$0.885 million based on the average rate over the last ten years. As an additional data point, we calculated that if the City were to draw an equal amount over 24 months to reach the full \$70 million on the Line, the interest cost inclusive of the undrawn fees for the PNC proposal would be approximately \$2.1 million less than the JP Morgan proposal. Of course, if the City were to draw at a faster pace it would reduce the unutilized costs, and a slower pace would increase the unutilized fee. It is our understanding at this time that the City has a reasonable expectation to draw at a faster pace on the line.

The following pages include the detailed response matrix summarizing the proposals listed above. We look forward to continuing to work towards a successful closing for the Line of Credit. Please do not hesitate to contact us should you have any questions on the details of the responses.



City of Fort Lauderdale
2019 Stormwater Line of Credit
RFP Summary

	JP Morgan	PNC
Contact Information	Tim Bittel, CFA Executive Director 212-270-2169 timothy.j.bittel@jpmorgan.com	Nick Ayotte Vice President 239-437-3736 nicholas.ayotte@pnc.com
Tax-Exempt, Non-Bank Qualified Interest Rate	Variable	Variable
Rate Set Calculation	Indicative 80% 1-Month LIBOR + 90bps	Indicative SIFMA + 111 bps or (79% x Effective Federal Funds Rate) + 76bps
Rate Locked to Closing, or Date to be Set	Variable	Variable
Prepayment Provisions	Does not specify	During the 60 month Draw Period, prepayment can be made without penalty
Escrow	Does not specify	Does not specify
Legal/Other Fees	All legal fees and disbursements will be for the City's account and payable on the date of closing	\$12,000
Other Conditions & Notes	a) Subject to normal due diligence, credit approval, satisfactory documentation and agreement on terms and conditions b) Final credit approval expected within 10 days c) will not accrue a facility fee	a) minimum draw amounts will be no less than \$5,000,000 and in denominations of \$1,000,000 thereafter. b) Draws limited to one per month c) Term Out Pricing: Bank Prime Rate + 1.00% d) Gross-up language in the event of taxability due to action (or inaction) of the Borrower e) SIFMA & Effective Federal Funds indices have a floor rate of 0.00% f) Default Rate: Prime + 3.00% or maximum allowable by law; whichever is less g) Rate Covenant: 1.10x h) Mandatory Take Out: City agrees to fully repay all outstanding principal and accrued interest and close the Line in the event the City issues additional stormwater debt in any capacity i) CAFR due within 210 days of fiscal year end