

# Town of Leesburg, Virginia

## Financial Overview and Proposed Plan of Finance



*the hometown of the 21st century*

January 26, 2015

# Background/Goals & Objectives

- The Town of Leesburg (the “Town”) entered the credit markets in the Summer of 2014 to effect both a New Money and Refunding issuance for a total of \$24.8 million.
  
- In anticipation of this issuance, the Town met with all three national credit rating agencies: **Moody’s**, **Standard & Poor’s** and **Fitch**.
  - Fitch affirmed the Town’s strong AA+ rating.
  
  - **Moody’s** affirmed the equally strong Aa1 rating and added a positive outlook to the Town’s credit standing.
    - The positive outlook from **Moody’s** means that if the Town continues on its current trajectory in the next 18 – 36 months, a rating upgrade is expected.
  
  - **Standard & Poor’s** elevated the Town’s credit rating to AAA; the highest possible rating.
  
- During these meetings with the national credit rating agencies, Town Staff Leadership and Mayor discussed amending/strengthening the Town’s Unassigned General Fund Balance policy to better reflect AAA levels.
  - Note: Tonight Council will be asked to act favorably on this amendment to the Town’s Financial Policy Guidelines.

# Background/Goals & Objectives (Continued)

- Interest rates have continued to remain strong. In fact, interest rates are currently trending lower than 6 months ago (i.e. approximate time frame when the most recent Town issuance occurred) and, as such, further refinancing(s) for debt service savings are possible.
- Also, economic development opportunities have increased and a \$2.5 million borrowing to effect the recently Council approved (January 13) project is required.
- Under new Town leadership (i.e. Town Manager and Finance Director), the opportunity to further strengthen the Town's Capital Projects Fund contemplates a recapitalization borrowing of approximately \$5.5 million to conform to evolving rating agency criteria.
- In addition, due to an accelerated project construction timeline \$3.0 million is needed for capital projects in Fiscal Year 2016.
- Enclosed is a recommended Plan of Finance and timetable designed to meet all of the above goals and objectives.
- Lastly, as demonstrated herein, the Plan of Finance continues to meet all of the Town's self-imposed Financial Policy Guidelines, which are critical to maintaining the Town's excellent credit standing.

# 2014 Bond Sale & Rating Agency Commentary



- In July 2014, the Town issued \$24.8 million of General Obligation New Money and Refunding Bonds.
  - \$14.0 Refunding
  - \$8.8 million General Fund New Money
  - \$2.0 million Utility Fund New Money
  
- As shown in the table below, the Town’s credit rating has improved over the last 20 years in which Davenport has served as Financial Advisor

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	
<b>Top Tier “Highest Possible Rating”</b>	<b>Aaa</b>	<b>AAA</b>	<b>AAA</b>	
<b>2nd Tier “Very Strong”</b>	<b>Aa1</b>	<b>AA+</b>	<b>AA+</b>	<b>(Highest)</b>
	<b>Aa2</b>	<b>AA</b>	<b>AA</b>	<b>(Middle)</b>
	<b>Aa3</b>	<b>AA-</b>	<b>AA-</b>	<b>(Lowest)</b>
<b>3rd Tier “Strong”</b>	<b>A1</b>	<b>A+</b>	<b>A+</b>	<b>(Highest)</b>
	<b>A2</b>	<b>A</b>	<b>A</b>	<b>(Middle)</b>
	<b>A3</b>	<b>A-</b>	<b>A-</b>	<b>(Lowest)</b>
<b>4th Tier “Adequate Capacity to Repay”</b>	<b>Baa1</b>	<b>BBB+</b>	<b>BBB+</b>	<b>(Highest)</b>
	<b>Baa2</b>	<b>BBB</b>	<b>BBB</b>	<b>(Middle)</b>
	<b>Baa3</b>	<b>BBB-</b>	<b>BBB-</b>	<b>(Lowest)</b>
<b>5th – 10th Tiers “Below Investment Grade”</b>	<b>BB, B, CCC, CC, C, D</b>			

**Current Town Ratings**

**Initial Town Ratings**

**Considered Investment Grade**

**Below Investment Grade**

# 2014 Bond Sale & Rating Agency Commentary



- The three national credit rating agencies evaluate all credits based upon 4 primary criteria:
  - 1) Management;
  - 2) Finances;
  - 3) Debt; and,
  - 4) Demographics.
  
- The following page(s) includes several comments from the three national credit rating agencies on the above.
  
- The proposed Plan of Finance maintains all of the various rating agency(s) expectations including the Town's self imposed Financial Policy Guidelines.

# 2014 Bond Sale & Rating Agency Commentary



## ■ Moody's:

- “The positive outlook reflects that the Town’s financial performance will continue to remain solid in the near-term due to strong fiscal management and planning, and despite a steep increase in debt service in Fiscal 2017.”
- “The Town is considering strengthening this policy (Fund Balance) to 20% of General Fund revenues and would plan to increase the threshold by 1% each year over the next five years beginning in Fiscal 2015.”
- “Based on preliminary projections, the Town expects to end Fiscal 2014 with a \$2.4 million increase in General Fund balance to \$20.5 million or 39% of General Fund Revenues.”

## ■ Fitch

- “The Town’s total debt levels are moderate...Prudent capital planning, reasonable debt policies, and above-average amortization (roughly 65% of outstanding debt is repaid within 10 years) are expected to keep the Town’s debt burden manageable.”

# 2014 Bond Sale & Rating Agency Commentary



## ■ Standard & Poor's

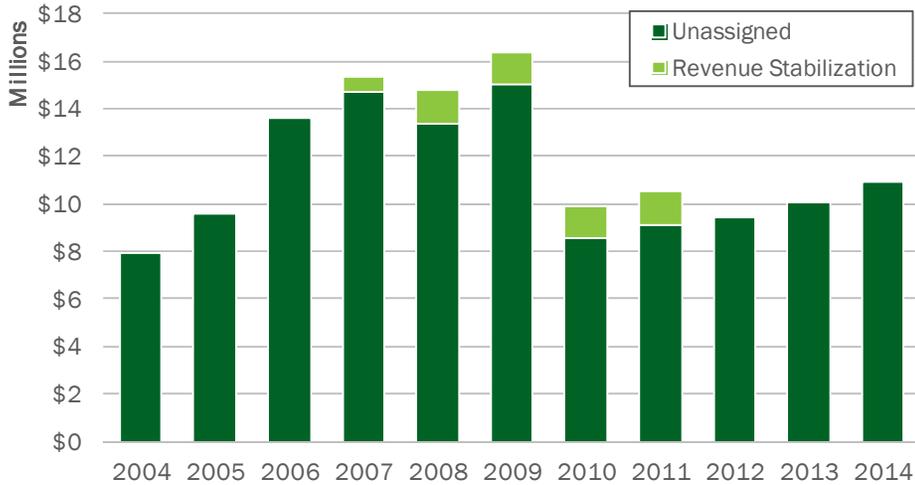
- “The Town maintains formal policies in investment and debt management in addition to an adopted reserve policy requiring the Town to establish an undesignated general fund balance at a minimum of 15% of budget.”
- “The Town also maintains a formalized multi-year financial plan. Furthermore, the Town has committed itself to raising its fund balance policy from 15% of expenditures to 20% in the five-year period from 2015-2019.”
- “In our opinion, the Town’s debt and contingent liability profile is very strong with total governmental fund debt service at 9% of total governmental fund expenditures.”

# Fiscal Year 2014 Financial Results

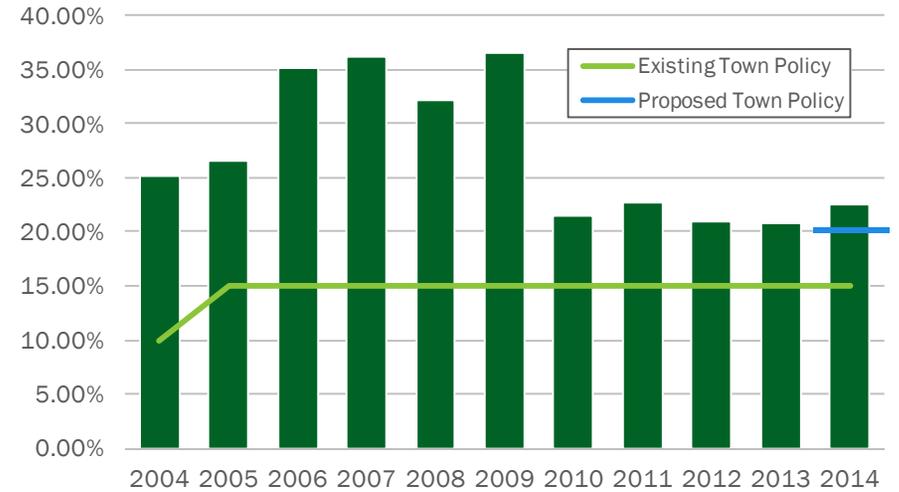
- The Town's Fiscal Year 2014 Audit confirms the discussions the Town had with all three of the national credit rating agencies last Summer.
  
- The Town finished Fiscal Year 2014 with a strong surplus as projected.
  - Total General Fund Balance increased to \$20.8 million which was greater than the Town's indications to the credit rating agencies by roughly \$300,000.
  
  - Unassigned General Fund Balance increased by approximately \$800,000 from \$10.1 million to just shy of \$11 million.
  
  - As noted on the subsequent page, the Town's General Fund Balance as a percentage of General Fund Expenditures was 22.6%, which is north of the Financial Policy Guideline of 15%.

# Unassigned Fund Balance

Unassigned Fund Balance



Unassigned Fund Balance as a % of Expenditures



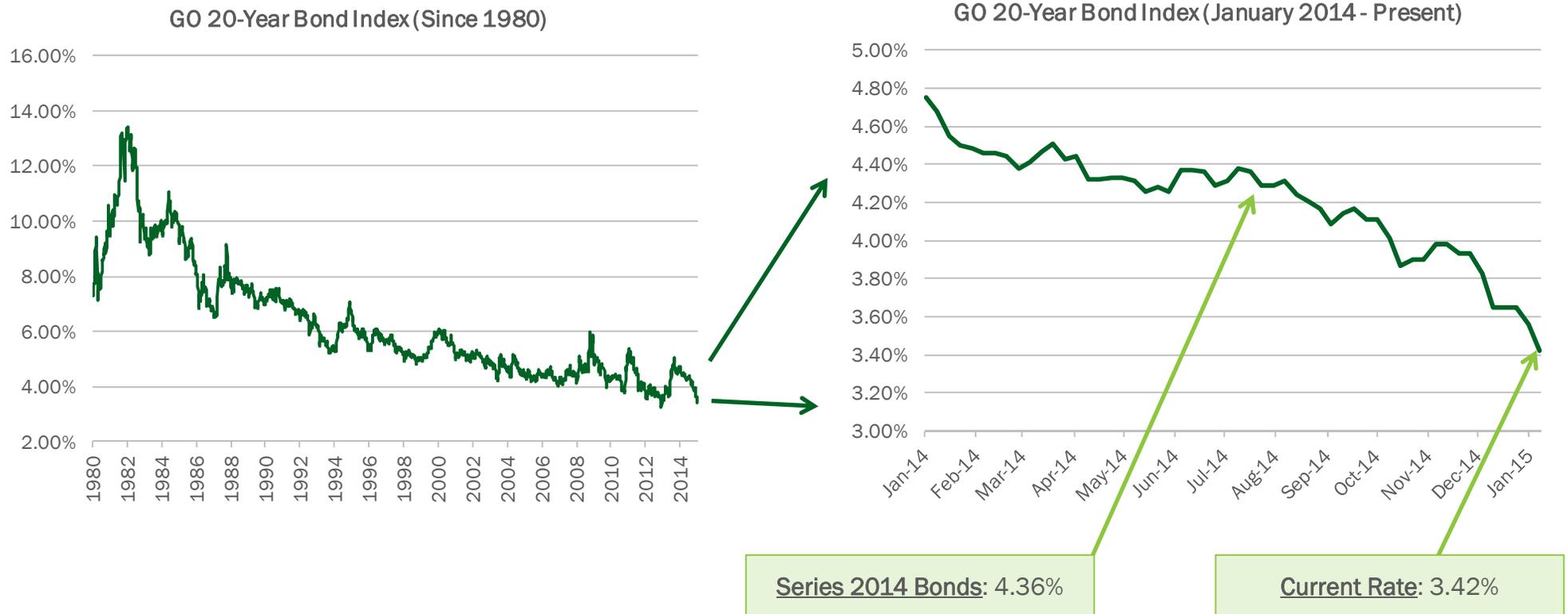
Fiscal Year	General Fund Undesignated/ Revenue		Total Fund Balance	General Fund Expenditures	General Fund Unassigned Fund Balance as a % of Expenditures Town Policy	
	Unassigned Fund Balance	Stabilization Fund			Unassigned Fund Balance as a % of Expenditures	Town Policy
2004	\$7,964,324	\$0	\$7,964,324	\$31,751,550	25.08%	10.00%
2005	9,612,504	0	9,612,504	36,172,767	26.57%	15.00%
2006	13,609,805	0	13,609,805	38,762,859	35.11%	15.00%
2007	14,675,941	700,000	15,375,941	42,456,735	36.22%	15.00%
2008	13,382,816	1,400,000	14,782,816	45,866,109	32.23%	15.00%
2009	14,988,594	1,400,000	16,388,594	44,870,232	36.52%	15.00%
2010	8,529,065	1,400,000	9,929,065	46,142,800	21.52%	15.00%
2011	9,103,329	1,400,000	10,503,329	46,260,493	22.70%	15.00%
2012	9,395,933	0	9,395,933	44,935,479	20.91%	15.00%
2013	10,041,113	0	10,041,113	48,531,008	20.69%	15.00%
2014	10,958,360	0	10,958,360	48,507,451	22.59%	15.00%

# Amendments to Current Multi-Year Capital Improvement Program & Funding Strategies

- As previously approved on January 13<sup>th</sup> by Town Council, the Town has an opportunity to further strengthen the tax base with a significant economic development project.
  - This project will require an initial \$2.5 million investment and as such Town Staff, in conjunction with Davenport, is recommending the Town fund all the proceeds at once while interest rates are favorable.
- In the Summer of 2014 \$9.2 million was added to the Town’s Capital Projects Fund in order to provide funding for Council approved projects that were underway in FY 2014 and FY 2015.
  - Town Staff is recommending implementing the best practice of highly rated localities using inception to-date project budgeting and accounting for Capital Projects. This improves the Town’s Capital Project’s program by budgeting and accounting for project management costs by project to fully reflect the costs of capital projects.
  - Moving forward now with an approximately \$5.5 million borrowing further strengthens the balance sheet of this fund and reimburses project management costs from bond proceeds for previous expenditures which assures adequate long-term funding and protects the Town’s Fund Balance levels.
  - In addition, due to an accelerated project construction timeline \$3.0 million is needed for the Capital Projects Fund.
  - Issuing these amounts simultaneously with the proposed new economic development borrowing and possible refunding opportunity takes full advantage of economies of scale and currently favorable interest rates while meeting all the Town’s Financial Policy Guidelines for Debt Management.

# Interest Rate Trends

- Tax-Exempt interest rates continue to remain at or near historic lows. In fact, since the Town borrowed in Summer 2014, interest rates for tax-exempt borrowing have continued to decline.



The “20-Bond Index” as shown above consists of 20 tax-exempt bonds with an average rating of Aa2/AA (Moody’s / S&P) that mature in 20 years and serves as a general indicator of prevailing interest rates for tax-exempt borrowers.

# Strategic Refunding Opportunities



- Davenport, in our capacity as Financial Advisor, continually monitors the Town’s debt portfolio for opportunities to refund existing debt for savings purposes.
- As a result of the historically favorable interest rates, the Town of Leesburg appears to have the opportunity to refinance two existing bond issues for debt service savings that are in the range of meeting or exceeding the Town’s 3% net present value savings Financial Policy Guideline.
- Davenport has indentified roughly \$39.04 million of existing Town debt that, in the current market, could potentially provide the Town with debt service savings. These refunding opportunities will be issued in conjunction with the Town’s aforementioned proposed new money borrowing.

Series Refunded	Fund	Par Refunded	Call Date	Existing Average Interest Rate	All-in TIC (1)	Total Savings (2)	NPV Savings Percent (2)
2006 G.O.	Water & Sewer	\$34,860,000	7/1/2016	4.08%	3.08%	\$4,422,234	9.61%
2006B G.O.	General Government	4,180,000	9/15/2017	4.23%	2.44%	213,540	3.83%
<b>Total</b>		<b>\$39,040,000</b>		<b>4.09%</b>	<b>3.03%</b>	<b>\$4,635,774</b>	<b>9.00%</b>

(1) The All-in TIC is the over interest cost for the transaction, including all estimated costs of issuance.

(2) Net of Estimate Costs of Issuance.

Note: All numbers are preliminary, subject to change and based on estimated market conditions as of January 9, 2015

# Recommended Plan of Finance – Total Issuance Size & Details

- Based upon the information included previously, including the Town’s current capital needs and potential refunding opportunities, below is Davenport and Staff’s recommended Plan of Finance which includes an estimated issuance size for potential Series 2015 Bonds.

## 1. Series 2015 New Money:

- \$2.5 million economic development project;
- \$3.0 million accelerated projects, and,
- \$5.5 million recapitalization of the Capital Projects Fund:
  
- **\$11.0 Million Total New Money**

## 2. Series 2015 Refunding:

- \$35.0 million refunding of the Series 2006 General Obligation Public Utility Bonds; and,
- \$4.2 million refunding of the Series 2006 General Obligation Bonds:
  
- **\$39.2 Million Total Refunding**

## 3. Total Series 2015 Bonds:

- **\$50.2 Million New Money and Refunding**

# Timetable/Next Steps

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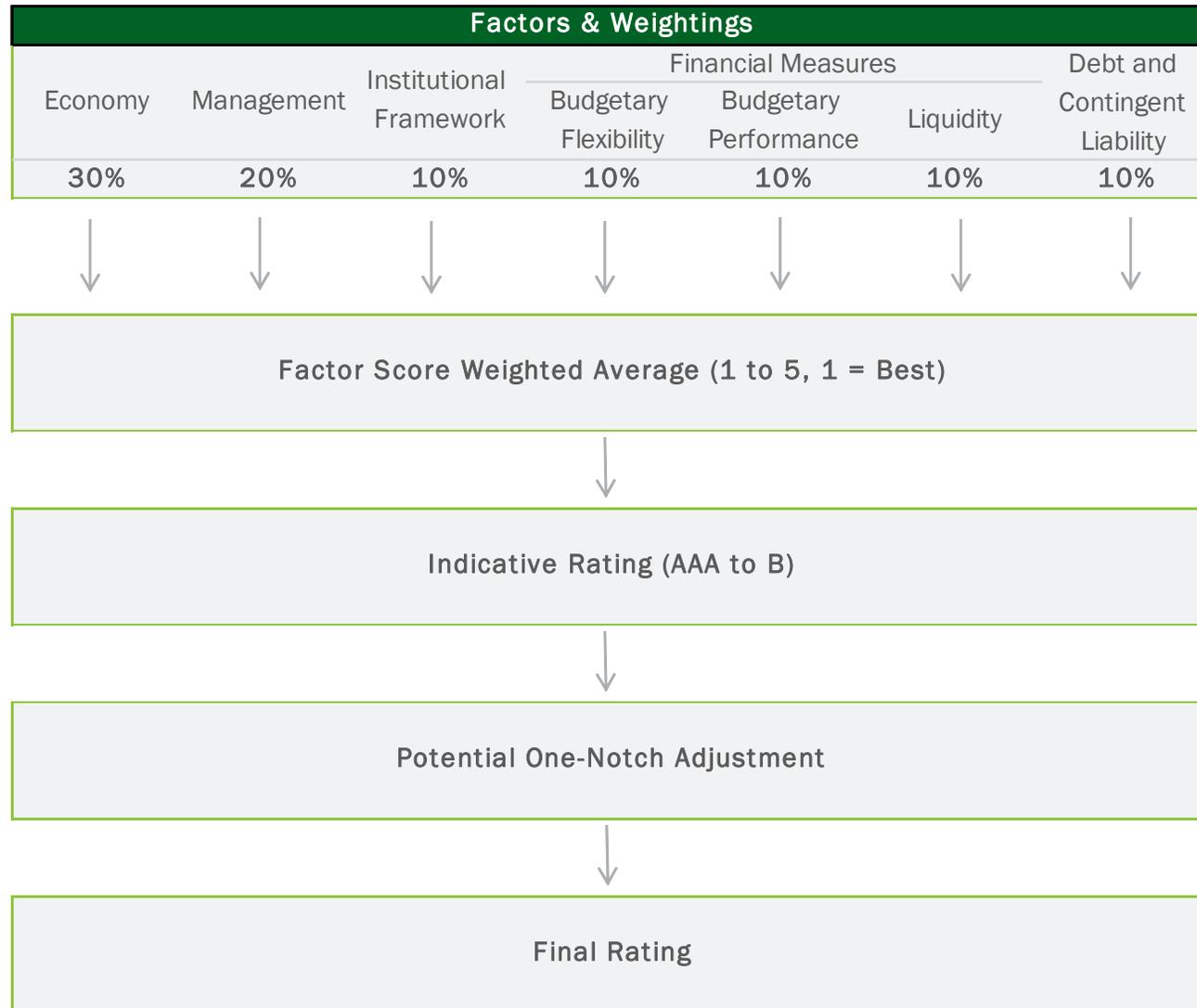
Date	Action
January 26, 2015	Davenport to Present Financial Overview and Proposed Plan of Finance to Town Council
January 27, 2015	Council Takes Action on Fiscal Policy
Early February	Bond Counsel Begins Drafting Necessary Legal Documents
Balance of January/February	Detailed Timetable and Next Steps Developed to Include Future Town Council Action Items Including Public Hearing on a New Money Borrowing
Late February	Discussions with Rating Agencies
Late February/Early March	Town Council Takes Action on Legal Documents, as Necessary
Early/Mid March	Sale of Series 2015 New Money & Refunding Bonds
Late March/Early April	Close on Series 2015 New Money & Refunding Bonds

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# Appendix

# Standard & Poor's Revised Methodology

In September 2013, Standard and Poor's revised its General Obligation rating methodology.



# Moody's Revised Methodology

In January 2014, Moody's revised its General Obligation rating methodology.

Broad Rating Factors	Factor Weighting	Rating Subfactors	Subfactor Weighting
Economy/Tax Base	30%	Tax Base Size (Full Value)	10%
		Full Value Per Capita	10%
		Wealth (Median Family Income)	10%
Finances	30%	Fund Balance (% of Revenues)	10%
		Fund Balance Trend (5-Year Change)	5%
		Cash Balance (% of Revenues)	10%
		Cash Balance Trend (5-Year Change)	5%
Management	20%	Institutional Framework	10%
		Operating History	10%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's Adjusted Net Pension Liability (3-Year Average) to Full Value	5%
		Moody's Adjusted Net Pension Liability (3-Year Average) to Revenue	5%

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