



Legislation Text

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** FEBRUARY 7, 2023

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

**THROUGH:** JAMES F. PARAJON, CITY MANAGER /s/

**FROM:** KENDEL TAYLOR, DIRECTOR OF FINANCE

**DOCKET TITLE:**

Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance to Authorize the Issuance of General Obligation Debt Instruments.

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**ISSUE:** Consideration of an ordinance to authorize the issuance of General Obligation Debt Instruments to finance City and Schools capital projects and thereby establish a short-term funding program.

**RECOMMENDATION:** That City Council pass on first reading on February 14, and schedule for second reading, public hearing and final passage on Saturday, February 25 an ordinance (Attachment 1) authorizing the issuance of General Obligation Debt Instruments in an amount up to \$100 million principal amount outstanding at any one time, which amount may be borrowed, repaid, and reborrowed, to manage the short-term cash flow needs of the City's Capital Improvement Program.

**BACKGROUND:** The proposed ordinance authorizes the issuance of General Obligation Debt Instruments in an amount up to \$100 million principal amount outstanding at any one time, including lines of credit that may be revolving and therefore allow amounts thereunder to be borrowed, repaid, and reborrowed, for the purpose of financing capital improvements for which bond proceeds have been appropriated pursuant to the City's Capital Improvement Program based on cash flow needs. This short-term funding program is expected to provide low-cost flexibility in the management of cash flow and support of ongoing construction of capital projects.

Since actual construction cash drawdowns may not occur for more than a year from the allocation of resources and establishment of a contract, establishing a short-term borrowing credit facility (in lieu of borrowing monies that may remain unspent) is a cost-efficient way to ensure that funding is in place. Eligible capital projects could include, but are not limited to, acquisition of necessary land and equipment for the City or schools, construction, renovation, or improvement of school or other public buildings, acquisition of fire, rescue or public safety facilities, apparatus and vehicles, water or sewer improvements, and other City-approved capital improvement plan projects. 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 a cost-efficient means of interim borrowing. In part, this authorization will allow the City to enter into one or more lines of credit through one or more financial institutions, in an amount not to exceed \$100 million principal amount outstanding at any one time. The term of each line of credit or other short-term financing

is expected to range 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). In 2018, the City entered into two agreements to establish lines of credit in an amount up to \$250 million to provide access to funds for the Potomac Yard Metrorail Station project, as well as other capital projects. These lines of credit are expiring in mid-2023, and the new line or lines of credit or other short-term financing will provide the City continued access to funding for its capital projects. The amount recommended for the new lines of credit or other short-term financing reflects that the City anticipates obtaining revolving debt with the expectation that outstanding balances will be repaid each year with the issuance of long-term general obligation debt.

**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 lines of credit. Proposals will be evaluated based on the interest rate charged against funds that are drawn, any fees charged for funds that are not used and other requirements of such financial institutions. Unlike the City's longer term General Obligation Bonds, which have fixed interest rates, the lines of credit are expected to have variable interest rates. The lines 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 rating agencies are not expected to consider the lines of credit as part of their evaluation of the City's debt ratios. The lines of credit are expected to be temporary and ultimately repaid and replaced with long-term General Obligation debt of the City, which is factored into the City's credit rating.

**FISCAL IMPACT:** The outstanding amount of the lines of credit will not exceed \$100 million principal amount at any one time, and the lines of credit are expected to provide a cost-efficient, 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, lines of credit of the size proposed may also include recurring fees for unused portions. It should be noted that the combined cost of the short-term interest rates for such lines of credit plus any additional fees are expected to be lower than the true interest cost of any long-term borrowing.

**ATTACHMENTS:**

Attachment 1 - Ordinance Cover

Attachment 2 - Ordinance Authorizing the Establishment of a short-term financing program up to \$100 million

**STAFF:**

Morgan Routt, Director of Management and Budget

Arthur Wicks, Capital Budget Manager