

VML/VACo Finance issues Recovery Zone, Build America bonds

Bond pool includes 14 participants

VML/VACO FINANCE, the financial services arm of the Virginia Municipal League and Virginia Association of Counties, closed March 15 on bonds issued on behalf of 14 Virginia localities.

The \$45 million bond pool includes both Recovery Zone Economic Development (RZED) Bonds, which receive a 45 percent interest expense subsidy from the federal government, and Build America Bonds, which receive a 35 percent subsidy. The subsidies, which are paid throughout the life of the bonds – up to 30 years – are authorized under the American Recovery and Reinvestment Act of 2009.

Local officials seize opportunity

To take advantage of the deep Recovery Zone bond subsidies, local governments were required first to obtain an allocation and then act quickly to use it. The race to beat the clock began when original allocations to issue RZED bonds were assigned by the federal government. In October, for Gov. Tim Kaine issued an Executive Order requiring those local governments holding original allocations to obtain financing commitments by Dec. 15 – practically break-neck speed to ready projects for financing. The deadline was later extended to Jan. 12.

Not wanting their localities to miss out on the one-time opportunity to obtain the unusually low-cost financing, a number of local leaders who had projects on the drawing boards did step up. To assist them in complying with the deadline, VML/VACo Finance assembled a bond issuance team headed by the investment banking firm, Piper Jaffrey & Co., and bond counsel, Hunton & Williams LLP. Funding commitments were provided by the January deadline, with bond pricing taking place on March 2.

VML/VACo Finance also aided local governments in obtaining new or additional allocations to issue RZED bonds. With a second round of allocations to be made once unused allocations were swept up in January, the finance program solicited and assembled additional allocation requests from localities, then presented the requests to the Governor's Office.

VML/VACo Finance's efforts were successful in obtaining allocations from both the outgoing Kaine Administration and the incoming McDonnell Administration on behalf of eight participants in the bond pool.

20-year loan rates begin at 3 percent

Bonds were issued in two taxable series, one rated in the "AA" category, the other rated "A." The True Interest Cost was 3 percent for AA-rated bonds, after the Recovery Zone subsidy; and 3.3 percent for A-rated bonds. The VML/VACo Finance bonds were issued with the same structure as traditional tax-exempt municipal bonds, including the right to "call," or pay-off, the bonds after 10 years without penalty. While some issuers "juice" the pricing of their

bonds by giving up their right to call without penalty, VML/VACo Finance chose not to do so as a protection for its participants and to provide them with maximum flexibility in managing their debt.

Tina Neal, senior vice president for Piper Jaffrey & Co., described the importance of the call feature: "Municipal bonds are issued with varying maturities, from short-term to long-term. As short-term maturities are paid-off, this leaves only the long-term maturities with their relatively higher yields. That is why nearly all municipal bonds issues may be refunded toward the end of their lives into shorter-term bond issues at lower rates.

"We wanted to preserve the ability of participants to refund their bonds without penalty because we believe it is very important to the goal of achieving the lowest overall borrowing costs."

A cross-section of Virginia localities

Participants in the bond pool ranged from AAA-rated Virginia Beach and Loudoun County, to towns that had never before sought a bond



Chesapeake issued \$2.5 million in Recovery Zone Economic Development bonds to fund streetscape improvements.



Chesapeake streetscape improvements were made possible by participating in the bond pool.

rating. VML/VACo Finance worked with this diverse group to assemble two bond pools: Pool I for AA-rated participants and Pool II for A-rated participants. The bonds were rated by both Moody's and Standard & Poor's.

The City of Chesapeake, rated Aa2 by Moody's and AA+ by Standard & Poor's, issued \$2.5 million in Recovery Zone Economic Development bonds to fund streetscape improvements. According to Betty J. Meyer, Chesapeake's deputy city manager for administration, the city "found participating in a bond pool with other localities that have the same bond rating an efficient way to use our Recovery Zone allocation since it was not large enough to justify the expense of a stand-alone financing."

The Chesapeake streetscape project is part of a comprehensive redevelopment of its South Norfolk neighborhood. The work will be focused on Poindexter Street, which is considered the historic heart of Chesapeake's business district.

Henry County in Southside Virginia, rated A2 by Moody's, used its \$2 million Recovery Zone allocation to fund a roof replacement and several other improvements at its Magna Vista High School and Laurel Park Middle School. Its RZED allocation enabled Henry County to fast track the projects for the benefit of students – and the local economy.

"We took advantage of Recovery Zone bonds to fund some much-needed school renovations," said Benny Summerlin, Henry County

administrator. "VML/VACo Finance assembled an excellent bond team and made the process relatively easy for the county. And, we were pleasantly surprised when costs of issuance actually came in \$6,000 less than we were expecting."

What's next?

The Recovery Act Bond Pool included both Recovery Zone and Build America Bonds. The authorization to issue Recovery Zone Bonds expires at the end of calendar 2010, with most of Virginia's \$104 million total allocation already having been issued. Build America Bonds, on the other hand, are expected to continue to be available to local governments without limitation throughout 2010. In 2011, the Obama Administration has proposed reducing the federal subsidy from 35 percent to 28 percent.

Half of the participants in the Recovery Act Bond Pool took advantage of Build America Bonds to fund some or all of their projects. With the success of this financing program, VML/VACo Finance is making plans once again to issue Build America Bonds during the latter half of calendar 2010. Bridge financing is available through the Commercial Paper and Commonwealth Loan Programs.

Local governments interested in participating in the upcoming bond pool are invited to contact VML/VACo Finance at 804/648-0635 or to visit the website: valocalfinance.org.

Participants in the VML/VACo Finance Recovery Act Bond Pool

- City of Chesapeake
- City of Fredericksburg
- City of Manassas
- City of Petersburg
- City of Virginia Beach
- County of Henry
- County of Loudoun
- County of Prince George
- County of Wythe
- Frederick County Sanitation Authority
- Town of Cape Charles
- Town of Front Royal
- Town of Herndon
- Town of Tappahannock

