File #: 21-1253, **Version:** 1

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 16, 2021

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 City and Schools Capital Projects and the Landmark Mall Redevelopment and to Refund Certain Outstanding Bonds of the City. [ROLL-CALL VOTE]

ISSUE: Consideration of an ordinance to authorize the issuance of General Obligation Bonds to finance public improvements reflected in multiple years of the City's Capital Improvement Program (FY 2020 to FY 2022) and to Refund Certain Outstanding Bonds of the City.

RECOMMENDATION: That City Council approve on first reading on June 22, 2021, and schedule for second reading, public hearing and final passage on July 6, an ordinance (Attachment 1) authorizing and empowering the issuance, sale and delivery of bonds up to $176.8 million to finance various public improvements and $160 million to fund the Landmark Mall Redevelopment project and to Refund Certain Outstanding Bonds of the City.

BACKGROUND: The proposed ordinance would authorize future issuance of:

(1) $140.0 million for Schools capital projects;

(2) $160.0 million for the Landmark Mall Site Redevelopment Project;

(3) $36.8 million for City capital projects; and

(3) General Obligation Bonds to refund certain outstanding bonds of the City.

The City has been spending down existing bond balances rather than issuing new debt for the past two years based on the evaluation of the timing of cash needs for projects. In November 2019, debt was issued for the Potomac Yard Project and several school improvement projects. More recently, in January 2021, City Council authorized a Reimbursement Resolution, enabling several projects to move forward with existing cash, including the Douglas MacArthur replacement and several stormwater projects. At this time, staff is seeking authorization to issue General Obligation Bonds for Schools Projects that have been identified in Capital Improvement Programs since FY 2020. The actual bond issuance is expected to be much lower to reflect the actual rate of spend of capital projects. The City will likely go to the bond market in the fall of 2021 to issue bonds to fund the projects underway and just $21 million of the Landmark Mall project for first payment for land acquisition with later issuances expected in FY 2023 and FY 2024 based on cash flow needs. The attached ordinance provides maximum bond issuance flexibility for the upcoming issuance, including the likelihood that a portion, of the bonds to fund the Landmark Mall Redevelopment Project will be taxable 30-year debt. The bonds issued for the City and Schools public improvements are expected to be 20-year, tax exempt bonds. The ordinance also provides authorization for the City Manager and the Director of Finance to pursue the refinancing of existing debt when favorable market conditions and refunding opportunities exists. Since 2015, the City has saved $24 million in debt service costs by refunding approximately $268 million in outstanding debt.

In addition to the City's capital projects and refunding, this authorization also provides authorization for the City's bond funding of the Landmark Mall Redevelopment Project. Approval of funding authorization is contemplated at this time as part of the pending Development Agreement, but the borrowing for the project is expected to be made in three tranches, beginning with $21 million in the fall of 2021 for the first payment of the land acquisition for INOVA and its medical facilities. The second tranche for the second land acquisition payment ($33 million) and infrastructure investment ($30 million) is planned for FY 2023. The final tranche of $56 million for additional Landmark redevelopment infrastructure investment is currently planned to be borrowed in FY 2024. In total the City will be making $86 million in infrastructure bond investment which is planning to be repaid through Tax Increment Financing (TIF) revenues which will be comprised of taxes generated on the Landmark site once it is redeveloped.

Since the Landmark infrastructure bonds will need to be issued prior to the development of the new residential, retail and office properties at Landmark, in the early years' debt service on these bonds will not be able to be fully funded with the new tax revenues generated by the taxable new development. As a result, there will be four to five years where there will be a gap which will need to be funded by capitalized interest (the Potomac Yard Metrorail station funding also entailed the use of capitalized interest). The need for capitalized interest will increase the amount of bonds to be issued by $10 million to $20 million, and thereby result in a total Landmark bond issuance authorization of up to $160 million. The amount of capitalized interest will be dependent on actual development timing and market conditions at the time of the bond sales. Full Landmark bond authorization is being sought at this time through a bond ordinance to demonstrate to the developer, property owners and the INOVA Hospital System, who cumulatively plan to invest over $2 billion in constructing new Landmark site buildings, the City's planned financial commitment which is key to the redevelopment plan of the Landmark site.

$ 21 M	for first land acquisition payment in FY22
33 M	for second land acquisition payment in FY23
30 M	for infrastructure payments in FY23
56 M	for infrastructure payments in FY24
20 M	for capitalized interest (FY24 to about FY28)
$160 M	Total Landmark Redevelopment Bonds

By providing the bonding authority for the full Landmark $2 billion project at this time, the City is showing its commitment to the developer, INOVA and the two major property owners. This authorization is an estimate of the maximum authority that the City may need based on borrowing outlined and approved by Council in the budget.

By managing cash flow and not borrowing funds until they are needed, the City is able to reduce the pace of growth of 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 City currently holds two lines of credit, totaling $250 million that provide access to resources to fund capital projects if needed to maximize cash flow as well. The interest rates on the lines of credit are lower than the interest rates the City will incur on longer term debt and are a potential short-term financing strategy for the City's CIP.

DISCUSSION: The major categories and estimated maximum amounts for the Landmark Mall Redevelopment Project and the capital projects covered by this bond authorization are described below:

- Schools Projects- $140 million

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

- City Park and Buildings - $30 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 - $6.8 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).

- Landmark Mall Site Redevelopment - $160 million

  Improvements, land acquisition and capitalized interest in connection with the development and redevelopment of a regional commercial and retail center known as Landmark Mall.

Proposed Structure of the Bonds: As is the City's practice, the contemplated future bond issue (or issues depending on cash flow timing) will be issued as full faith and credit general obligation bonds. They will be serial or term bonds with an aggressive repayment schedule of planned annual fixed repayment amounts over the life of the bonds, and they are expected to 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. Most of the bonds are expected to be issued as tax-exempt, fixed rate bonds. The bonds associated with the Landmark Mall Redevelopment project will likely be issued as a mix of taxable and tax-exempt bonds with most bonds expected to be issued as tax exempt. Based on 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's rate for the 2019 20- year issuance was 2.13 percent, and the Federal Reserve has lowered interest rates since that time and the interest rates could be lower.

FISCAL IMPACT: Although this ordinance authorizes $336.8 million in bond financing, the long-term bond issuance is likely to be much lower. The fiscal impact of an assumed $150 million of taxable and tax-exempt bond issuance for City and School purposes will be approximately $11 million in annual debt service payments. The utilization of short-term financing will reduce debt service costs by delaying borrowing until the funds are needed. These costs are already incorporated in the FY 2022 Approved Budget and CIP. The Landmark Mall Redevelopment debt service is expected to be paid with tax revenue generated from new development surrounding the site of the new INOVA hospital. An additional safeguard is expected to be put in place, by the establishment of a Community Development Authority (CDA). This CDA is expected to ensure that a mechanism is in place to repay the Landmark related debt service, in the event redevelopment and its related new tax generation does not occur as anticipated. Through the CDA, a special assessment could be assessed on properties within a defined area of the previous Landmark Mall site that would be used to pay the debt service. The boundaries of the CDA will be established in the forthcoming CDA ordinance.

ATTACHMENTS:
Attachment 1 - Ordinance Cover
Attachment 2 - Ordinance Authorizing the Issuance of General Obligation Capital Improvement Bonds in the Estimated Maximum Amount of $336.8 million
Attachment 3 - Exhibit A to Ordinance (2021a Bond Form)

STAFF:
Laura B. Triggs, Deputy City Manager
Kendel Taylor, Director of Finance
Morgan Routt, Director, Management and Budget
Arthur Wicks, Capital Improvement Program Manager, OMB