

**DAVENPORT & COMPANY**

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# Equipment Refinancing Lease Summary of RFP Results

Prepared for: City of Hampton, Virginia



February 24, 2016

# Background

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- On January 20, 2016, Davenport & Company LLC, as Financial Advisor to the City of Hampton (the “City”), presented a potential refunding opportunity with respect to the City’s 2009 Motorola Lease to City Council for its consideration.
- Based on the preliminary savings estimates discussed with City Council, Davenport was authorized to solicit refunding proposals from local, regional and national banking institutions.
- On January 25, 2016, Davenport distributed a Request for Proposals for an Equipment Refinancing Lease to 81 local, regional and national banking institutions.
- On February 16, 2016, Davenport received 14 proposals on behalf of the City for the Equipment Refinancing Lease.
  - It is important to note that the number and quality of responses received is unprecedented and a testament to how favorably the finance community views the management and fiscal health of the City.

# Summary List of Proposals (Shown by Interest Rate Low to High)



- Shown below is a summary list of proposals received sorted by interest rate from low to high (Please see appendix for summary of rates, key terms and conditions).

Bank Proposals	Interest Rate
Bank of America Merrill Lynch	1.1842% (1)
TD Bank Option B (Make Whole Penalty)	1.1990% (1)
US Bancorp	1.3460%
TD Bank Option A (No Prepayment Penalty)	1.4070%
Huntington Bank	1.4100%
PNC Bank	1.4500%
SunTrust Bank	1.4700%
Signature Bank	1.4900%
Key Government Finance	1.6650%
Fulton Bank	1.8200%
Hancock Bank	1.8300%
Pinnacle Public Finance	1.9500%
Old Point National Bank	2.2500%
Grant Capital Management	2.3990%

- Note: the current 2009 Lease rate is 4.04%.

(1) Note revised rate provided subsequent to submission of proposal and reflects closing on 3/28/2016 due to 30 day call notice to Motorola. If the Refinancing can close by March 10, 2016, then the Bank of America rate would be 1.1742% and TD Bank rate would be 1.172%



# Key Terms: Two Best Lease Refinancing Proposals

## Bank of America Merrill Lynch

- **Term of Loan:** Approximately 4 years – final maturity of 3/1/2020 as requested.
  
- **Interest Rate:** Fixed rate of 1.1842%<sup>(1)</sup> - locked in until March 28. (Must notify bank that they are being recommended within 5 business days).
  
- **Prepayment Provision:** Pre-payable in whole on any payment date after half of the term has lapsed.
  
- **Other:**
  - No additional bank closing costs.
  - Subject to satisfactory completion of credit, legal and investment review process.
  - Lessee may be required to provide casualty insurance.
  - Bank requires protections as to the loss of Federal income tax exemption and/or any penalties or interest imposed by the IRS (Note: this provision is already in the 2009 lease).

## TD Bank (Option B)

- **Term of Loan:** Approximately 4 years – final maturity of 3/1/2020 as requested.
  
- **Interest Rate:** Fixed rate of 1.199%<sup>(1)</sup> - locked in until March 28. Must notify Bank by February 26, 2016.
  
- **Prepayment Provision:** Pre-payable on any anniversary date at par plus a Yield Maintenance Fee.
  
- **Other:**
  - No additional bank closing costs.
  - TD Bank proposal subject to completion of due diligence.
  - Lessee shall be responsible for keeping the equipment insured or self-insured.

(1) Note revised rate provided subsequent to submission of proposal and reflects closing on 3/28/2016 due to 30 day call notice to Motorola. If the Refinancing can close by March 10, 2016, then the Bank of America rate would be 1.1742% and TD Bank rate would be 1.172%

# Preliminary Refinancing Results



- The table below shows a comparison of the two best Lease Refinancing proposals versus the preliminary estimates provided to the City on January 20, 2016.

	Bank of America Merrill Lynch	TD Bank	Preliminary Estimate (1/20/2016)
Interest Rate	1.1842%	1.1990%	1.750%
Estimated Refunding Lease	\$6,825,000 <sup>(1)</sup>	\$6,825,000 <sup>(1)</sup>	\$6,815,000
Total Savings <sup>(2)</sup>	\$435,065	\$432,602	\$339,250
Avg. Annual Savings <sup>(2)</sup>	\$108,766	\$108,151	\$84,813
PV Savings % of amount refunded <sup>(2)</sup>	6.31%	6.27%	3.95%

(1) Difference due to change in closing date to 3/28/2016 and additional accrued interest estimate. If the Refinancing can close by March 10, 2016, then the Bank of America rate would be 1.1742% and TD Bank rate would be 1.172%.

(2) Net of cost of issuance/accrued interest budget assumption of \$40,000. Final costs of issuance and accrued interest to be confirmed.

# Annual Cash Flow Savings



- The table below shows a comparison of the annual cash flow savings of the two best Lease Refinancing proposals versus the preliminary estimates provided to the City on January 20, 2016.

## Annual Cash Flow Savings based on closing date of 3/28/2016

	Bank of America Merrill Lynch	TD Bank	Preliminary Estimate (1/20/2016)
FY 2017	\$109,528	\$108,594	\$87,922
FY 2018	\$108,361	\$107,599	\$83,988
FY 2019	\$108,433	\$107,922	\$83,563
<u>FY 2020</u>	<u>\$108,742</u>	<u>\$108,485</u>	<u>\$83,776</u>
Total	\$435,065	\$432,485	\$339,250



# Recommendation and Next Steps

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- Davenport respectfully recommends that the City implement the Equipment Refinancing Lease with Bank of America Merrill Lynch for the following reasons:
  - Lowest proposed interest rate of 1.1842% (Assuming closing on 3/28/2016);
  - Allows for prepayment flexibility at par after 2 years;
  - No additional bank closing costs; and
  - The refinancing provides approximately \$435,000 of cash flow savings over the next four fiscal years (i.e. \$108,000 per year) that can be applied to other needs.
  
- Next Steps
  - February 24  
Merrill City Council meeting to approve resolution to proceed with Bank of America Lynch
  - February 25 30 Day Notice to prepay 2009 Lease sent to Motorola.
  - Feb 26 – Mar 21 Finalization of numbers (i.e. confirmation of exact prepayment accrued interest) and Lease documentation.
  - March 28, if not sooner Targeted closing and funding – 2009 Lease is prepaid and all costs of issuance are funded from Lease Refinancing proceeds.

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# Appendix – Summary of Proposals (Rates, Key Terms and Conditions)

**Summary of Proposals Received - Motorola Lease Financing  
City of Hampton, Virginia**

				
<b>Rate</b>	1.1742%	1.820%	2.399%	1.830%
<b>Maturity</b>	March 1, 2020	March 1, 2020	March 1, 2020	March 1, 2020
<b>Amount</b>	\$6,850,000	\$6,850,000	\$6,850,000	\$6,850,000
<b>Tax Treatment</b>	Tax-Exempt	Tax-Exempt	Tax-Exempt	Tax-Exempt
<b>Bank Qualification</b>	Non-Bank Qualified	Non-Bank Qualified	Non-Bank Qualified	Non-Bank Qualified
<b>Interest Payment Frequency</b>	Semi-annual	Semi-annual	Semi-annual	Semi-annual
<b>Bank/Legal Fees</b>	None	None	None	\$750
<b>Offer Expiration</b>	Prior to February 23, 2016	March 17, 2016	March 10, 2016	March 10, 2016
<b>Early Prepayment Option</b>	Prepayable in whole on any payment date at par after half the term has lapsed.	To be negotiated.	Not specified in proposal.	
<b>Financial Reporting</b>	None specified	Lessee will provide Bank a copy of its audited financial statement on an annual basis. City will maintain AA+ Fitch rating.	None specified.	Borrower shall deliver audited financial statements within 210 days of end of each fiscal year.
<b>Other</b>	<p>Lessor will need three years of financials, tax opinion, most recent fiscal year's budget and insurance certificate</p> <p>Lessee may be required to provide casualty insurance.</p> <p>Lessor requires interest rate protection in the event of taxability.</p>	<p>Proposal is for discussion purposes only and is not a commitment to lend.</p> <p>Qualifying loans may be documented using bank-prepared loan documents. Lessee shall pay for legal fees incurred by bank for modifying bank-prepared loan documents. Bank has sole discretion to determine whether loan qualifies for bank-prepared loan documents. Lessee will provide Bank with Bond Counsel Opinion prepared by its Bond Counsel.</p> <p>Lessee required to have fire/hazard/liability insurance naming Fulton Bank as loss payee/additional insured.</p>	None specified.	<p>The Events of Default will be standard and customary for transactions of this nature.</p> <p>Usual and customary conditions related to the issuance of the Tax-Exempt financing, including acceptable legal documentation and standard approvals from the County, State and local officials, as may be required.</p>

## Summary of Proposals Received - Motorola Lease Financing City of Hampton, Virginia

				
<b>Rate</b>	1.41% (indicative)	1.665% (indicative)	2.25%	1.95%
<b>Maturity</b>	March 1, 2020	March 1, 2020	March 1, 2020	March 1, 2020
<b>Amount</b>	\$6,850,000	\$6,850,000	\$6,850,000	\$6,850,000
<b>Tax Treatment</b>	Tax-Exempt	Tax-Exempt	Tax-Exempt	Tax-Exempt
<b>Bank Qualification</b>	Non-Bank Qualified	Non-Bank Qualified	Non-Bank Qualified	Non-Bank Qualified
<b>Interest Payment Frequency</b>	Annual	Semi-annual	Semi-annual	Semi-annual
<b>Bank/Legal Fees</b>	None	None	None	\$2,000
<b>Offer Expiration</b>	February 25, 2016	February 19, 2016	April 15, 2016	March 15, 2016
<b>Early Prepayment Option</b>	Prepayable in whole, but not in part at 102%.	Prepayable in whole but not in part subject to the following prepayment penalty: Year 1: 100.50% Year 2: 100.25% 100% thereafter	Prepayable in whole or in part at anytime without penalty.	Prepayable at anytime at 102%.
<b>Financial Reporting</b>	None specified.	None specified	City's audited financial statements will be available for the Bank to access via the City's website annually within 180 days of the City's fiscal year end.	City agrees to provide Pinnacle CAFR within 210 days of the close of each fiscal year. Pinnacle may reasonably request other financial information such as its budget.
<b>Other</b>	The terms outlined in the proposal are subject to final credit approval. Rates will be locked in based on acceptance of the Term Sheet and Rate Lock Agreement.	Rate Lock subject to premium. Lessee's obligation will be subject to such terms and conditions that Lessor may require with respect to this transaction, or as are customarily required with respect to similar credits, including: 1. Absence of Default 2. Accuracy of Representation and Warranties 3. Negotiation and Execution of satisfactory closing documents 4. Absence of material adverse change in financial condition of Sub-Lessee during the period from the date hereof to the Closing Date	None specified.	Proposal is subject to final credit approval.

**Summary of Proposals Received - Motorola Lease Financing  
City of Hampton, Virginia**



	<b>PNC BANK</b>	<b>Signature SIGNATURE BANK</b>	<b>SUNTRUST</b>	<b>TD</b>
<b>Rate</b>	<b>1.45%</b>	<b>1.49%</b>	<b>1.47%</b>	<b>1.407%      1.172%</b>
<b>Maturity</b>	March 1, 2020	March 1, 2020	March 1, 2020	March 1, 2020
<b>Amount</b>	\$6,850,000	\$6,850,000	\$6,850,000	\$6,850,000
<b>Tax Treatment</b>	Tax-Exempt	Tax-Exempt	Tax-Exempt	Tax-Exempt
<b>Bank Qualification</b>	Non-Bank Qualified	Non-Bank Qualified	Non-Bank Qualified	Non-Bank Qualified
<b>Interest Payment Frequency</b>	Semi-annual	Semi-annual	Semi-annual	Semi-annual
<b>Bank/Legal Fees</b>	None	\$500	\$250	None
<b>Offer Expiration</b>	March 10, 2016	February 25, 2016	February 18, 2016	February 26, 2016
<b>Early Prepayment Option</b>	After the second anniversary of the lease, Lessee may prepay all of the rent payments plus a 3% termination fee.	Prepayable in whole or in part on any payment date. The prepayment price is the sum of: 1. the lease payment due 2. all other amounts due and owing under the Lease and 3. 102% of the remaining principal balance for repayment before March 1, 2019 and 101% thereafter.	Prepayable in whole on any payment date at a premium of 1% of the amount prepaid.	Prepayable on any anniversary date of closing at par.      Prepayable on any anniversary date of closing at par plus Yield Maintenance Fee.
<b>Financial Reporting</b>	None specified.	None specified.	None specified.	None specified.
<b>Other</b>	Conditions precedent to lessor performance: due diligence and credit approval, detailed project descriptions, expenses. Lessee shall furnish confirmation of all risk physical damage insurance coverage for the full cost of the property plus \$2 million combined single limit property damage liability insurance covering property.	Proposal is subject to final credit approval. The City must furnish evidence of continuing all-risk property and casualty coverage for the greater of the Prepayment Price and/or replacement value of the Equipment and liability coverage of at least \$1 million per occurrence for each property and bodily injury liability, with a minimum \$3 million aggregate for this Lease.	Proposal is subject to final credit approval. In the event of any material change in the financial markets, Lessor may modify indicative rate.	The Lessee shall bear all risk of loss, damage and liability to the Equipment and Lessee shall be responsible to keep the Equipment insurer or self-insured. Lessor shall Lease the Equipment to Lessee without representation or warranty on an "AS IS BASIS". In order to complete due diligence, Lessor requires: 3 years of financials, copy of meeting minutes, copy of budget, statement of essential use, and other supporting data.

**Summary of Proposals Received - Motorola Lease Financing  
City of Hampton, Virginia**

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<b>Rate</b>	1.83%	1.346%
<b>Maturity</b>	March 1, 2020	March 1, 2020
<b>Amount</b>	\$6,850,000	\$6,850,000
<b>Tax Treatment</b>	Tax-Exempt	Tax-Exempt
<b>Bank Qualification</b>	Non-Bank Qualified	Non-Bank Qualified
<b>Interest Payment Frequency</b>	Semi-annual	Semi-annual
<b>Bank/Legal Fees</b>	None	None
<b>Offer Expiration</b>	March 16, 2016	April 9, 2016

<b>Early Prepayment Option</b>	Prepayable in whole or in part at anytime without penalty.	Prepayable on any payment date at the lower of a standard make-whole provision or 103%.
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<b>Financial Reporting</b>	None specified.	None specified.
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<b>Other</b>	None specified.	None specified.
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