From: Marlon Brown <Marlon.Brown@sarasotaFL.gov>
Sent: Friday, October 1, 2021 8:37:44 AM
To: City Commissioners <CityCommissioners@sarasotafl.gov>
Cc: Kelly Strickland <Kelly.Strickland@sarasotaFL.gov>; Steven Cover <Steven.Cover@sarasotaFL.gov>; Mark Lyons <Mark.Lyons@sarasotaFL.gov>
Subject: Fillmore Lot - Purchase and Sale - Unfinished Business Agenda Item IX.3

Honorable Mayor and City Commissioners:

In addition to City Attorney Fournier's memo in your packets on the above subject upcoming agenda item, I would like to supplement it with additional information that he identified as needed including the attachment here from Bond Counsel Draper. Frankly, without providing you with a recommendation at this time, there are huge financial challenges that complicate the sale at this time that must be considered if indeed you wish to proceed. Again, if the City Commission wishes to maximize the proceeds from this transaction and possibly avoid any impact to our bond rating, future borrowing or any legal challenge, please carefully consider the information below and in the attachment from Bond Counsel. Again, staff will proceed on any direction the City Commission desires on this issue.

First to the issue of Defeasance:

This means to buy back the bonds that were issued to build the St. Armands parking garage prior to the earliest callable date of October 1, 2027, which is when you can do so without penalty or risk of legal challenge. To cash defease the 2017A and 2017B St. Armand's Parking area debt, we will need to produce $16,503,237.56. Where would this cash come from? The sale of the lot? We do not have an appraisal on hand at this time. Even if the sale equaled the debt, the City may be left with nothing in cash (no positive cash flow) but a paid off parking garage, what may be developed on the Fillmore lot and future property tax revenue.

Second is holding off on the sale of the Lot until the bonds call date of October 1, 2027:

Here, we can sell the Fillmore Lot after October 1, 2027, benefit from the cash from the sale without penalty or being forced to repay the bonds, refund the bonds as they will now be legally callable or refinance the remaining $9,810,000 (this is what the value of the bonds will be on the callable date) without paying negative arbitrage. (Negative arbitrage is opportunity cost for holding money in escrow rather than investing at the current market rate). This also gives us time, if directed by the City Commission, to process the land use and zoning changes. If so directed, we will have a clean and ready site for City Commission consideration of a sale.

Again, the City reaps the benefit of having cash from the sale (positive cash flow) and can consider refinancing the bonds in lieu of repayment.

Please see the attachment for further information on the impact to the bonds, the need to ensure that the net parking revenues are covered through the end of the life of the bonds, and the possible impacts to the City. City Attorney Fournier and I will share more on Monday when you can also hear from the parties interested in the sale of the Fillmore Lot.

Thank you Commissioners.

Marlon

City of Sarasota Logo

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M E M O R A N D U M

TO: Robert M. Fournier, Esq., City Attorney
Kelly R. Strickland, CPA, CGFO, Director of Financial Administration

FROM: Duane D. Draper

DATE: September 29, 2021

RE: Bond Covenants | City of Sarasota, Florida, St. Armands Paid Parking Area Improvements Revenue Bonds, Series 2017A and City of Sarasota, Florida, St. Armands Paid Parking Area Improvements Revenue Bonds, Series 2017B

We served as Bond Counsel to the City of Sarasota, Florida (the "City") in connection with the issuance by the City of its St. Armands Paid Parking Area Improvements Revenue Bonds, Series 2017A and its St. Armands Paid Parking Area Improvements Revenue Bonds, Series 2017B (collectively, the "Bonds") which were issued pursuant to Resolution No. 16R-2568 adopted by the City Commission of the City on May 16, 2016, as amended and restated in its entirety by Resolution No. 17R-2667 adopted by the City Commission of the City on October 2, 2017, as may be amended and supplemented from time to time, and as particularly supplemented by Resolution No. 17R-2678 adopted by the City Commission of the City on October 2, 2017 (collectively, the "Bond Resolution"). The then low interest rate and investment grade ratings were in part based on strong bond covenants applicable to the City which are in favor of the holders of the Bonds. In particular, Section 5.07(A) of the Bond Resolution provides, in part: "The [City] shall not take any action or omit to take action the effect of which is expected in the aggregate to have a material adverse impact upon collections of Net Parking Revenues within the St. Armands Paid Parking Area." As we have discussed, a bond default is a very bad thing and can prevent access to the capital markets and/or significantly increase the cost of capital and/or result in ratings downgrades for years thereafter, and is to be avoided under all circumstances, and thus interpretation of bond covenants is a necessarily conservative exercise.

You have asked whether a proposed transaction that would permanently remove a significant number of paid parking spots from the St. Armands Paid Parking Area would violate this bond covenant.

Let me first state that the bond covenant goes away if City were to legally defease the Bonds through the first optional call date (October 1, 2027). In that case,, said bond covenant would no longer potentially limit the City's ability to execute a proposed transaction. It is our understanding that the City's Financial Advisor has estimated that cost to be approximately $2 million based on current market conditions which cost should be factored into the overall net benefit to the City. It is also our understanding that this cost would generally decrease towards $0 as we approach the October 1, 2027 call date. The reason for the cost is the negative drag for the next 6 years (called "negative arbitrage") given that reinvestment rates in the escrow are so much lower than the interest rates on the Bonds themselves. Another option which may be slightly more or less costly according to the City's Financial Advisor is a taxable advance refunding which would be at higher interest rates in part because the interest rates are taxable and not tax-exempt and in part because we would be removing a strong bond covenant that gives the holders of the Bonds comfort.

Assuming that said bond covenant remains in place, it is our opinion that said bond covenant would be violated unless the City can ensure that Net Parking Revenues would not be reduced in the aggregate between now and the maturity date of the Bonds (October 1, 2038). There would likely be a significant cost, and practical challenges, which should also be factored into the overall net benefit to the City. To give some sense of the magnitude of the cost of prepaying an amount which would ensure that said bond covenant is not violated, it is our understanding that the amount of such prepayment could be significantly in excess of the approximately $2 million referenced above. The practical challenges include whether we could get an independent consultant to estimate 17 years into the future such things as what should be assumed as far as parking rate increases and what occupancy rate should be used in light or unpredictable market conditions and unknown redevelopment over the next 17 years, etc.

Feel free to let us know if you have any questions.