



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of October 24, 2009

DATE: October 13, 2009

SUBJECT: Refinancing of the Industrial Development Authority Skating Facility Bonds

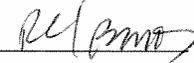
C. M. RECOMMENDATION:

1. Adopt the attached resolution (Attachment 1) requesting the Industrial Development Authority of Arlington County (the "IDA") to convert the interest rate on its existing skating facility bonds to a fixed rate or to issue taxable revenue refunding bonds in an amount not to exceed \$37 million in order to refinance existing debt related to the Skating Facility
2. Authorize the County Manager or the Director of the Department of Management and Finance to execute bond documents on behalf of the County.

ISSUE: Should the County authorize the conversion of the Skating Facility bonds to a fixed interest rate or the issuance of refunding bonds by the IDA to lock in historically low long-term interest rates?

SUMMARY: Interest rates on the outstanding bonds for the Skating Facility are variable rate which reset every week. The County receives a fixed lease payment for use of the Skating Facility from the Washington Capitals (the "Capitals") which the County uses to make debt service payments. Since the Capitals' lease payment is fixed, the County is exposed to the risk of changing interest rates and debt service on the bonds. To date, interest rates on the bonds have been low and the Capitals' lease payment has covered all debt service and related costs. However, in light of historically low interest rates, the County may have an opportunity to lock in a long-term taxable interest rate that would be equal or close to the amount of the Capitals' annual lease payment, thereby eliminating future interest rate and financial risk to the County.

BACKGROUND: In May 2005, the IDA issued \$35.7 million of Taxable Variable Rate Economic Development Revenue Bonds (Skating Facility Project), Series 2005 to finance construction of the ice skating facility and related facilities on top of the Ballston Public Parking Garage. As of September 30, 2009, \$35.2 million remains outstanding.

County Manager: 

County Attorney: 

Staff: Mark Schwartz, Director, Department of Management & Finance
Michelle Cowan, Assistant Director, Department of Management & Finance
Jason Friess, Staff Financial Analyst, Department of Management & Finance

The bonds are secured by a pledge by the County Board to annually appropriate debt service. More specifically, under a Cooperation Agreement between the County and the IDA, the County Board agreed in each fiscal year to consider appropriations of the full amount necessary: 1) to pay the scheduled debt service on the bonds; 2) to replenish any shortfalls in the debt service reserve fund; and 3) to pay all other amounts required to be paid by the IDA. As noted above, the County uses the fixed lease payment (totaling \$2.4 million annually) from the Capitals to make debt service payments on the bonds. If the debt service on the bonds were to exceed the Capitals' lease payment or if the Capitals were to fail to make payment, the County is expected to appropriate the shortfall from other available funds. The County retains net income on 192 new parking spaces constructed as part of the Skating Facility project that could be used to fund a shortfall.

To date, the Capitals' lease payments have been sufficient to cover debt service on the bonds. Interest rates have fluctuated, ranging from a low of 0.32% in September 2009 to a high of 7.75% percent in October 2008, and have averaged 4.0% since the bonds were issued. The interest rate resets on a weekly basis; the bonds are taxable and interest rates generally track the one month London Interbank Offering Rate (LIBOR). The County has also entered into interest rate caps that have provided short-term risk mitigation of interest rate volatility.

DISCUSSION: Short and long-term interest rates are at historical lows, giving the County an opportunity to lock in interest rates on the Skating Facility Bonds that will eliminate or reduce the current risk that the County Board has to appropriate funds to cover any debt service shortfall. In addition, these bonds are currently backed by a bank letter of credit because of their variable rate nature and the ability of existing bondholders to redeem or "put" their bonds back on a weekly basis. Converting to a longer-term maturity will help mitigate the risk the County faces in securing a new letter of credit in light of existing credit market conditions (the current letter of credit expires in May 2010) and avoid the cost of purchasing another interest rate cap which also expires in May 2010.

There are two approaches to locking in longer-term interest rates:

1. Conversion to a different interest rate mode – The indenture governing the bonds allows to be remarketed in several interest rate modes, including two long-term modes in which the interest rate may be fixed up to the final maturity of the bonds or such shorter fixed rate period as the County and the Authority may designate.
2. Complete refinancing under separate indenture or under the Metro Matters / Buckingham Village 1 indenture – this option would result in a new issuance under either a separate or existing indenture, already established in conjunction with this summer's IDA bond issuance for Metro Matters and Buckingham Village 1. Issuing bonds under this option will allow the County to determine whether or to sell the bonds at negotiated or competitive sale depending on market conditions and rating agency feedback. It may also allow the debt service reserve fund currently securing the bonds to be used to pay down existing principal.

Either option will accomplish the same objective of locking in a longer-term interest rate and authorization of both options provides County staff maximum flexibility to respond to rapidly changing market conditions. Authorization to execute a refinancing is requested through June 30, 2011.

FISCAL IMPACT: Locking in a low long-term interest rate on the Skating Facility bonds will reduce the County's interest rate and financial exposure.

A RESOLUTION OF THE COUNTY BOARD
OF ARLINGTON COUNTY, VIRGINIA REQUESTING THE
INDUSTRIAL DEVELOPMENT AUTHORITY
OF ARLINGTON COUNTY, VIRGINIA
TO CHANGE THE INTEREST RATE MODE OF OR
ISSUE TAXABLE REFUNDING REVENUE BONDS TO REFUND
THE AUTHORITY'S TAXABLE ECONOMIC DEVELOPMENT REVENUE BONDS
(SKATING FACILITY PROJECT) SERIES 2005

WHEREAS, the Industrial Development Authority of Arlington County, Virginia (the "Authority") issued its Taxable Economic Development Revenue Bonds (Skating Facility Project) Series 2005 (the "2005 Bonds") on May 5, 2005 and used the proceeds thereof to assist in financing the development and construction of an ice skating facility, parking facilities and related improvements (the "Skating Facility") on the eighth level slab of the Ballston Commons Parking Garage.

WHEREAS, Arlington County, Virginia (the "County") agreed under a Cooperation Agreement (the "2005 Cooperation Agreement"), between the County and the Authority that, subject to appropriation of funds by the County Board, the County would deliver to the Authority sufficient funds so that the Authority could, among other things, make debt service payments with respect to the 2005 Bonds.

WHEREAS, the County Board has determined that it is advisable to consider the refinancing of the 2005 Bonds and the County's financial obligations under the 2005 Cooperation Agreement through either (i) effecting a change in the interest rate mode of the 2005 Bonds or (ii) the issuance of revenue refunding bonds (the "2009 Bonds") by the Authority to refund the 2005 Bonds.

WHEREAS, the 2009 Bonds, if issued, may be issued (i) as additional bonds under the Indenture of Trust, dated as of August 1, 2009 (the "Series 2009A and B Indenture") between the

Authority and The Bank of New York Mellon Trust Company, N.A., as trustee pursuant to which the Authority issued its \$9,845,000 Revenue Bonds (County Projects), Series 2009A and \$31,435,000 Revenue Bonds (County Projects), Series 2009B (Taxable-Build America Bonds) (the "Series 2009A and B Bonds") or (ii) pursuant to a separate Indenture of Trust between the Authority and a bond trustee to be selected by the County's Director, Department of Management and Finance, or his designee (the "Indenture").

WHEREAS, the 2005 Bonds, following any interest rate mode conversion, will be payable solely from the revenues derived from the 2005 Cooperation Agreement. The 2009 Bonds, if issued, will be payable solely from the revenues derived from an agreement between the Authority and the County or, if issued as additional bonds under the Series 2009A and B Indenture, an amendment to the Financing Agreement securing the Series 2009A and B Bonds (in either case, the "2009 Financing Agreement") pursuant to which the County will agree to make payments, subject to annual appropriation, sufficient to pay the principal of and interest on the 2009 Bonds.

WHEREAS, the 2005 Bonds, if converted to another interest rate mode, will be so converted pursuant to such documents, including, but not limited to, bond documents, interest rate hedging documents, remarketing documents and disclosure documents, as may be necessary to accomplish such interest rate mode conversion (the "Conversion Documents").

WHEREAS, the 2009 Bonds, if issued, will be issued pursuant to the following documents, among others: (i) the Indenture, or a supplement to the Series 2009A and B Indenture (the "Supplement"), with the form of the Bonds attached thereto; (ii) the 2009 Financing Agreement; (iii) a Continuing Disclosure Agreement (the "Continuing Disclosure

Agreement") pursuant to which the County will undertake certain continuing disclosure requirements; (iv) if the 2009 Bonds are sold in a negotiated sale, a Bond Purchase Agreement (the "Bond Purchase Agreement") between the Authority and an underwriter for the 2009 Bonds to be selected by the Director, Department of Management and Finance, or his designee; and (v) a Preliminary Official Statement (the "Preliminary Official Statement") and an Official Statement (the "Official Statement") with respect to the issuance and sale of the 2009 Bonds. The Conversion Documents, the 2009 Financing Agreement, the Continuing Disclosure Agreement, the Bond Purchase Agreement, the Supplement and the Indenture are referred to in this Resolution as the "Basic Documents".

NOW, THEREFORE, BE IT RESOLVED BY THE COUNTY BOARD OF ARLINGTON COUNTY, VIRGINIA:

1. Conversion/Issuance of Bonds. If it is determined pursuant to paragraph 4 below to change in the interest rate mode of the 2005 Bonds, the County requests the Authority to effect such conversion pursuant to the Conversion Documents. If it is determined pursuant to paragraph 4 below to refund the 2005 Bonds with the proceeds of the 2009 Bonds, the County requests the Authority to issue its 2009 Bonds, in one or more series, in the maximum aggregate principal amount of \$37,000,000 to be paid from revenues derived from payments made by the County pursuant to the 2009 Financing Agreement and to apply the proceeds of the 2009 Bonds to refund the 2005 Bonds and finance the costs of issuance related thereto in accordance with the Basic Documents.

2. Authorization of Basic Documents. The Director, Department of Management and Finance is authorized to approve such Basic Documents as may be appropriate to effect the

conversion of the 2005 Bonds or the issuance of the 2009 Bonds, as applicable. The approval of such Basic Documents shall be evidenced conclusively by the execution and delivery of the 2009 Financing Agreement, or in the case of conversion of the 2005 Bonds, by a certificate to be executed by the Director, Department of Management and Finance. The execution and delivery of the Basic Documents to which the County is a party and the performance by the County under the Basic Documents are authorized.

3. Execution of Documents. The Chairman and the Vice Chairman of the County Board, the County Manager (or the Acting County Manager, as applicable) and the Director, Department of Management and Finance, or any of them, are authorized to execute on behalf of the County the applicable Basic Documents to which the County is a party and, if required, the Clerk of the County Board is authorized and directed to affix or to cause to be affixed the seal of the County to such Basic Documents and to attest such seal. The Chairman and the Vice Chairman of the County Board, the County Manager (or the Acting County Manager, as applicable) and the Director, Department of Management and Finance, or their designees are authorized to execute and deliver on behalf of the County such other instruments, documents or certificates, and to do and perform such other things and acts, as they shall deem necessary or appropriate to carry out the transactions authorized by this Resolution or contemplated by the Basic Documents; and all of the foregoing, previously done or performed by such officers or agents of the County, are in all respects approved, ratified and confirmed.

4. Conversion/Sale of 2009 Bonds. If changed to another interest rate mode, the converted 2005 Bonds shall be remarketed by such remarketing agent and/or hedged by such interest rate protection provider upon such terms, including the term of the bonds after conversion (subject to the parameters set forth below and in paragraph 1) as the Director,

Department of Management and Finance, may determine to be in the best interests of the County. If issued, the 2009 Bonds shall be offered for sale in such manner as the Director, Department of Management and Finance, may determine to be in the best interests of the County. The Director, Department of Management and Finance, is authorized and directed to (i) assess interest rate and other market conditions to determine whether the refinancing of the 2005 Bonds is in the best interests of the County, (ii) if so, determine whether it is in the best interests of the County to refinance the 2005 Bonds by (1) changing the interest rate mode of the 2005 Bonds pursuant to the Conversion Documents or (2) requesting the Authority to issue the 2009 Bonds, either as additional bonds under the Series 2009A and B Indenture or pursuant to a separate Indenture, to refund the 2005 Bonds, and (iii) if the 2009 Bonds are to be issued, either (1) negotiate for the sale of the 2009 Bonds to one or more underwriters, banks or other purchasers or (2) request the Chairman or Vice Chairman of the Authority to accept bids and/or proposals for the purchase of the 2009 Bonds, whichever method of sale the Director, Department of Management and Finance, determines to be in the best interests of the County, provided, however, that the true interest cost of the converted 2005 Bonds or the 2009 Bonds, as applicable, does not exceed the maximum set forth in this paragraph 4. The Director, Department of Management and Finance, is authorized and directed to request the Chairman or Vice Chairman of the Authority to approve the final terms of the converted 2005 Bonds or the 2009 Bonds, as applicable, and award the converted 2005 Bonds or the 2009 Bonds, as applicable, provided that (i) the true interest cost of the converted 2005 Bonds or the 2009 Bonds, as applicable, shall not exceed 6.5%, (ii) the aggregate principal amount of the converted 2005 Bonds or the 2009 Bonds, as applicable, shall not exceed the amount set forth in paragraph

1, and (iii) the final maturity of the converted 2005 Bonds or the 2009 Bonds, as applicable, shall not be later than December 31, 2031.

5. Disclosure Documents. The County Manager (or the Acting County Manager, as applicable) or the Director, Department of Management and Finance, or either of them, is authorized and directed to prepare and deliver a Preliminary Official Statement and a final Official Statement. The use and distribution of the Preliminary Official Statement, any notice of bond sale and the Official Statement in connection with the change in the interest rate mode of the 2005 Bonds or the sale of the 2009 Bonds, as applicable, is authorized and approved. The County Manager (or the Acting County Manager, as applicable) and Director, Department of Management and Finance, or either of them, are authorized to execute the Official Statement. The Preliminary Official Statement, any notice of bond sale and the Official Statement shall be published in such publications and distributed in such manner, including by electronic distribution, and at such times as the County Manager (or the Acting County Manager, as applicable), or such officers and agents of the County as he or she may designate, shall determine. The County Manager (or the Acting County Manager, as applicable), or such other officer or agent of the County as he or she may designate, is authorized and directed to deem the Preliminary Official Statement and the Official Statement "final" for purposes of Securities and Exchange Commission Rule 15c2-12.

6. Nature of Obligations. Nothing in this Resolution, the converted 2005 Bonds or the 2009 Bonds, as applicable, or the Basic Documents shall constitute a debt of the County and the Authority shall not be obligated to make any payments under the converted 2005 Bonds or the 2009 Bonds, as applicable, or the Basic Documents except from payments made by or on behalf of the County under the 2005 Cooperation Agreement or the 2009 Financing Agreement,

as applicable. The County Manager (or the Acting County Manager, as applicable) is directed to submit for each fiscal year a request to the County Board for an appropriation to the Authority for an amount equal to the payments coming due under the 2005 Cooperation Agreement or the 2009 Financing Agreement for the next fiscal year. The County's obligations to make payments to the Authority pursuant to this Resolution shall be subject to and dependent upon annual appropriations being made from time to time by the County Board for such purpose. Nothing in this Resolution, the converted 2005 Bonds or the 2009 Bonds, as applicable, or the 2009 Financing Agreement or 2005 Cooperation Agreement, as applicable, shall constitute a pledge of the full faith and credit of the County.

7. Effective Date. This Resolution shall take effect immediately.

CERTIFICATE OF THE CLERK
OF THE COUNTY BOARD OF
ARLINGTON COUNTY, VIRGINIA

At a regular meeting of the County Board of Arlington County, Virginia, held on the 24th day of October, 2009, the following County Board members were present as shown:

PRESENT:

On motion of _____, seconded by _____, the foregoing Resolution was adopted by a majority of the members of the County Board by a roll call vote recorded as follows:

MEMBER

VOTE

Clerk, Arlington County Board

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