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City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 13, 2022

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

THROUGH: JAMES F. PARAJON, CITY MANAGER

FROM: KENDEL TAYLOR, DIRECTOR OF FINANCE

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 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 various City and School capital projects.

RECOMMENDATION: That City Council pass on first reading on June 14, and schedule for second reading, public hearing, and final passage on Saturday, June 18; an ordinance (Attachment 1) authorizing and empowering the issuance, sale and delivery of general obligation bonds up to $551.7 million to finance various public improvements.

BACKGROUND: The proposed ordinance authorizes the issuance, at one time or from time to time, of up to $551.7 million in General Obligation Bonds to finance capital projects approved in the FY 2023 Capital Improvement Program (CIP) and projects that were approved in prior year CIPs for which the bond authorization was deferred. Staff anticipates that the first issuance of such bonds will occur in Fall 2022, and the actual amount of bonds the City issues at that time will depend on project timing and cash flow and is anticipated to be for a portion of the total authorization. By managing cash flow and not borrowing funds until they are needed, the City is able to lower its debt service costs. However, including the full authorization of bond issuance at this time helps more clearly align the bond authority approval with the approval of the associated projects. Aligning the authorization to the budget process helps ensure that project planning and contracting can get underway without waiting for a separate bond approval for projects Councils has already approved during the budget process. The authorization also allows the City the flexibility to reimburse expenditures as needed for such projects if the City finds it prudent to wait to issue bonds to take advantage of better market conditions.

This authorization is an estimate of the maximum authority that the City may need based on approved borrowing outlined in the CIP. The FY 2023 CIP includes $395.5 million in General Obligation borrowing for City and Schools capital projects. This authorization request does not include an additional $63 million in bonds for Landmark Mall that will be considered separately as part of the overall Landmark project timeline. Deferred borrowing authorizations needed for prior approved City projects totals $156.2 million, including $3.1 million for Fire Department apparatus for a total authorization of $551.7 million. The actual amount and timing of bond sales will depend on the projects' cash needs at the time of issuance, as well as interest rate conditions in the marketplace, but cannot, in the aggregate, be higher than the amount authorized.

FY 2022, $336.8 million of general obligation debt was authorized for City and Schools projects and Landmark Mall. To date the City has issued approximately $154.8 million of general obligation bonds, with $52 million for Schools projects and $139 million for Landmark Mall redevelopment remaining to be issued from this authorization. These bonds will be issued based on the cash needs for these previously approved FY 2022 projects.

DISCUSSION: The major categories and estimated maximum amounts covered by this FY 2023 bond authorization are described below:

- Schools and City Parks and Buildings - $358.6 million

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

- Transportation Improvements - $87.5 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 - $102.5 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 - $3.1 million

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

Proposed Structure of the Bonds: As is the City's practice, the contemplated bond issue (or issues depending on cash flow timing) will be issued as full faith and credit general obligation bonds. They are expected to 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 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 recent issuances has ranged from 1.5 to 3 percent but increases in interest rates by the Federal Reserve would likely increase the interest rate on these bonds.

FISCAL IMPACT: Assuming a relatively even issuance of $184 million per year, the annual increase in debt service each year is anticipated to be approximately $12 million as a result of this authorization and is included in the FY 2023 Approved Budget. Total debt service budgeted in FY 2022 is $73.2 million. ~~As of June 30, 2021, the City had $704,117,000 of outstanding debt.~~

ATTACHMENTS:

Attachment 1 - Ordinance Cover
Attachment 2 - Ordinance Authorizing the Issuance of General Obligation Capital Improvement Bonds in the Estimated Maximum Amount of $551.7 million
Attachment 3 - Exhibit A to Ordinance (2022a Bond Form)

STAFF:

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