

DAVENPORT & COMPANY

# City of Poquoson, Virginia

Refinancing Opportunities



March 28, 2016

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# Background



- Davenport & Company LLC (“Davenport”) serves as Financial Advisor to the City of Poquoson (the “City”). In our capacity as Financial Advisor, Davenport performs the following tasks, among others:
  - Regularly monitors the City’s Debt Portfolio for Refinancing Opportunities; and
  - Interacts with the National Credit Rating Agencies, with the goal of maintaining the City’s strong Credit Ratings.
  
- As shown on the following page, Davenport has assisted the City in raising its Credit Ratings from “Strong” initial ratings of ‘A1’ and ‘A’ assigned by Moody’s Investor’s Service (“Moody’s”) and Standard & Poor’s (“S&P”), respectively, to a “Very Strong” ‘Aa3’ Moody’s rating and ‘AAA’, the “Highest Possible Rating” given by S&P.
  
- Davenport and the City conducted their most recent formal interaction with the National Credit Rating Agencies in 2012.
  
- Davenport understands that the City will eventually need to secure additional New Money financing for Capital Projects. As such, it is critical that Davenport and the City take proactive steps to maintain the City’s strong Credit Ratings.



## Background – Poquoson’s Credit Rating History

- Following Davenport’s and the City’s meetings with the National Credit Rating Agencies in 2012, the City’s Credit Ratings were upgraded to ‘Aa3’ and ‘AA+’ by Moody’s and S&P, respectively.
- S&P upgraded the City’s long term Credit Rating to ‘AAA’ in 2014. The ‘AAA’ rating represents the “Highest Possible Rating” given by S&P.\*

	Moody’s	S&P		Current City Ratings
Top Tier “Highest Possible Rating”	Aaa	AAA		
2 <sup>nd</sup> Tier “Very Strong”	Aa1	AA+	(Highest)	2012 Rating Upgrade
	Aa2	AA	(Middle)	
	Aa3	AA-	(Lowest)	
3 <sup>rd</sup> Tier “Strong”	A1	A+	(Highest)	Initial City Ratings
	A2	A	(Middle)	
	A3	A-	(Lowest)	
4 <sup>th</sup> Tier “Adequate Capacity to Repay”	Baa1	BBB+	(Highest)	Considered Investment Grade
	Baa2	BBB	(Middle)	
	Baa3	BBB-	(Lowest)	
5 <sup>th</sup> – 10 <sup>th</sup> Tiers “Below Investment Grade”	BB, B, CCC, CC, C, D			Below Investment Grade

\*In 2014, S&P upgraded the City’s Credit Rating from ‘AA+’ to ‘AAA’ based on implementation of new local government evaluation criteria published in September 2013.

# Goals and Objectives

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1. Recognize and take advantage of the current historically favorable interest rate environment in order to:
  - Secure long term financing for Capital Needs (the “**New Money Financing**”); and/or
  - Complete a Refinancing for the purpose of achieving debt service savings (the “**Refinancing Opportunity**”).
  
2. Revisit the financial and economic progress achieved by the City since 2012 by holding in-person meetings with the National Credit Rating Agencies.
  
3. If possible, lock in a favorable interest rate(s) that:
  - Is fixed for the life of the New Money Financing and/or Refinancing loan(s); and
  - Would not extend the Final Maturity of the debt, if any, that the City elects to include in the Refinancing.

# Potential Refinancing Opportunity



- Given the current historically low interest rate environment, the City has a potential opportunity to refinance two series of General Obligation bonds for savings purposes (the “**Refinancing Candidates**”). The Refinancing Candidates are as follows:
  - General Obligation Refunding Bonds, Series 2010 (the “2010 Bonds”); and,
  - General Obligation and Refunding Bond, Series 2011B (the “2011 Bond”).

Refinancing Candidates							
Bond Series	Original Principal	Principal Outstanding	Callable Principal	Non Callable Principal	Average Interest Rate (Callable)	Call Provisions	Final Maturity
2010 Bonds	\$15,385,000	\$14,085,000	\$11,835,000 (FY 2021-2027)	\$2,250,000 (FY 2017-2020)	4.70%	2/15/20 @ Par	FY 2027
2011B Bond	\$3,495,000	\$3,237,000	\$3,237,000	-	2.98%	Any Time @ Par	FY 2029
<b>Total</b>	<b>\$18,880,000</b>	<b>\$17,322,000</b>	<b>\$15,072,000</b>	<b>\$2,250,000</b>	<b>4.36%</b>	<b>-</b>	<b>-</b>

- The average current interest rate of the Callable Refinancing Candidates is 4.36%. At this time, the estimated All-In True Interest Cost of the refunding bonds is below 2.5%.\*
- City Council will be asked to approve a Resolution allowing Staff/Davenport to move forward with the Refinancing Opportunity so long as the City’s 3% Net Present Value (NPV) minimum savings target can be met.
  - Net Savings at the 3% NPV Savings level is in excess of \$450,000 over the life of the refinanced debt.
  - The Refinancing would not extend the final payment(s) of any existing debt.

**DAVENPORT & COMPANY** \*Preliminary, subject to change. All-In TIC is estimated assuming market rates as of March 8, 2016. Market rates fluctuate daily. Actual results may vary substantially from these estimates.

## Approach and Proposed Next Steps



- Davenport recommends that the City consider follow a Dual Track Approach to pursue the potential New Money Financing and Refinancing Opportunity.
  
- Under the Dual Track Approach, the City would simultaneously solicit funding proposals for a Direct Bank Loan while beginning the process to complete a Competitive Public Sale. The Dual Track Approach would be scheduled to coincide with the City's meetings with the National Credit Rating Agencies.

### **The Schedule Outlined Below Outlines the Dual Track Approach.**

- Monday, March 28  
(This Evening)
  - **Regularly Scheduled Meeting of City Council.**  
Davenport presents Refinancing Opportunity and proposes plan of finance and next steps with recommendation to speak with NCRAs.
  
- Tuesday, March 29
  - Davenport distributes a competitive Request for Proposals to local, regional, and national banking institutions to solicit financing proposals for the potential New Money and Refinancing Opportunity.  
*Note: The size of the potential financing(s) – i.e. greater than \$10 million – does not allow for a Bank Qualified transaction. As such, interest from banking institutions, if any, is uncertain.*
  
- Friday, April 8
  - Bank RFP responses returned to Davenport by close of business.

## Approach and Proposed Next Steps, cont.



- Monday, April 11
  - **Regularly Scheduled Meeting of City Council.**  
Davenport presents results of the RFP process to City Council.  
  
City Council schedules a Public Hearing regarding the potential New Money Financing to be held at the April 25 Meeting of City Council.
  
- Monday, April 25
  - **Regularly Scheduled Meeting of City Council.**  
City Council holds Public Hearing regarding the potential New Money Financing.  
  
City Council considers formal approval of the potential New Money Financing and/or the Refinancing Opportunity.
  
- Early May
  - Meetings with National Credit Rating Agencies, to be held regardless of whether the City elects to pursue the potential New Money Financing or Refinancing Opportunity.
  
- Mid May
  - Receive ratings from Credit Rating Agencies
  
  - Close on Direct Bank Loan, as necessary.
  
  - Develop Preliminary Official Statement in advance of a Competitive Sale, as necessary.
  
- Late May
  - Sell bonds in the public markets via Competitive Sale, as necessary.
  
- Early June
  - Close on bonds sold via Competitive Sale, as necessary.



# Appendix

# Tax-Exempt Interest Rate Trends



- In early 2016, interest rates for tax-exempt borrowing are hovering at historically favorable levels, presenting a potentially favorable environment to refinance existing debt.
- Although interest rates remain near all-time lows, it is impossible to predict how long rates will remain this favorable.
- Interest rates are capable of rising quickly, as evidenced by the roughly 100 basis point (1%) jump that occurred in May to June of 2013 (highlighted below).



(1) The 20-year interest rates above show the Bond Buyer's "20-Bond Index" which consists of 20 tax-exempt bonds with an average rating of 'Aa2'/'AA' (Moody's / S&P) that mature in 20 years. The 20-Bond Index serves as a general indicator of prevailing interest rates for tax-exempt borrowers. Shown as of March 17, 2016.

## Direct Bank Loan Characteristics

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- As one part of the Dual Track Approach, the City would solicit funding proposals for the Refinancing Opportunity and New Money Financing through a Direct Bank Loan. Characteristics of Direct Bank Loans are summarized as follows:
  - Davenport, on the City’s behalf, distributes a Request for Proposals (RFP) to solicit competitive interest rate proposals from local, regional, and national lenders;
  - The RFP will request interest rates for loan terms and structures tailored to the City’s Refinancing and New Money goals and objectives;
  - **Sending out the RFP would in no way obligate the City to move forward with either the Refinancing Opportunity or the New Money Financing, nor does it cost anything to send out the RFP;**
  - The City has the benefit of knowing the full terms and conditions before deciding whether or not to move forward;
  - **Davenport would work “at risk,” meaning Davenport would be entitled to compensation only in the event of a successful transaction;**
  - Once the proposals are received, the rate(s) are “locked-in,” eliminating further market Interest Rate Risk;
  - Direct Bank Loans often allow for the ability to prepay the loan at any time in whole or in part, often without penalty.

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