



Legislation Details (With Text)

File #:	22-0953	Name:	Bank Loan for PYMS
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Title:	Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance Authorizing and Empowering the Issuance of General Obligation Bonds through a Direct Bank Loan.		
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Attachments:	1. 22-0953_Att 1 - GO debt Ordinance Cover, 2. 22-0953_Att 2- Alexandria 2022 - Ordinance, 3. 22-0953_Att 3 - Notice of Public Hearing		

Date	Ver.	Action By	Action	Result
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City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 3, 2022

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

THROUGH: JAMES F. PARAION, CITY MANAGER /s/

FROM: KENDEL TAYLOR, DIRECTOR OF FINANCE
LAURA B. TRIGGS, DEPUTY CITY MANAGER

DOCKET TITLE:

Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance Authorizing and Empowering the Issuance of General Obligation Bonds through a Direct Bank Loan.

ISSUE: Consideration of an ordinance to authorize the issuance of General Obligation Bonds to finance the Potomac Yard Metrorail Station.

RECOMMENDATION: That City Council (1) pass on first reading on May 10, and schedule for second reading, public hearing and final passage on May 14, an ordinance (Attachment 1) authorizing General Obligation Bonds through a bank loan to finance a portion of the costs of the Potomac Yard Metrorail Station and (2) authorize staff to terminate the \$50 million Virginia Transportation Infrastructure bank loan agreement previously authorized and entered into for such project.

BACKGROUND: The current Potomac Yard Metrorail project plans reflect a total project budget of \$370 million. Throughout the development of the Potomac Yard Metro project, staff has pursued funding alternatives that take advantage of low interest rates and flexible repayment options. Current funding sources include:

- \$70 million grant from the Northern Virginia Transportation Authority (NVTa) that has already been awarded,
- \$25 million in revenues collected from the Potomac Yard Special Services District, and
- \$50 million from the Commonwealth for enhancement of the southwest entrance.

These funds will collectively provide \$145 million of the \$370 million needed for the construction project. The remaining \$225 million was anticipated to be funded through a combination of a \$50 million loan from the Virginia Transportation Infrastructure Bank (VTIB), and General Obligation debt issued by the City.

In 2015, the City was awarded a \$50 million loan from the Virginia Resources Authority VTIB with an interest rate of 2.17 percent. The total amount included \$50 million in project costs, plus an additional \$8 million to cover capitalized interest. To date, the City has not drawn on the loan. The low interest rate and the flexible terms of loan repayment were anticipated to reduce the City's risk, as new development surrounding the station was anticipated to generate revenue to be used for the loan repayment but had not yet generated significant revenue. In December 2014, when City Council ratified the loan application, there were several considerations, including:

- 1) **The timing of the station project** - At the time staff was pursuing the VTIB loan, the station project was expected to be completed by FY 2019. Completion is now anticipated in Fall 2022 (FY 2023).
- 2) **Long-term interest rates** - At the time staff was pursuing the VTIB loan, interest rates on other long-term debt were approximately 2.72 percent. Current long term municipal bond interest rates are below this level at this time.
- 3) **Potomac Yard development** - At the time the City pursued the VTIB loan, the value of Tax Tier I was \$332.3 million and the entire PY base was \$438.0 million. As of January 2022, the value of Tax Tier I has more than doubled at \$783.1 million and the entire PY base is valued at \$1.3 billion.
- 4) **Potomac Yard Fund Balance** - At the time staff was pursuing the VTIB loan, Potomac Yard Fund Balance used to pay debt financing was \$4.8 million. As of the end of FY 2021, Potomac Yard Fund Balance was \$29.9 million. The VTIB loan allowed for capitalizing interest and delaying principal until the fund had adequate resources to start debt repayment

The ability to capitalize interest and delay principal repayment reduced the risk to the City by delaying repayment until the project generated new development sufficient to support the debt. Development in the Potomac Yard area has been strong, and the area is generating sufficient revenue to mitigate the need to capitalize interest, which increases the total project cost amount borrowed. Given the expected interest rate on a direct bank loan as discussed in more detail below and the resources available, the need for the City to use the VTIB loan structure has diminished. In addition, the City's municipal financial advisors have analyzed both types of loans and concur that it is now in the City's best interest to fund the Potomac Yard Metrorail Station using a general obligation bank loan.

VTIB Loan versus Bank Loan

The table below shows the savings expected to be generated utilizing a bank loan rather than the VTIB loan for this portion of the Potomac Yard Metrorail Station financing. It should be noted that the estimates for the bank loan are based on current market conditions. Assuming a bank loan at 2 percent, total project savings would be approximately \$14.9 million.

	VTIB (2.17%, 30Y)	Bank loan (2%, 20Y)	Total Savings
Loan Amount	\$58.0M	\$50.0M	
Debt Service	\$75.9M	\$61.0M	\$14.9M

DISCUSSION: By securing long-term debt through a direct bank loan, the City will be able to take advantage of current market conditions in the most expeditious manner. The relatively small amount of borrowing (\$50 million) enables a greater number of financial institutions to respond to the forthcoming request for proposals. It should be noted that staff will work with the City’s financial advisor to ensure that the long-term debt is secured through the most economically advantageous debt instrument. If interest rates rise to such a level as to negate the economic benefit of the direct bank loan, staff would continue to evaluate other financing options as warranted.

FISCAL IMPACT: In light of the development surrounding the metro station and the low interest rates available to the City, borrowing \$50 million through a direct bank loan compared to \$58 million through VTIB, is estimated to materially reduce the total financing costs for the Potomac Yard Metrorail Station. Station project timing and development surrounding the station has enabled the City to structure this debt in a manner that is similar to the General Obligation debt that is used to fund the Capital Improvement Program. Long term debt that is structured with level principal payments and no capitalized interest can generally be issued at lower cost and is consistent with the City’s adopted debt-related financial policies.

ATTACHMENTS:

Attachment 1 - Ordinance Cover

Attachment 2 - Ordinance

Attachment 3 - Public Hearing Advertisement

STAFF:

Laura B. Triggs, Deputy City Manager

Kendel Taylor, Director of Finance