



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 14, 2019

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

DOCKET TITLE:

Public Hearing, Second Reading and Final Passage of an Ordinance Authorizing and Empowering the Issuance, Sale and Delivery of General Obligation Bonds to Finance a Capital Project.[ROLL-CALLVOTE]

ISSUE: (1) Consideration of an ordinance to authorize the issuance of General Obligation Bonds to finance the Potomac Yard Metrorail Station and City public school projects, and (2) locking in current very low market interest rates.

RECOMMENDATION: That City Council hold a public hearing and pass on October 19, an ordinance (Attachment 1) authorizing and empowering the issuance, sale and delivery of bonds up to \$200 million to finance the Potomac Yard Metrorail Station as well as to-be-determined public school projects.

BACKGROUND: The proposed ordinance would authorize the issuance of up to \$200 million in General Obligation Bonds with a planned allocation of \$175 million for the Potomac Yard Metrorail Station, and \$25 million for to-be-determined City public school projects.

The current plans reflects a total project budget of \$320 million for the Potomac Yard Metrorail Station project including the potential \$50 million from the Commonwealth for enhancement of the southwest entrance to the station, in conjunction with the decision to construction an Arlington Amazon second headquarters and the Alexandria Virginia Tech Innovation Campus in National Landing.

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 a \$70 million grant from the Northern Virginia Transportation Authority (NVTA) that has already been awarded, and a \$50 million loan from the Virginia Transportation Infrastructure Bank (VTIB) that has also been approved. \$25 million in funds collected from the Potomac Yard Special Services District and the aforementioned \$50 million from the Commonwealth will provide \$75 million of funding for the \$370 million construction project.

The remaining \$175 million was anticipated to be funded through a combination of federal funding through the U.S. Department of Transportation Build America Bureau, formerly known as a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan, and General Obligation debt issued by the City.

Currently, interest rates for jurisdictions such as Alexandria which possess AAA/Aaa ratings from the rating agencies are at historic lows. On the advice of the City's Financial Advisors (Davenport & Company, LLC.), the advantages of a TIFIA loan are no longer applicable and it is in the City's best interest to fund the Potomac Yard Metrorail Station using self-issued General Obligation debt. Given the current construction schedule, the City can issue 30-year debt, which will be used to fund project construction costs between now and the scheduled opening in Spring 2021. Although Potomac Yard Metro project costs are estimated to be \$175 million, the bond authorization is up to \$200 million to take advantage of very low market interest rates by also borrowing now additional \$25 million for upcoming to-be-determined school projects. City Council has previously approved a line of credit to cover this \$25 million and now it is in the City's best interest to take out permanent financing.

DISCUSSION: The major category and estimated maximum amounts covered by this bond authorization are described below. If the project or financing plan changes in the next years, staff will return to City Council to request a subsequent public hearing to amend the proposed spending categories as needed.

- Transportation (Potomac Yard Metrorail Station) Improvements - \$175.0 million
- Schools - \$25 million

Proposed Structure of the Bonds: As is the City's practice, the contemplated bond issue for FY 2020 will be issued as full faith and credit general obligation bonds. They will be serial bonds with a conservative repayment schedule of planned "ramp up" repayment amounts over the early years of the bonds, include a 10-year call provision, and be competitively bid on the internet. Alexandria was the first local government in Virginia to receive bids over the Internet. This is now the generally accepted practice in the bond industry. It is expected that bonds will be rated Aaa by Moody's Investor's Service and AAA by Standard and Poor's. 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 current estimated True Interest Cost (TIC) for this bond is around 3 percent. Not only are interest rates currently very low, but some analysts predict unusual potential market vitality in 2020.

FISCAL IMPACT: The approximate amount of total debt service on \$200 million is about \$310 million, including interest of \$110 million, assuming an interest rate of 3 percent over 30 years, and a delayed principal repayment of three to five years for the Potomac Yard Metro portion of the bonds. Annually, the debt service on this issuance will be approximately \$10.7 million. The terms of the debt associated with the Metro Station will also be structured to push principal payments out to a later start date than the City typical structures. It should be noted that the financing associated with the Potomac Yard Metro Station has been structured to ensure that net new revenue is available to pay for the debt service and there will not be impact on the City's current General Fund revenue sources, but will be repaid by Potomac Yard Metrorail Station revenues, including Tier I Special Tax District revenues, developer contributions as well as incremental tax base growth driven Potomac Yard tax revenues.

ATTACHMENTS:

Attachment 1 - Ordinance Cover

Attachment 2 - Ordinance Authorizing the Issuance of General Obligation Capital Improvement
Bonds in the Estimated Maximum Amount of \$200 million

Attachment 3 - Exhibit A to Ordinance (2019 Bond Form)

STAFF:

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Kendel Taylor, Director of Finance

Morgan Routt, Budget Director