



MEMORANDUM

TO: Marshall Labadie, Town Manager, Town of Highland Beach (the “Town”)
Matthew Lalla, Finance Director, Town of Highland Beach

FROM: Florida League of Cities, as Administrator for the Florida Municipal Loan Council (the “FMLC”)

SUBJECT: January 23, 2019 email from Craig Dunlap to Alan Polin, Highland Beach Financial Advisory Board Member

DATE: February 8, 2019

The Florida League of Cities, as Administrator for the FMLC, received a copy of an email dated January 23, 2019 from Craig Dunlap to Alan Polin, Highland Beach Financial Advisory Board Member. This email contained several statements regarding the FMLC’s bond program. Our purpose of this memorandum is to clarify several of those statements. Please find the statements made by Craig Dunlap in italics below and the respective clarifications.

1. *“Loans from applicants are aggregated together to achieve a larger principal amount of bonds to be sold as fixed rate debt. They are sometimes insured by a bond insurance policy.”*

The Town’s borrowing will not be part of a pooled program, but will be issued as stand-alone debt. Bond insurance may be available, but would be purchased only if it was financially beneficial to the overall borrowing costs, as determined through an analysis by Public Resources Advisory Group (“PRAG”), as financial advisor, and upon approval by Town staff.

2. *“FMLC bonds usually price to the “weakest link” of the aggregated applicants”.*

As discussed above, the Town’s borrowing would not be part of a pooled program, but would be issued as stand-alone debt. Therefore, the bonds would be priced based on the Town’s credit as a stand-alone borrower.

3. *“The FMLC adds an annual administrative fee of between 10-12.5 basis points to the yield on the bonds which increases the True Interest Cost on the debt by the amount of the annual administrative fees.”*

The FMLC charges an annual administrative fee equal to the lesser of i.) 10 basis points of outstanding debt and ii.) \$10,000, with a minimum fee of \$1,500. Assuming a \$45M bond issue, in the first year this fee would equal \$10,000, or approximately 2.2 basis points. The services covered by the annual administrative fee are described below in item #5.

4. *“In the past, the underwriter for these bonds has made them callable on an interest payment date rather than making them callable on any date. This could impact the timing on refunding bonds.”* FMLC bonds issued prior to 2001 included provisions that allowed the bonds to be callable only on an interest payment date. However, most FMLC bonds issued since 2001 have been callable in whole or in part at any time after 10 years. Call provisions for the Highland Beach borrowing would be determined at a later date, based on an analysis by PRAG, as financial advisor, and upon approval by Town staff.

5. *“If the Town is successful in getting the GO referendum approved, I would think they could achieve an investment grade rating of A1 or A+ or better. If this is true, the Town should sell the debt themselves and the overall interest rate paid by the Town should be less than that of the FMLC program as they would achieve a market yield influenced only by the Town’s credit and avoid paying the administrative fees associated with the FMLC program.”*

The market yield on the Town’s borrowing would be influenced by the Town’s credit only, as it would not be pooled with other borrowers. The administrative fees associated with the FMLC program cover several services provided by the FMLC, including arbitrage rebate calculations and continuing disclosure filing services. Arbitrage rebate calculations and the filing of continuing disclosure are on-going requirements that must be completed as part of a tax-exempt municipal borrowing, regardless of whether a municipality chooses to issue debt through the FMLC. If a municipality chooses not to use the FMLC’s program, it still must complete arbitrage rebate calculations and file continuing disclosure documents, either facilitated through the hiring of arbitrage rebate and/or disclosure professionals or completed internally by Town staff.