



Legislation Text

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** MAY 3, 2017

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

**DOCKET TITLE:**

Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance Authorizing and Empowering the Issuance, Sale and Delivery of General Obligation Bonds to Finance Various Capital Projects.

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**ISSUE:** Consideration of an ordinance to authorize the issuance of General Obligation Bonds to finance various City and School capital projects.

**RECOMMENDATION:** That City Council pass on first reading on May 9, and schedule for public hearing, second reading and final passage on May 13; an ordinance (Attachment 1) authorizing and empowering the issuance, sale and delivery of bonds up to \$105.3 million to finance various public improvements.

**BACKGROUND:** The proposed ordinance authorizes the issuance of up to \$105.3 million in General Obligation Bonds for FY 2018 capital projects, as well as projects approved in FY 2017 but for which debt has not been issued based on cash flow needs. This issuance includes \$100.9 million in tax-exempt bonds for City and Alexandria City Public School capital projects and \$4.4 million in taxable bonds for affordable housing projects. The issuance is consistent with the FY 2017 Approved Capital Improvement Program (CIP) (FY 2017 to FY 2026 Approved Capital Improvement Program) and FY 2018 Proposed CIP (FY 2018 to FY 2027 Proposed Capital Improvement Program). The FY 2018 to FY 2027 CIP is anticipated to be adopted on May 4, and the amounts here assume the decisions reflected in the preliminary add-delete session and through the technical adjustments. Authorization of this bond sale is requested at this time so staff work on the bond sale can commence for a contemplated July 2017 bond sale. If the adopted FY 2018 debt service budget or CIP is less than currently assumed, the bond sale amount will be adjusted accordingly. Any bond amount increase could be adjusted in a future ordinance for a future sale if needed.

This authorization is an estimate of the maximum authority that the City may need based on borrowing outlined in the budget. The FY 2018 Proposed CIP includes \$100.9 million in General Obligation borrowing for City



and Schools capital projects. By managing cash flow and not borrowing funds until they are needed, the City is able to lower its debt service costs. The actual amount of bonds the City issues will depend on the projects' cash needs at the time of issuance, as well as interest rate conditions in the marketplace, but will not be higher than the amount authorized. The borrowing includes \$25.8 million for projects approved in FY 2017 for which cash was not planned until FY 2018 and \$75.1 million for the portion of the proposed FY 2018 capital projects expected to have expenditures in FY 2018 and \$4.4 million for Affordable Housing expected to be expended in FY 2018.

**DISCUSSION:** The major categories and estimated maximum amounts covered by this bond authorization are described below:

- Schools - \$40.8 million (includes FY 2017 deferral)

Construction, remodeling and repairing of school buildings and acquisition of necessary equipment (includes projects contained in the capital improvement program under "Alexandria City Public Schools").

- City Parks and Buildings - \$32.7 million

Construction, renovation and improvement of existing and new City buildings and park facilities and acquisition of necessary land and equipment (includes projects contained in the capital improvement program under "Recreation and Parks", "Public Buildings", and "Information Technology Plan").

- Transportation Improvements - \$21.8 million

Maintenance and upgrade of the City's transportation infrastructure, transit infrastructure, and traffic control infrastructure (includes projects contained in the capital improvement program under "Transportation & Transit Infrastructure," and including, without limitation, payment of the City's share of certain Washington Metropolitan Area Transit Authority (i.e., "METRO") capital improvements).

- Infrastructure - \$4.1 million

Construction, renovation and improvement of City storm sewers and waterways and acquisition of necessary equipment (includes projects contained in the capital improvement program under "Community Development," and "Storm water Management").

- Fire Department Vehicles and Apparatus - \$1.5 million

Acquisition of Fire Department vehicles and apparatus contained in the capital improvement program under "Community Development."

- Affordable Housing - \$4.4 million

Acquisition, construction, remodeling and repairing of affordable housing and acquisition of necessary land and equipment.

**Proposed Structure of the Bonds:** As is the City's practice, the contemplated bond issue (or issues depending on cash flow timing) for FY 2018 will be issued as full faith and credit general obligation bonds. They will be serial bonds with an aggressive repayment schedule of planned annual fixed repayment amounts over the life of the bonds, include a 10-year call provision, and be competitively bid. With these provisions and the City's



solid financial management practices, it is expected that bonds will be rated Aaa by Moody's Investor's Service and AAA by Standard and Poor's. The majority of the bonds are expected to be issued as tax-exempt, fixed rate bonds. Given the current market demands for AAA/Aaa-rated municipal bonds and given favorable market conditions that have seen the municipal bond market outperforming other markets, the City should see the True Interest Cost (TIC) for the City and School bonds at or around a 3.0 percent TIC. The City's rate for our 2016 issuance was 2.12 percent, but the Federal Reserve has raised interest rates since last year. Under federal tax law, because the affordable housing bonds cannot be tax exempt, as they are being combined with 9% Low Income Housing Tax Credit financing. Specifically, this funding will be used to assist Carpenter's Shelter redevelopment with a new shelter and 98 affordable rental units. The City has previously issued taxable bonds for affordable housing.

**FISCAL IMPACT:** The fiscal impact of the planned \$100.9 million tax exempt bond issuance for City and School purposes will be approximately \$5.4 million in debt service payments beginning in FY 2018, \$7.3 million in FY 2019 and \$9.5 million in FY 2020. The FY 2018 payment includes an estimated \$2.2 million in debt service paid on behalf of the schools. The planned \$100.9 million issuance will have scaled-in principal payments over a three-year period, with FY 2018 having a principal payment of \$1.0 million (compared to \$5.4 million in FY 2020). Debt service for the taxable bonds is estimated to be \$0.1 million in 2018 and approximately \$0.4 million beginning in 2020. The debt service on previously issued and the to be issued bonds for affordable housing will be paid for by the 0.6 cents of the City's real estate tax rate dedicated for affordable housing.

**ATTACHMENTS:**

Attachment 1 - Ordinance Cover

Attachment 2 - Ordinance Authorizing the Issuance of General Obligation Capital Improvement Bonds in the Estimated Maximum Amount of \$105.3 million

Attachment 3 - Exhibit A to Ordinance (2017a Bond Form)

**STAFF:**

Laura Triggs, Deputy City Manager

Kendel Taylor, Director of Finance

Morgan Routt, Director, Management and Budget

Arthur Wicks, Capital Improvement Program Analyst, OMB