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City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 4, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, ACTING CITY MANAGER /s/

DOCKET TITLE:
Consideration of a Resolution Authorizing the Issuance and Sale of General Obligation Refunding Bonds. [ROLL-CALL VOTE]

ISSUE: Consideration of a resolution authorizing the issuance and sale of General Obligation Refunding Bonds.

RECOMMENDATION: That City Council adopt the attached resolution, which:

1) Authorizes the issuance and sale of the General Obligation Refunding Bonds;

2) Approves the form and other details of such bonds;

3) Authorizes the City Manager and the Director of Finance to take all actions as shall be required in connection with the issuance, sale and delivery of such bonds; and

4) Provides details with respect to the issuance of such bonds.

DISCUSSION: Interest rates on long-term municipal bonds continue to hold at historically very low levels. The City may be able to refund some portion of existing outstanding City general obligation bonds and reduce debt service costs. Staff will continue to monitor the bond and treasury markets to determine what City bond issues, if refunded, would result in an overall savings of at least 3 percent on a present value basis. The 3 percent threshold is the commonly followed industry standard for refunding of municipal bonds. At this time, it appears that about $38.5 million in existing City bonds may be able to be refinanced and produce savings above this level.

The proposed resolution gives the City Manager and Director of Finance the authority to issue new bonds to refund the callable portion of the bonds that have at least 3 percent savings on a present value basis. To refund existing outstanding bonds, the City would issue new refunding bonds. The proceeds from these refunding bonds would be placed in an escrow account, which is invested in special federal government-issued securities (SLGS), or other types of federally-issued securities, with the principal and interest from the investments being used to pay the principal and interest of the old bonds. The old bonds for which the escrow account was created, called defeased bonds, would no longer be counted in any City debt ratios. The new bonds would count in the City's debt ratios. The savings to the City occurs when the overall debt service on the new refunding bonds is less than the debt service on the existing City bonds. This type of bond refinancing is an accepted practice and has been used by the City to generate savings in the past when the market conditions were right. The most recent refunding bonds were issued by the City in 2014.

The City's financial advisors informed City staff that under current market conditions the City might be able at this time to refund about $7.8 million of the taxable Series 2006B and 2008B Bonds and about $30.7 million of tax exempt Series 2006A and 2008B at a savings. If interest rates drop or yields on U.S. Treasury securities increase, this resolution gives the City Manager the authority to also refund other City bond issues provided they meet the same 3 percent savings threshold on a present value basis. Conversely, the City would not issue any refunding bonds if municipal interest rates increase or yields on federally issued securities decrease producing less than 3% savings. To take advantage of the current interest window, staff projects selling the refunding bonds in early spring. The dollar amount of the bonds issued will be based on market conditions near that date.

Depending on the structure recommended by the City's financial advisor, the City may be required to notify the rating agencies of our intent to issue debt and to produce an "Official Statement," which is a disclosure document that informs the investing public of the provisions of these bonds, how the bonds will be repaid, as well as outlines the City's financial, economic and social characteristics. However, no formal bond rating meetings are required by the bond rating agencies for a general obligation bond refunding. If issued pursuant to a competitive public offering in lieu of a competitive private placement, the refunding bonds are expected to be rated AAA/Aaa according to the City's financial advisors. The Official Statement, if required, would be used by potential investors and will contain City-specific data outlining the stable Alexandria economy and conservative fiscal practices.

FISCAL IMPACT: The proposed resolution contains authorization for an issuance of general obligation refunding bonds as long as the minimum savings achieved by the issuance of such refunding bonds have at least 3 percent savings on a present value basis compared to the existing debt service on the bonds to be refunded. If the market conditions are favorable in the coming months, the City will be able to refund about $7.8 million of the taxable Series 2006B and 2008B Bonds and about $30.7 million of tax exempt Series 2006A and 2008B. The proposed refinancing would produce $4.0 million in total savings over the life of the bonds and $3.0 million in present value savings over the life of the bonds based on current market conditions. This bond refunding would produce approximately 9 percent savings, which is well above the 3 percent savings threshold needed for a bond refunding sale to occur.

ATTACHMENTS:

1. Resolution Authorizing the Issuance and Sale of General Obligation Refunding Bonds
2. Exhibit A - Bond Form Attachment to Resolution referenced in Section 4 of the Resolution

STAFF:
Laura Triggs, Deputy City Manager
Kendel Taylor, Acting Director of Finance