



## ARLINGTON COUNTY, VIRGINIA

### County Board Agenda Item Meeting of July 9, 2011

**DATE:** June 17, 2011

**SUBJECT:** Substitution of the letter of credit securing the County of Arlington Variable Rate Demand Revenue Bonds for the Ballston Public Parking Project (the "Bonds").

#### **C. M. RECOMMENDATION:**

- Approve the attached Resolution (Attachment A),
- i. Approving the terms and conditions of the PNC Bank, N.A.'s proposal to provide an alternative letter of credit to secure the Bonds;
  - 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 PNC Bank, N.A., which includes, but is not limited to the Reimbursement, Credit and Security Agreement and the Irrevocable Letter of Credit;
  - iii. Authorizing the County Manager, and the Director of the Department of Management and Finance, or either of them, to execute on behalf of the County the Reimbursement, Credit and Security Agreement and such instruments, advancements or certificates necessary or appropriate to carry out the substitution of the existing Letter of Credit.

**ISSUES:** Should the County Board approve the terms and conditions of the proposal by PNC Bank, N.A. to provide an alternate letter of credit to secure the Bonds as described in this report?

**SUMMARY:** In 1984, the County financed the construction of the Ballston Public Parking Garage (the "BPPG") by issuing the Bonds in an original principal amount of \$22.3 million. The Bonds are variable rate bonds and investors are able to put the bonds back to the County on a weekly basis, consequently, a letter of credit is required to provide liquidity and credit support on the Bonds.

The existing letter of credit issued by Bank of America, N.A. will expire on September 22, 2011. On April 28, 2011, Arlington County issued a request for proposals from financial organizations for the provision of a substitute letter of credit, and received a single response from PNC Bank, N.A. PNC Bank, N.A. actively provides letters of credit for state and local governments and

County Manager:

*BMD/mjs*

County Attorney:

*[Signature]* *[Signature]*

Staff: Michelle Cowan, DMF, Jean Wilson, DMF

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currently has in excess of \$5.9 billion of variable rate bonds that carry the bank's letter of credit. Staff recommends the selection of PNC Bank, N.A. PNC Bank N.A.'s fee proposal is 95 basis points (.95 percent) on the outstanding principal of the Bonds, which is five basis points (.05 percent) lower than the current fee that the County is paying with respect to the existing letter of credit with Bank of America, N.A.

**BACKGROUND:** As the keystone in the County's plan to encourage the redevelopment of the Ballston area, in 1984 the County issued the Bonds in the original principal amount of \$22.3 million to finance the construction of the BPPG, a 2,805-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 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, 2011, \$11.8 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 a letter of credit. The letter of credit provides the bondholders with assurance that the principal and interest on the Bonds will be paid when due, whether upon scheduled payment dates or upon tender of the Bonds.

**DISCUSSION:** Given the small size of the bonds outstanding, Bank of America, N.A. declined to extend the existing letter of credit. In order to replace the expiring Bank of America letter of credit, the County issued a request for proposals to highly rated financial institutions that are competitive in the letter of credit market. The County received one proposal from PNC Bank, N.A.

Terms of the substitute letter of credit to be provided by PNC Bank, N.A. are summarized in the table below.

Amount	Up to \$11,800,000
Tenure	Three years
Direct Pay Letter of Credit Fee	95 basis points per annum on outstanding bonds
Amortization	Minimum of \$500,000 per fiscal year over the life of the Letter of Credit. This redemptions is backed by the moral obligation of Arlington County.
Security	Moral obligation of Arlington County, revenue pledge of parking receipts
Cancellation Fee	None

**FISCAL IMPACT:** The proposed new terms of the letter of credit will lower the fees that will be paid annually on the outstanding debt. Annual fees over the three-year letter of credit will range from \$102,600 to \$112,100, assuming principal payments of \$500,000 in FY 2012, FY 2013, and FY 2014. (These amounts represent a savings from \$5,400 to \$5,900 each year of the initial term of the letter of credit.) The fees are consistent with current market conditions. The letter of credit fees will be paid (as are operating expenses, debt service, and capital expenses) from the BPPG parking fees and related revenues.



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 \_\_\_  
day of July, 2011 the following County Board members were present as shown:

PRESENT:

On motion of \_\_\_\_\_, seconded by \_\_\_\_\_, the following  
Resolution was adopted by a majority of the members of the County Board.

Dated: \_\_\_\_\_, 2011

\_\_\_\_\_  
Clerk, Arlington County Board

A RESOLUTION OF THE COUNTY BOARD  
OF ARLINGTON COUNTY, VIRGINIA AUTHORIZING THE SUBSTITUTION OF THE  
LETTER OF CREDIT IN CONNECTION WITH THE COUNTY OF ARLINGTON,  
VIRGINIA VARIABLE RATE DEMAND REVENUE BONDS (BALLSTON PUBLIC  
PARKING PROJECT)

WHEREAS, the County authorized and previously issued, pursuant to an Indenture of Trust, dated as of August 1, 1984 (the "Indenture"), between U.S. Bank National Association, as successor trustee (the "Trustee") and the County, \$22,300,000 aggregate principal amount of the County's Variable Rate Demand Revenue Bonds Ballston Public Parking (the "Bonds") to various purchasers;

WHEREAS, the Bonds are currently secured by a Letter of Credit (the "BOA Letter of Credit") issued by Bank of America, N.A. which expires on September 22, 2011; and

WHEREAS, the County proposes to replace with BOA Letter of Credit with a irrevocable direct pay letter of credit (the "2011 Letter of Credit") to be issued by PNC Bank, N.A. (the "Bank") pursuant to the terms of a Reimbursement, Credit and Security Agreement (the "Reimbursement Agreement") between the County and the Bank.

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

1. Approval of the Terms and Conditions of the Bank's Proposal. The terms and conditions contained in the Bank's Proposal presented to the County Board on the date hereof, with such changes in terms and conditions that are in the County's best interests as may be

negotiated and approved by the County Manager and the Director of the Department of Management and Finance, either of whom may act, are approved.

2. Authorization of the Alternate Reimbursement Agreement. The County Manager and the Director of the Department of Management and Finance, either of whom may act, are authorized to negotiate and approve the Reimbursement Agreement, containing such provisions as may be approved by the County Manager and the Director of the Department of Management and Finance, or either of them, whose approval shall be evidenced conclusively by the execution and delivery of the Reimbursement Agreement. The execution and delivery of and performance by the County under the Reimbursement Agreement are authorized.

3. Execution of Documents. The Chairman and the Vice Chairman of the County Board, the County Manager and the Director of the Department of Management and Finance, or any of them, are authorized to execute on behalf of the County the Reimbursement Agreement, and, if required, the County Manager and the Clerk of the County Board are authorized and directed to affix or to cause to be affixed the seal of the County to the Reimbursement Agreement and to attest such seal. The Chairman and the Vice Chairman of the County Board, the County Manager and the Director of the Department of Management and Finance or their designees are authorized to execute and deliver on behalf of the County such instruments, documents or certificates, including but not limited to a continuing disclosure agreement, financing statements, amendments to financing statements, and to do and perform such things and acts, as they shall deem necessary or appropriate to carry out the transactions authorized by this Resolution or contemplated by the Reimbursement Agreement; 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. Disclosure Documents. The County Manager and the Director of the Department of Management and Finance, or either of them, is authorized and directed to prepare, execute, if required, and deliver an addendum or supplement ("Addendum") to the Placement Memorandum with respect to the Bonds, if deemed necessary or advisable by such officers. The use and distribution of any such Addendum to the Placement Memorandum is authorized and approved. Any such Addendum to the Placement Memorandum shall be published in such publications and distributed in such manner, including by electronic distribution, at such times as the County Manager, or such officers and agents of the County as he may designate, shall determine.

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

Adopted this \_\_\_\_ day of \_\_\_\_\_, 2011.

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Clerk, Arlington County Board