



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 4, 2018

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 to Authorize the Issuance of Short-Term General Obligation Notes.

ISSUE: Establishing a short-term funding program through the issuance of General Obligation Notes to finance City and Schools capital projects.

RECOMMENDATION: That City Council pass on first reading on April 10, and schedule for public hearing, second reading and final passage on April 14; an ordinance (Attachment 1) authorizing the establishment of a short-term funding program up to \$250 million to manage the short-term cash flow needs of the City's Capital Improvement Program including the Potomac Yard Metrorail Station.

BACKGROUND: The proposed ordinance authorizes the issuance of up to \$250 million in General Obligation Notes (i.e., a line of credit) for FY 2018 capital projects, as well as projects identified in subsequent years for which debt has not been issued based on cash flow needs. This short-term funding program will provide low cost flexibility in the management of cash flow and support of ongoing construction of capital projects, most notably the Potomac Yard Metrorail Station where most of this line of credit will be used. It is expected that the City will be under legal obligation for the Potomac Yard Metrorail Station construction project before the end of June 2018 and as a result the City needs a contractually available source of funds to cover that obligation.

Since actual major station construction cash drawdowns may not occur for more than a year, establishing a short-term borrowing credit facility (in lieu of borrowing monies only to have them sit untapped or slightly tapped for a year or more) is the most cost-efficient way to put the necessary Potomac Yard Metrorail Station funding in place. Other eligible capital projects could include, but not be limited to City or school land acquisition, school construction, other public buildings, fire, rescue and/or public safety facilities, water and/or sewer improvements, and/or other City-approved capital improvement plan projects. No amount of this line of

credit can be drawn down unless there is a matching Council approved appropriation, as well as any other Council needed approval in place. Other advantages to locking in short-term interim financing, include low interest costs, reduced bond issuance fees, and increased flexibility in the timing of long-term bond issuance. The City's goal is to have a short-term funding program available that provides both a cost-efficient means of short-term borrowing and minimizes the cost associated with maintaining a short-term funding program. This authorization will allow for a line (or multiple lines) of credit through one or more financial institutions, not to exceed \$250 million outstanding at any one time. This interim financing mechanism will be established in terms ranging from 3 to 5 years and will be backed with the full faith and credit of the City. Any amounts borrowed will be repaid through either the issuance of planned general obligation bonds or other City sources, including cash capital or grant funds (if eligible).

DISCUSSION: The City anticipates using a competitive procurement process managed by Davenport, the City's Financial Advisors, to solicit proposals from interested financial institutions for this line of credit. Proposals will be evaluated based on both the interest rate charged against funds that are drawn, as well as any fees charged for funds that are not used. Unlike longer term General Obligation bonds for which the City generally locks in an interest rate, the line of credit will have a variable interest rate. The line of credit and access to funds will enable the City to enter into a contract to begin the design-build process for the Potomac Yard Metrorail Station. The line of credit will enable the City to defer the issuance of long-term General Obligation bonds, and the associated debt service payments until the funds are needed. The time is also needed to finish and obtain final approvals for the planned up to \$88 to \$106 million Federal TIFIA loan. The establishment of the line of credit will not impact the City's debt capacity or debt policies. The rating agencies do not consider it as part of their evaluation of the City's debt ratios. The short-term financing is temporary in nature and ultimately repaid and replaced with long-term General Obligation debt, which is factored into the City's credit rating.

FISCAL IMPACT: The planned line of credit will not exceed \$250 million at any time and the variable interest rate provides a low-cost, flexible interim financing mechanism for managing finances for large capital projects. As with all debt, an increase in interest rates affects the repayment amount. In addition, a large line of credit, such as the one the City is pursuing may also include recurring fees applied to unused portions. It should be noted that the combined cost of the short-term interest rate plus any additional fees is expected to be lower than the true interest cost of any long-term borrowing. This is an efficient, commonly used low-cost method of financing municipal projects, particularly large complicated ones like the Potomac Yard Metrorail Station project.

ATTACHMENTS:

Attachment 1 - Ordinance Cover

Attachment 2 - Ordinance Authorizing the Establishment of a short-term financing program up to \$250 million

STAFF:

Laura Triggs, Deputy City Manager

Kendel Taylor, Director of Finance