



# Albemarle County

## Legislation Text

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**File #:** 20-336, **Version:** 1

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**AGENDA DATE:** 6/3/2020

**TITLE:**

Albemarle County Capital Line of Credit

**SUBJECT/PROPOSAL/REQUEST:** Resolution approving a Line of Credit in order to finance certain public facilities and equipment projects prior to the issuance of long-term financing. This Line of Credit would be issued using a revenue note structure issued through the Economic Development Authority of Albemarle County.

**ITEM TYPE:** Regular Action Item

**STAFF CONTACT(S):** Richardson, Kamptner, Letteri, Shifflett K, Greene

**PRESENTER (S):** Davenport & Company, Financial Advisors

**LEGAL REVIEW:** Yes

**REVIEWED BY:** Jeffrey B. Richardson

**BACKGROUND:** Borrowed proceeds represents the major funding source for the county's capital improvement program. As projects are approved, the Board simultaneously approves a "borrowing resolution", allowing staff to secure debt in connection with the project when needed.

Over the years, staff has employed a number of options for securing debt proceeds, including Lease/Revenue bonds issued through the EDA, direct bank placement loans, Virginia Public Schools Association (VPSA) pooled financing, and bonds issued through public referendum. The timing of when debt is incurred is important to ensure sufficient liquidity, adequate fund balances, and to avoid unnecessary interest costs. In recent years, staff has developed more sophisticated modeling techniques, to include the incorporation of spend plans, to better predict the timing of when debt should be incurred. To the extent possible, we have also applied available county funds to support projects, particularly in the early phases of the project.

Other factors can impact the timing of when debt is issued. Delays or interruptions in the execution of projects, volatility in the bond market or interest rate environment, and availability of county cash resources, to name a few.

Establishing a Capital Line of Credit is another widely used best practice to deal with the volatility and uncertainty.

**STRATEGIC PLAN:** Quality Government Operations: Ensure County government's capacity to provide high quality service that achieves community priorities.

**DISCUSSION:** Consistent with best practices, and in consultation with our Financial Advisor, the County has issued a "Request for Proposals" to establish a Capital Line of Credit (LOC). The LOC, which represents a short-term, interim borrowing strategy, will enable borrowing for School and Court related projects on an "as

needed” basis. This “just in time” borrowing strategy avoids unnecessary interest costs during this period of project timing uncertainties and market volatility. Interest would be paid only on the funds drawn down for capital project use. Staff expects to redeem the LOC financing on or before its stated maturity of July 1, 2022 using proceeds from a long-term financing. However, it is possible the County could move forward with a portion of the line being permanently financed either later this fall or early 2021 depending upon the rate of County project spending and the state of the municipal bond marketplace.

The banks were asked to provide a proposal for a Line of Credit in the amount of \$40,000,000 and/or \$75,000,000. The final amount will be determined depending upon the proposals received. The rate of interest may either be fixed for the term or it is possible that it will be set by formula most likely resetting monthly. Both fixed and variable rates were requested. Proceeds from the line will reimburse the County for capital costs already incurred, finance upcoming project costs as well as the cost of issuance. The reimbursement of reserves is important especially in light of the current economic environment. It is expected that the LOC would close before June 30, the end of the County’s fiscal year.

The LOC will be issued through the Economic Development Authority of Albemarle County, Virginia (“EDA”) similar to long term financings the County has issued through the EDA in the past. The legal structure of the loan, dependent upon the proposals received, will either include collateral or it will not. If required by the lender, the County has identified the County’s Office Building located at 401 McIntire Road, Charlottesville, Virginia 22902 as collateral that would be used. In either legal structure scenario, the County would make payments subject to appropriation by the County’s Board of Supervisors. The Board of Supervisors will have no legal obligation to make any such appropriations.

**BUDGET IMPACT:** The Fiscal Year 2021 budget includes funding for an anticipated Capital-related debt service cost. This funding could be utilized for associated interest expense.

**RECOMMENDATION:**

Staff recommends that the Board adopt the attached proposed Resolution (Attachment A).

**ATTACHMENTS:**

Attachment A - Resolution