

TREASURE COAST REGIONAL PLANNING COUNCIL

MEMORANDUM

To: Council Members AGENDA ITEM 10B
From: Budget and Personnel Committee
Date: December 11, 2015 Council Meeting
Subject: Current Revenue Note on Council's Office Building

Introduction

At its December 12, 2014 meeting, Council recommended the Executive Director work with TD Bank to renegotiate the current revenue note on its office building. Council also recommended that an extra \$2,500 per month be paid against the current revenue note's principle balance. These additional monthly payments have been made each month since January 2015.

Background

Council received two offers from TD Bank to refinance the current revenue note Council secured in 2008 to purchase its office building. The current note expires with a balloon payment on May 16, 2018. Council currently owes \$1,396,698 on the note which carries an interest rate of 3.86 percent. Council's current monthly payment on the note is \$11,673.

Analysis

The first proposal from TD Bank would extend the loan by 10 years to May 1, 2026, with a fixed interest rate of 3.86 percent. At the end of the extended loan period, Council would own its office building free and clear. Under this proposal Council's current monthly payment would be \$14,333 a month through the life of the loan. Under this proposal Council's current monthly payment amount of \$11,673 would increase by \$2,660. Interest paid over the life of the loan would be about \$294,937.

The second proposal would extend the loan by 13 years to May 1, 2028 at an interest rate of 3.86 for the first three years with an increase in interest rate to 3.97 for the remaining 10 years of the loan. Under this proposal Council's monthly payment would be \$11,616 for the first three years, or about \$360 lower than what Council currently pays. It would then increase to around \$11,728 for the remaining 10 years of the loan, or about \$55 more than what Council is currently paying per month. Interest paid over the life of the loan would be about \$365,618. At the end of this loan period, Council would still owe about \$394,808 on the building.

Closing costs for both these loan options have been estimated to range from \$20,000 to \$25,000. These costs will be rolled into the new loan.

A third option would be to make the lower monthly loan payments under the 13-year loan proposal and continue to make the additional \$2,500 per month principle payments over the life of the loan. Doing this would also retire the entire loan in 10 years, but Council would pay around \$6,000 more in interest over the life of the loan than it would under the bank’s first proposal.

TABLE 1

Options	Bank Proposal	Monthly Payment	Total Interest Paid	Remaining Balance
#1	10-year fixed @ 3.86 percent (2016-2026)	\$14,333	\$294,937	\$0
#2	13-year @ 3.86% (2016-2018) 3.97% (2019-2028)	\$11,616 \$11,728	\$365,618	\$394,808
#3	13-year @ 3.86% (2016-2018) 3.97% (2019-2028)	\$14,116* \$14,228*	\$300,346	\$0

* Includes the extra \$2,500 per month payment towards the principle over the life of the loan. This option or approach also retires the loan in 10 years.

Conclusion

Council’s Budget and Personnel Committee is recommending Option 3. This option provides Council the lowest monthly payment and the flexibility to make additional monthly payments that will make it possible to retire the loan in a 10-year period. The additional interest paid over the life of the loan under this option is nominal.

Recommendation

Council should: 1) accept the Budget and Personnel Committee’s recommendation to secure from TD Bank Option #3, with the understanding that Council will target a minimum of \$2,500 per month toward the principle balance; and 2) authorize staff in consultation with Council’s attorney to finalize negotiations with TD Bank for Option #3.