



## ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item  
Meeting of July 11, 2009**

**DATE:** July 7, 2009

**SUBJECT:** Extension of the Letter of Credit (LOC) for the Ballston Public Parking Garage Revenue Bonds

**C. M. RECOMMENDATION:**

Approve the attached Resolution (Attachment A),

- i. Approving the terms and conditions of the Bank of America's proposal;
- ii. Authorizing the County Manager and the Director of the Department of Management and Finance, or either of them, after legal review and approval by the County Attorney, to accept the proposal from the Bank, with any amendments, to extend the 2009 Letter of Credit for an additional two-year term;
- iii. Authorizing the County Manager, and the Director of the Department of Management and Finance, or either of them, to negotiate and approve on behalf of the County the Letter of Credit and Reimbursement Agreement, or amendments to the existing Reimbursement Agreement, and such instruments, advancements or certificates necessary or appropriate to carry out the renewal and amendment of the existing Letter of Credit; and,
- iv. Authorizing the Chairman of the County Board, the County Manager, and the Director of the Department of Management and Finance, or any of them, to execute on behalf of the County the Reimbursement Agreement.

**ISSUES:** Should the County Board approve the terms and conditions of the Letter of Credit that supports the Ballston Public Parking Garage variable rate revenue bonds as described in this report?

**SUMMARY:** In 1984, the County financed the construction of the Ballston Public Parking Garage (the "BPPG") by issuing \$22.3 million in variable rate revenue bonds. Because these bonds are variable rate and investors are able to put the bonds back to the County on a weekly basis, a Letter of Credit is needed to provide liquidity and credit support on the bonds.

The existing Letter of Credit will expire on September 22, 2009. In May 2009, Arlington County issued a request for proposals from financial organizations that could offer this service, and received responses from Bank of America, N.A., Wachovia Bank, N.A. and BB & T

County Manager: \_\_\_\_\_

County Attorney: \_\_\_\_\_

Staff: Michelle Cowan, DMF, Mark Schwartz, DMF, Jean Wilson, DMF

Corporation. Staff and the County's independent financial advisors have evaluated the proposals and recommend the selection of Bank of America. Bank of America's pricing is in line with the other proposals, and their proposal includes no covenant or legal changes from the County's existing deal.

**BACKGROUND:** As the keystone in the County's plan to encourage the redevelopment of the Ballston area, in 1984 the County issued \$22.3 million in revenue bonds (the "Bonds") to finance the construction of the BPPG parking garage, a 2805-space public parking facility adjacent to the Ballston Mall. This investment triggered substantial retail, office, and residential construction in Ballston. The Bonds were issued with the intention that the operating, capital and Bond-related debt service costs would be financed with BPPG parking fees and other related project income. As additional credit support for the bonds, the County has extended its moral obligation pledge to fund shortfalls in parking revenues available to pay certain debt service and operating and maintenance payments. The County's moral obligation has never been called upon.

The revenue bonds are structured as seven-day variable rate revenue bonds in order to take advantage of lower interest rates that accrue to short-term tax-exempt financial instruments. As of June 30, 2009, \$12.8 million of the original \$22.3 million of the Bonds remain outstanding. Given that the holders of these shorter-term bonds may require the County to purchase the Bonds at the end of any seven-day period, it is necessary to back the Bonds with an LOC from a highly-rated financial institution. The LOC provides the bondholder assurance that the scheduled debt service payments on the Bonds will be paid when due.

#### **DISCUSSION:**

In order to determine which LOC arrangement was in the County's best interest, the County issued a request for proposals to highly rated financial institutions that are competitive in the LOC market. The County received proposals from Bank of America, N.A., Wachovia Bank, N.A., and BB & T Corporation. After negotiations with the two top offerors, County staff recommends selection of Bank of America because of its competitive annual fee structure and because of its willingness to continue using the County's current remarketing agent, which has provided favorable interest rates as the bonds are resold every seven days. Additionally, Bank of America's proposal requires no significant change in covenants.

Terms of the amended Letter of Credit are summarized in the table below.

Amount	Up to \$12,800,000 plus interest
Tenure	Two years
Direct pay Letter of Credit fee	100 basis points per annum on outstanding bonds. The fee is based on the County's current General Obligation rating from Moody's Investor Services, Standard and Poor's Rating Services, and Fitch Ratings. The price would be subject to change in the event of a downgrade.
Amortization	\$500,000 per fiscal year over the life of the Letter of Credit. This redemption is backed by the moral obligation of Arlington County.
Security	Moral obligation of Arlington County, leasehold deed of trust, revenue pledge of receipts
Cancellation fee	If cancellation occurs within the first year, the County will pay the fee to the end of the year

The existing County moral obligation pledge originally provided as credit support when the Bonds were issued in 1984 would continue, and other existing terms and conditions in the original and extended LOC would continue throughout the term of the LOC. The County's moral obligation has never been called on; parking revenues have always been adequate to pay debt service and operating and maintenance costs.

**FISCAL IMPACT:** The proposed new terms of the LOC will increase the fees that have been paid to Bank of America annually, by 75 basis points, or \$96,000 annually, for total annual fees of \$128,000. This is consistent with current market conditions and proposals from other banks. The LOC fees will be paid (as are operating expenses, debt service, and capital expenses) from the BPPG parking fees and related revenues.

