



City of Lake Wales

Municipal Market Update & Debt Overview

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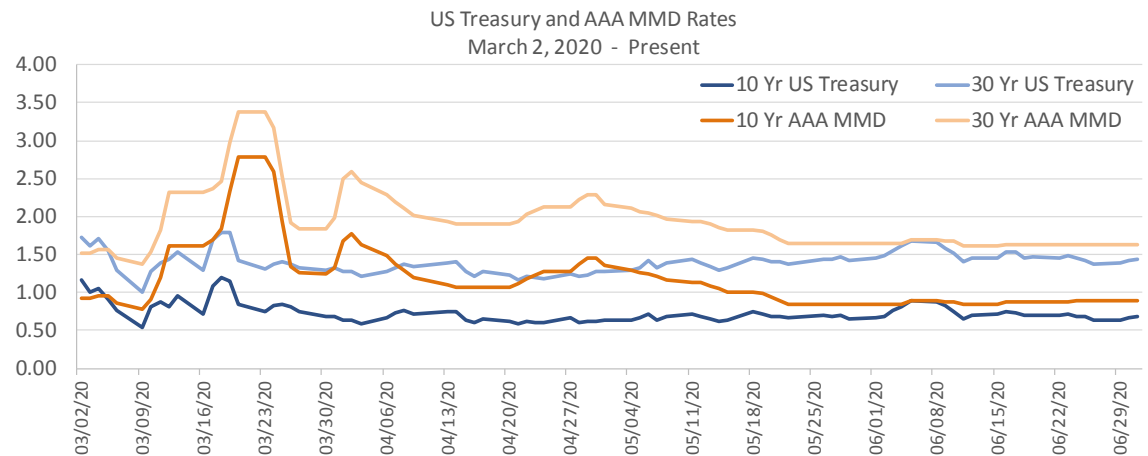
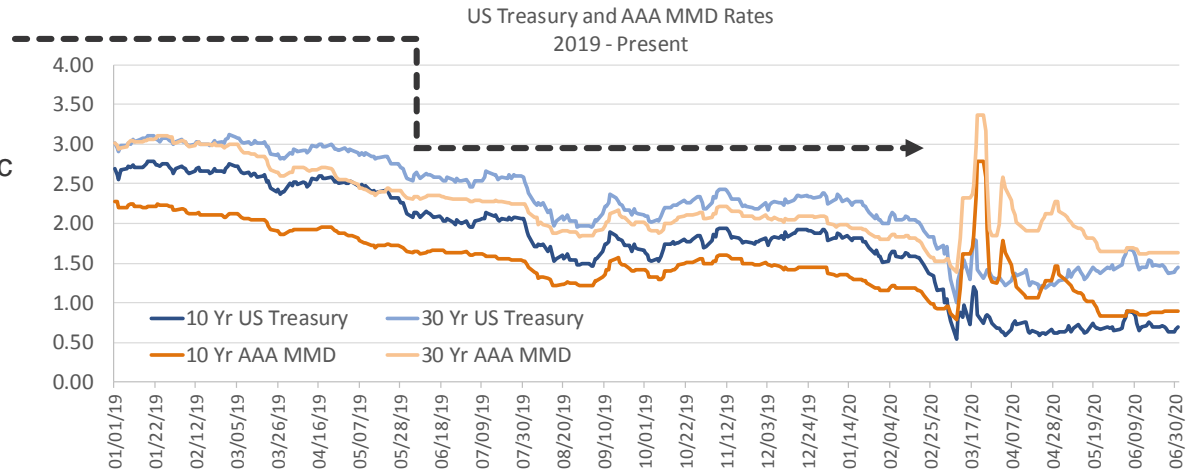


I. Municipal Market Update



Municipal and US Treasury Rate Movement

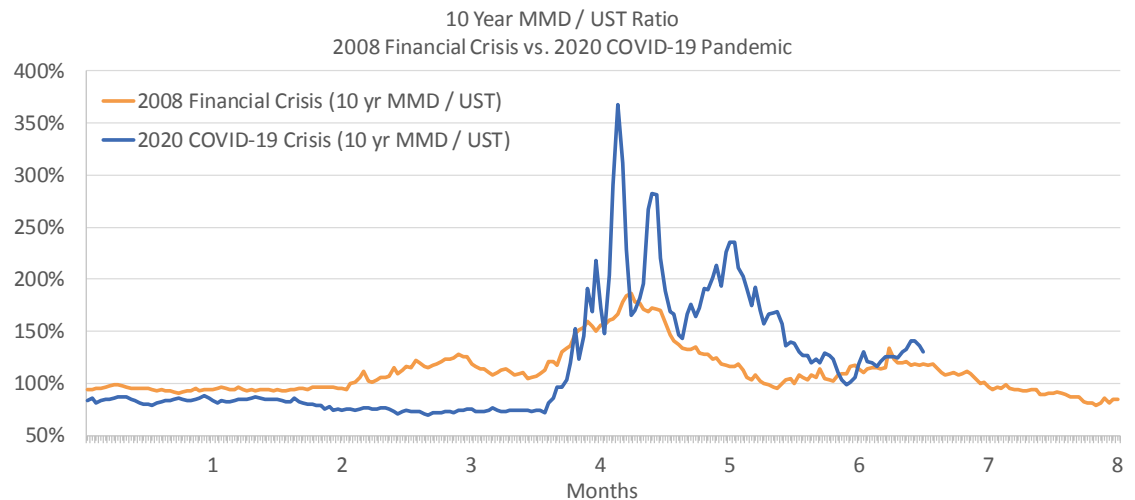
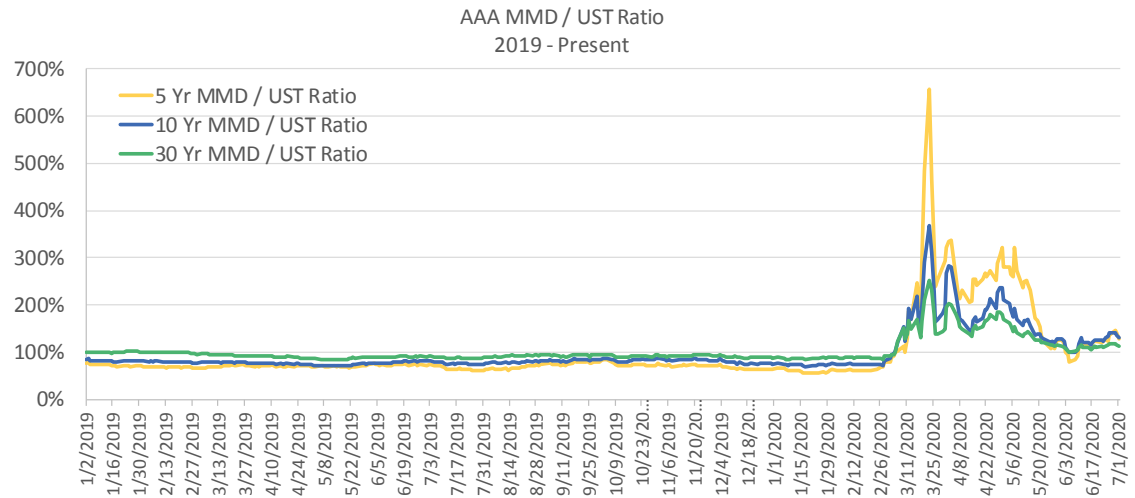
- Beginning the week of March 9th, Municipal and US Treasury rates experienced extreme volatility, driven by fears of global economic downturns due to the COVID-19 pandemic
- Municipal and Treasury rate movements became disjointed, leading US Treasury rates lower and Municipal rates significantly higher
- AAA MMD yields have stabilized and rallied beginning and through the weeks since April 6th





US Treasury and Municipal Ratios

- The global rush for liquidity led to a dislocation between the US Treasury and Municipal markets, driving ratios to levels that have not been seen since the start of the 2008 financial crisis
- As the municipal market stabilized and investors re-emerged as buyers of municipal tax-exempt debt, these ratios have trended towards normalized levels

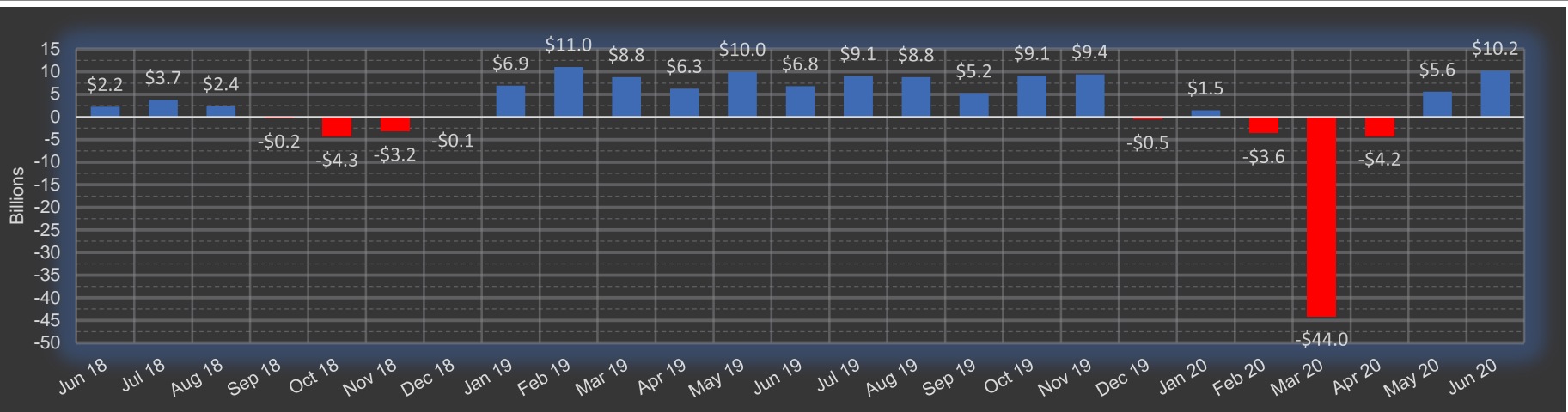




Municipal Investor Activity

- As the reality of a global economic downturn became more pronounced due to the spread of COVID-19, investors sought liquidity and safety, exiting from numerous asset classes, including municipal bonds
- Municipal bond funds experienced significant net outflows since the onset of the COVID-19 crisis, leading to volatility and a disjointed municipal market throughout the month of March
- Flow volatility and volume has stabilized beginning in April and through June. The months of May and June saw solid weekly net inflows into municipal long-term funds

Monthly Mutual Fund Inflows (Outflows)



Monthly Mutual Fund Inflows (Outflows)

Current: \$10.2 bn

Average: \$2.3 bn

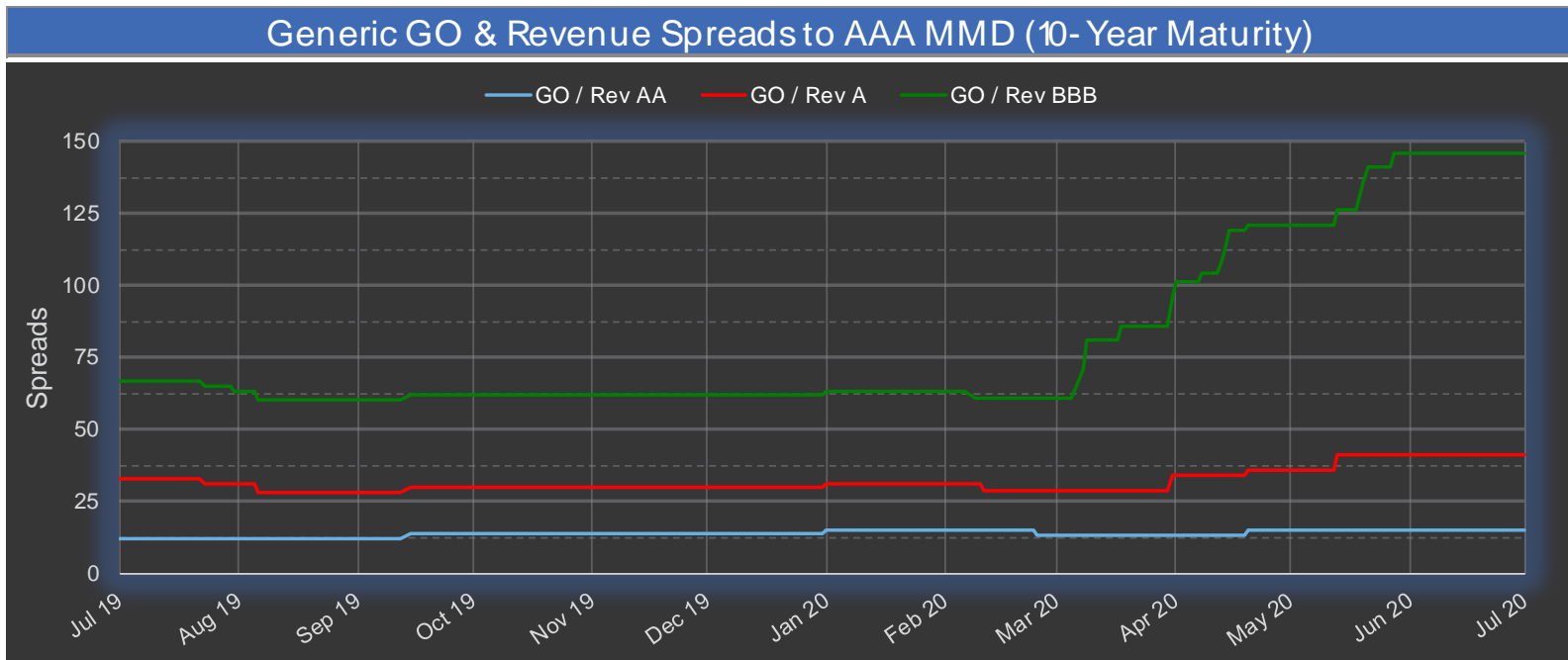
Min: (\$44.0) bn

Max: \$11.0 bn



Tax-Exempt Municipal Credit Spreads

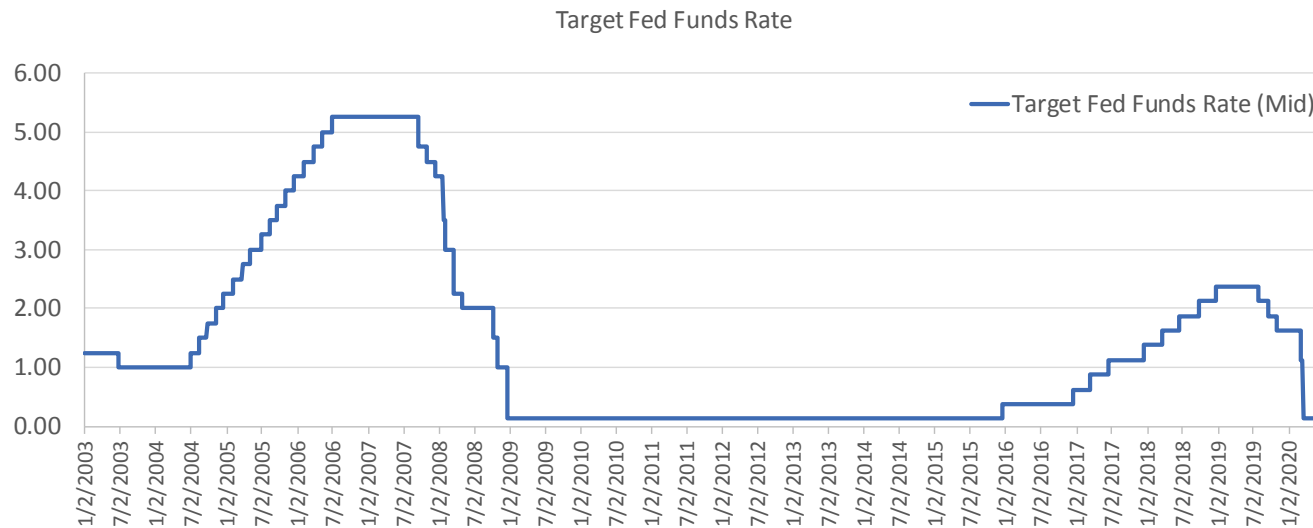
- While strong credit rating spreads have remained relatively flat over the last few years, the spreads of weaker credits have widened due to the extreme flight to safety and rush for liquidity across global markets
- As the market stabilizes, investors and rating agencies will evaluate credits inclusive of the actual and expected negative financial impacts of the COVID-19 global and domestic economic downturn which will also drive credit spreads





Federal Funds Rate – Lowered to 2008 Financial Crisis Levels

- March 3, 2020: the FOMC announced a 0.50% off-cycle cut to the federal funds rate to address ongoing risks to economic activity – this lowered the target rate to 1.00 – 1.25%
- March 15, 2020: reacting to further and increasing negative economic impacts and risk related to the COVID-19 outbreak, the Federal Reserve cut the federal funds rate by 1.00% to a target rate range of 0.00 – 0.25%
- This reduction of the rate to 0.00% was last experienced during and after the 2008 Financial Crisis





Looking Forward in 2020

Interest Rate Environment

- At this time there is no discussion of Fed raising rates in the foreseeable future, and the expectation is for inflation to remain low
- Interest rates are anticipated to remain near historic lows for the next 12-18 months
- The current demand for Municipal Bonds is outpacing the supply and this high demand is projected to continue into August

Possible Allowance for Advance Refunding of Tax-Exempt Bonds

- The allowance for Tax-Exempt Advance Refundings was removed in 2018 as part of the Tax Cuts and Jobs Act
- The \$1.5 trillion infrastructure bill known as the Moving Forward Act (HR2) includes provisions that could reinstate Advance Refundings for Tax-Exempt Bonds
 - Passed by the U.S. House of Representatives on July 1st
 - HR2 still needs to be approved by the Senate, which could take until September



II. Overview of Outstanding Debt



Lake Wales Outstanding Notes

- The City currently has five (5) series of Notes outstanding in an aggregate Principal Amount of \$9.5 million
- Three (3) of these Notes are able to be pre-paid without any penalties

Series	Final Maturity Date	Principal Outstanding	Interest Rate	Call Feature
Utility System Refunding Note, Series 2006B	10/1/2026	\$1,111,417	1.14%	Make-Whole
CRA - Redevelopment Revenue Note, Series 2007	10/1/2027	\$4,616,874	4.34%	Make-Whole
Ascending Lien Capital Improvement Note, Series 2013	10/1/2028	\$1,169,494	3.54%	No Penalty
Subordinate Lien Capital Improvement Revenue Note (Airport), Series 2017	1/1/2037	\$1,667,000	2.92%	No Penalty
Capital Improvement Revenue Note, Series 2019	10/1/2034	\$900,000	2.59%	No Penalty

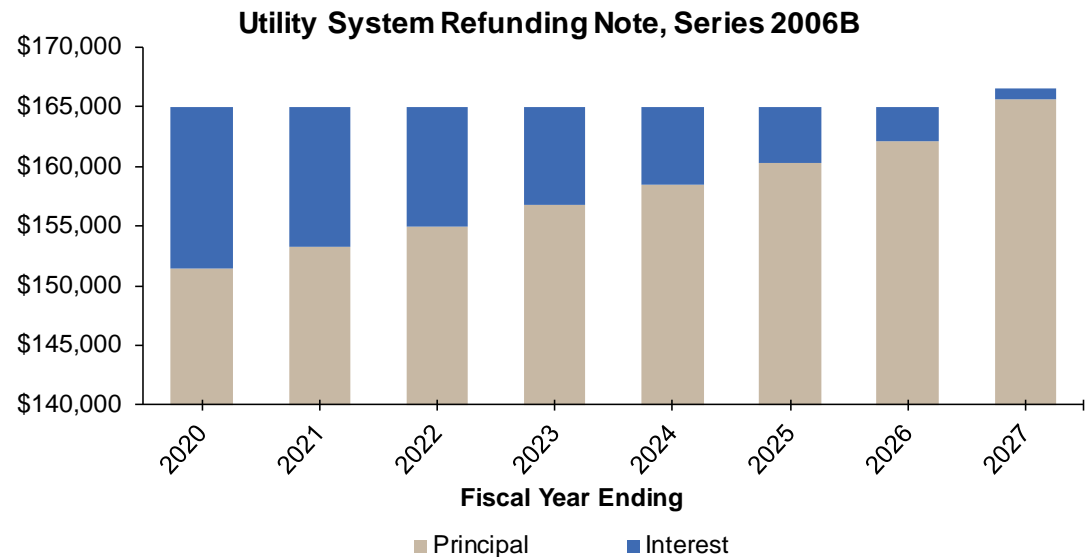
- The following slides delve deeper into each of the outstanding Notes



Utility System Refunding Note, Series 2006B

- The Utility System Refunding Note, Series 2006B was originally issued as a non-revolving line of credit in May 2006, which then converted to a term loan on October 1, 2009
- **Purpose:** Construction of water and wastewater system improvements, including rehabilitation of lift station #2, southside force main and water main extension, and southside reuse transmission lines.
- **Security:** Senior lien on utility system net revenues
- **Call Option:** Features a Make-Whole Call that would currently result in a prepayment penalty

Debt Summary	
Total Outstanding Debt	
Original Principal Amount	\$2,550,000
Principal Outstanding	\$1,111,417
Final Maturity	10/1/2026
Maximum Annual Debt Service	\$166,532
Interest Rate(s)	1.14%
Refunding Breakdown	
Call Date	Anytime
Call Provisions	Make-Whole Call

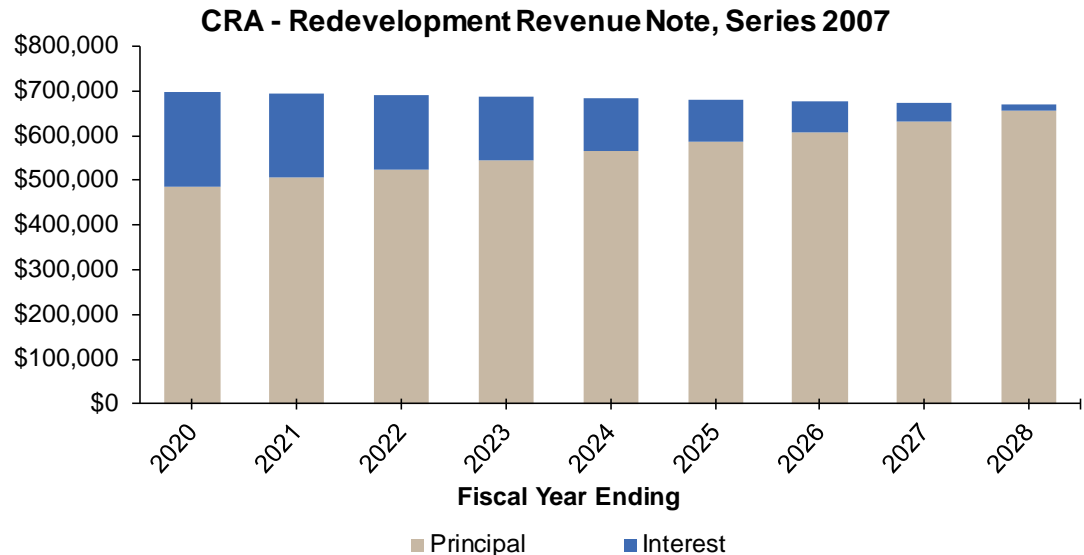




CRA - Redevelopment Revenue Note, Series 2007

- The Redevelopment Revenue Note, Series 2007 was issued via a direct bank loan on December 24, 2007
- **Purpose:** Acquisition, construction and equipping of various capital improvements within the CRA
- **Security:** Tax increment revenues and a covenant to budget and appropriate non-ad valorem revenues
- **Call Option:** Features a Make-Whole Call that would currently result in a prepayment penalty

Debt Summary	
Total Outstanding Debt	
Original Principal Amount	\$9,500,000
Principal Outstanding	\$4,616,874
Final Maturity	10/1/2027
Maximum Annual Debt Service	\$697,500
Interest Rate(s)	4.34%
Refunding Breakdown	
Call Date	Anytime
Call Provisions	Make-Whole Call

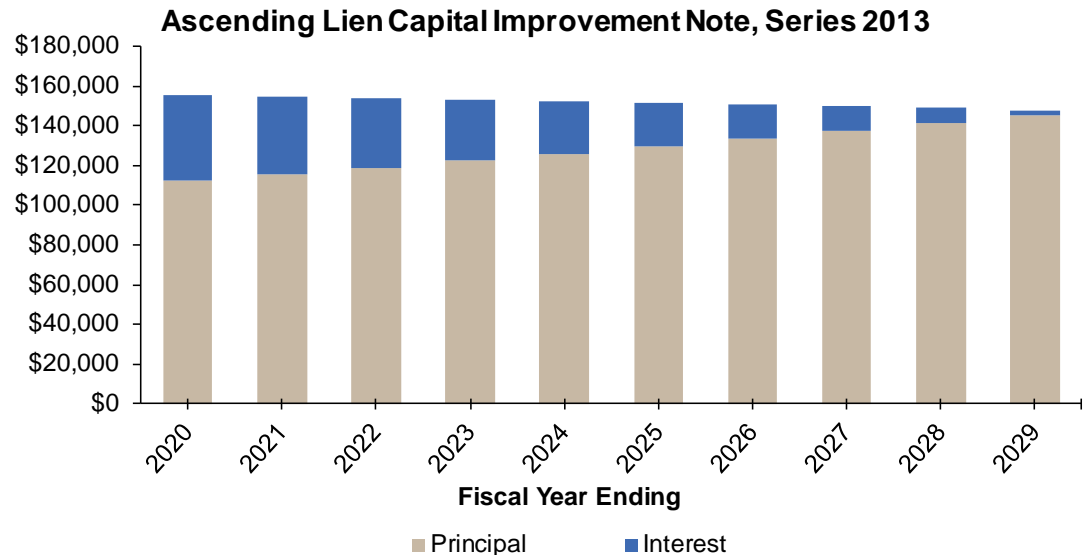




Ascending Lien Capital Improvement Note, Series 2013

- The Ascending Lien Capital Improvement Note, Series 2013 was issued via a direct bank loan on September 19, 2013
- **Purpose:** Funded a fire substation (\$1,200,000) and a cemetery addition (\$500,000)
- **Security:** Senior Lien on communication service taxes & public service (utility) taxes
- **Call Option:** Currently prepayable at anytime without a penalty

Debt Summary	
Total Outstanding Debt	
Original Principal Amount	\$1,700,000
Principal Outstanding	\$1,169,494
Final Maturity	10/1/2028
Maximum Annual Debt Service	\$155,622
Interest Rate(s)	3.54%
Refunding Breakdown	
Call Date	Anytime
Call Provisions	No Penalty

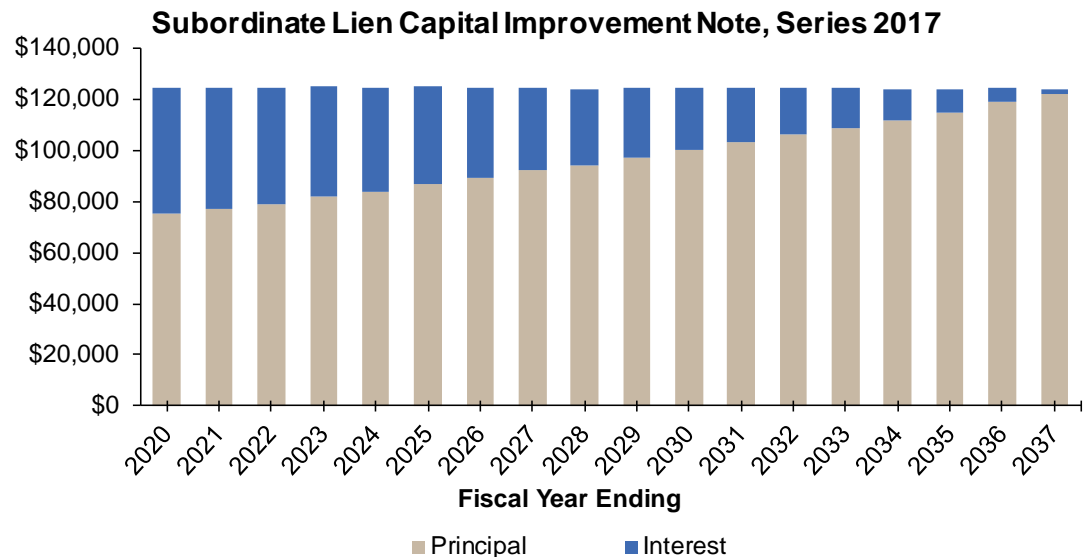




Subordinate Lien Capital Improvement Revenue Note (Airport Project), Series 2017

- The Subordinate Lien Capital Improvement Revenue Note (Airport Project), Series 2017 was issued via a direct bank loan on November 14, 2017
- **Purpose:** Funded improvement projects to the Lake Wales Municipal Airport, including the taxiways, runways, construction of hangars, aircraft apron expansion, access road construction and parking improvements
- **Security:** Senior Lien on electric franchise fees
- **Call Option:** Currently prepayable at anytime without a penalty

Debt Summary	
Total Outstanding Debt	
Original Principal Amount	\$1,825,000
Principal Outstanding	\$1,667,000
Final Maturity	1/1/2037
Maximum Annual Debt Service	\$125,004
Interest Rate(s)	2.92%
Refunding Breakdown	
Call Date	Anytime
Call Provisions	No Penalty

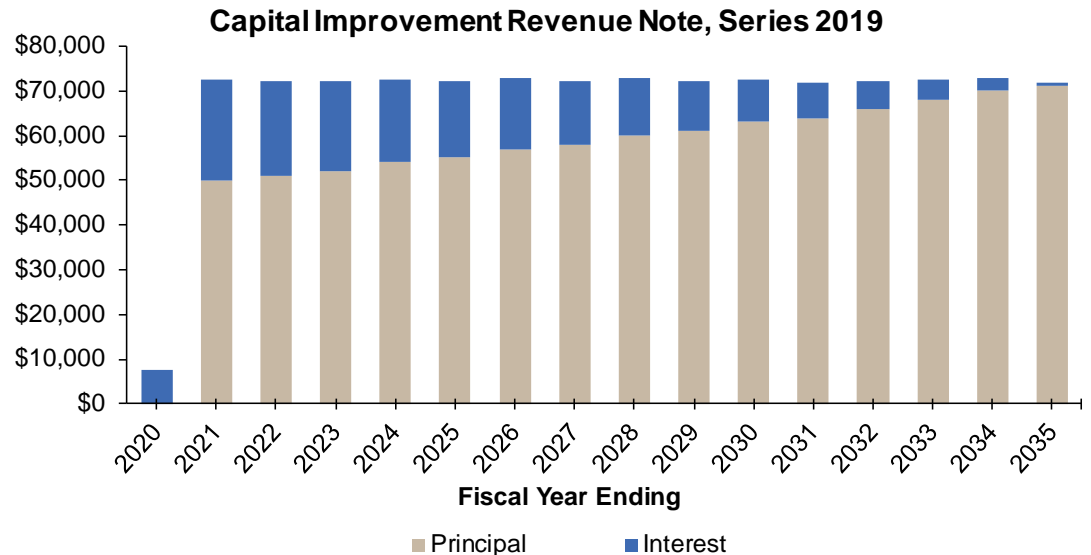




Capital Improvement Revenue Note, Series 2019

- The Capital Improvement Note, Series 2019 was issued via a direct bank loan on December 5, 2019
- **Purpose:** Funded a the acquisition, construction, rehabilitation and equipping of certain capital improvements including a YMCA facility and certain related recreation facilities
- **Security:** A covenant to budget and appropriate pledge from all legally available non-ad valorem revenues
- **Call Option:** Currently prepayable at anytime without a penalty

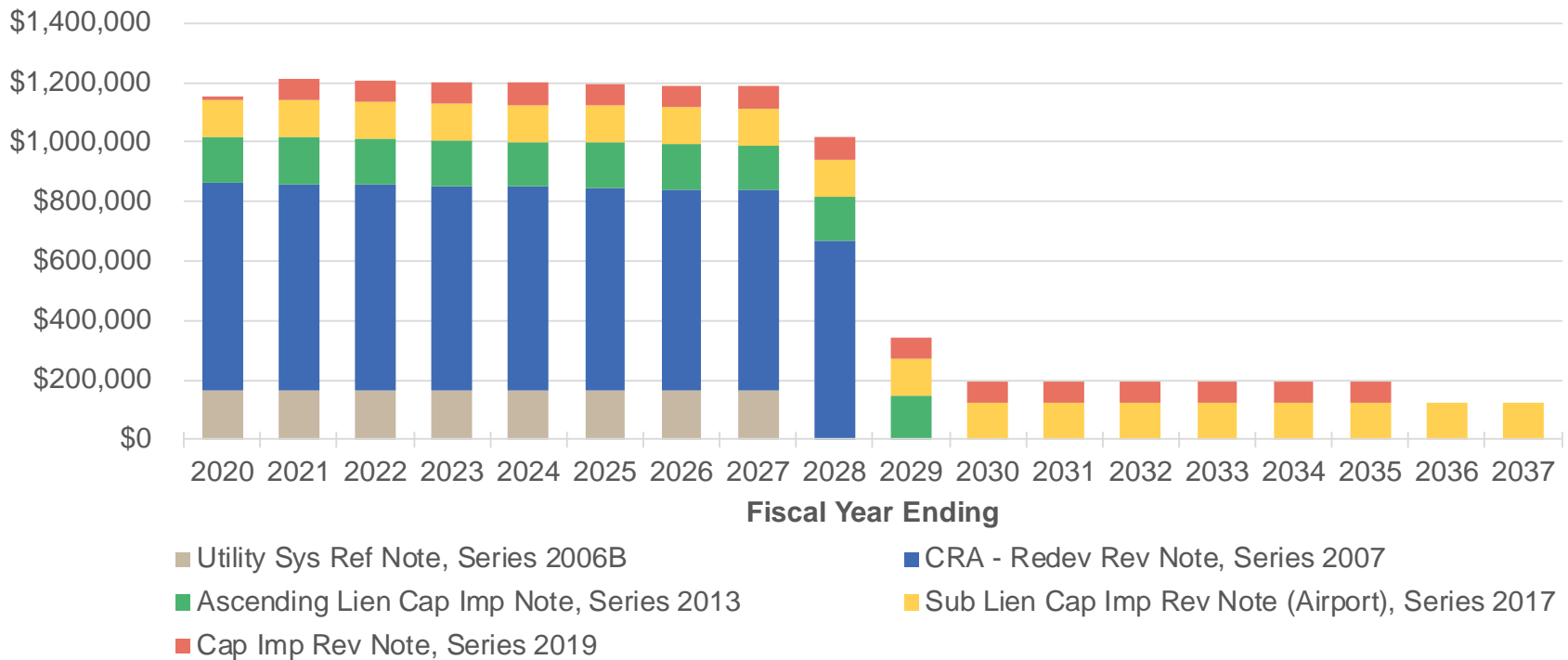
Debt Summary	
Total Outstanding Debt	
Original Principal Amount	\$900,000
Principal Outstanding	\$900,000
Final Maturity	10/1/2034
Maximum Annual Debt Service	\$72,786
Interest Rate(s)	2.59%
Refunding Breakdown	
Call Date	Anytime
Call Provisions	No Penalty





Summary of Outstanding Notes

- Below we summarize the debt service payments of all of the City's outstanding long-term notes
- The City has a large drop-off in debt service payments after FY 2028





III. Refunding Analysis



Refunding Analysis in the Current Market

- PFM updated our analysis of the refunding potential of the three (3) Notes that are eligible for prepayment without any penalties
 - The Make-Whole Call provisions on the Series 2006B Utility Note and Series 2007 CRA Note would not allow for any refunding savings
- Below we summarize the refunding potential of each Note

Series	Final Maturity Date	Refunded Principal	Est. NPV Savings (\$)	Est. NPV Savings (%)	Annual Cash Flow Savings
Ascending Lien Cap Imp Note, Series 2013	10/1/2028	\$1,053,953	\$45,000	4.30%	\$6,000
Sub Lien Cap Imp Rev Note (Airport), Series 2017	1/1/2037	\$1,667,000	\$37,000	2.20%	\$3,000
Cap Imp Rev Note, Series 2019	10/1/2034	\$850,000	(\$14,000)	-1.70%	(\$1,000)

- Due to the small outstanding principal amounts along with the estimated costs of issuance for each refunding, the estimated savings from a refunding are relatively small (negative for the refunding of the Series 2019 Note)
- The potential savings are below the City's Debt Policy recommendation of 5% net present value savings, and at this time we would not recommend proceeding with a refunding of the City's outstanding Notes
- If the City issues a new series of debt in the future, it might be worthwhile to include a refunding of one of the series in the issuance (assuming the security provisions are the same)
 - Including the refunding in conjunction with a new money issuance would spread the related issuance costs out and make the refunding economics more attractive



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