

Results of the RFP Process – Utility Refunding/Restructuring

Town of Purcellville, Virginia



February 9, 2021

- The Town Council is pursuing a **Grand Strategy** for Purcellville. Elements of the **Grand Strategy** include (but are not limited to):
 - Sustainable Financial Instrument Position;
 - Predictable Tax Demand on Community (*Note: Tax Demand in this context can be equated to Utility User Fees*); and,
 - Provision of Municipal Services Predicated on Ability to Financially Sustain.

- To these ends Davenport & Company LLC (“Davenport”) – in our capacity as Financial Advisor to the Town – was asked by the Town to develop options to consider that would allow the Town to Refund/Restructure the Town’s existing Utility Enterprise Debt.

- The goals of the Refunding/Restructuring are to:
 - Reduce the need to increase Water and Sewer user rates by reducing debt service payments over the next 5 fiscal years;
 - Where possible, reduce the average interest rate on the debt that is refunded/restructured.

- In April of 2020 the Town refinanced \$14.8 million of existing debt to reduce the average interest rate on the debt without extension or restructuring of payments. This 2020 Refinancing saved the Town \$2 million over the life refinanced debt (\$1.62 million of the \$2 million in savings was realized in the Water and Sewer Funds).

- The Town is currently challenged by the need to raise rates in its Water and Sewer Funds by over 10% per year in the Sewer Fund and 3.5% in the Water Fund per Stantec, the Town’s Utility Rate Consultant.

Background (cont.)



- At the Town's request, Davenport distributed a competitive and comprehensive request of banking institutions to provide a refunding/restructuring loan of up to \$10 million.
(Note: Total Water and Sewer debt outstanding at 6/30/22 will be roughly \$39.8 million).
 - The portions of the Town's debt profile to be refunded/restructured were identified as those that would maximize the ability to reduce debt service payments through FY2025 and also reduce – where possible – the average interest rate on the debt.

- The Town received 6 proposals from banking institutions for the refunding/restructuring, as follows:
 - Atlantic Union;
 - Truist;
 - Key Government Finance;
 - Sterling National Bank;
 - Capital One;
 - Pinnacle.

- Atlantic Union's fully fixed rate bid is recommended as it provides:
 - A fixed interest rate of 2.69% for the full term of the loan (roughly 19 years). This is the lowest interest rate offered by any bank that is fixed for the full loan term; and
 - The ability to prepay at anytime with no penalty.
 - Additional detail is included on the following pages.

Summary Results



■ Summary Results:

- Fixed interest rate of 2.69% reduces the average interest rate on the refunded/restructured debt from current level of 3.25% for Water and 3.18% for Sewer.
- Frees substantial cash-flow through FY2025 as follows:
 - Water Fund: approximately \$802,000; and,
 - Sewer Fund: approximately \$3.8 million.
- Projected future Sewer rate increases drop from 10.5% per year to roughly half that level;
- Projected future Water rate increases are also reduced with substantial cash-flow freed.

■ Why Atlantic Union Bank bid?

- Lower interest rate than existing.
- Substantial cash-flow freed helps significantly reduce user rate pressure and preserve cash as the Town considers options for funding new capital.
- Prepayable anytime without penalty – this means that the Town can further refinance or pay the debt off at its discretion anytime in the future.
- Interest rates are held firm through March 12 assuming Town acceptance and final bank approvals.
- Town Council action in February would maximize ability to successfully complete transaction.

Key Takeaways



■ What does the Refunding/Restructuring do for the Town?

- Allows the Town to stabilize both water and sewer rates so that the cost to rate payers is at a predictable level year-to-year (see page 6 for additional detail on rate increases prepared by Stantec).
- **Provides complete prepayment flexibility in the future.** The Town is allowed to prepay the loan, in full or in part, at any time without penalty.
- The Town gets \$4.6 million of freed-up cash flow in the utility enterprise funds over the next 5 years. This could be used to help front dollars for engineering and planning for capital projects to allow the Town to pro-actively be “shovel ready” for possible federal and/or state grant dollars for future capital projects.

■ What does the Refunding/Restructuring cost?

- It costs the Town roughly \$500,000 on a Present Value basis – “Present Value” is the industry standard for measuring the costs/benefits of a Refunding/Restructuring transaction; and,
- It extends the debt by two more years in the Sewer Fund.

■ The Refunding/Restructuring decouples the rate increases needed to maintain the self-supporting status of the utility enterprise funds from additional future capital funding.

- The results presented herein purposely do not factor in additional CIP funding.
- Any future CIP funding is assumed to be pay-as-you-go from grants (Federal/state/local) and/or creative loan options such as a long-term, low-interest rate loans from USDA.

Key Takeaways (cont.)



- The Refunding/Restructuring provides additional time for the Town to execute on Non-tax revenue initiatives currently underway including (but not limited to):⁽¹⁾
 - **Nutrient Credit initiative** – The Town is moving forward with an effort to enhance the Town’s Aberdeen Property asset by monetizing the associated nutrient credits. It is expected that this could net the Town roughly \$1 million.
 - **Segra Dark Fiber initiative** – The Agreement with Segra for utilizing the Town’s right of ways is netting the Town \$30,000 per year for the life of the contract.
 - **Cell Tower initiative** – Staff projects that this could net the Town an additional \$20,000 to \$80,000 per year (i.e. \$20,000 per year per carrier).

(1) Information about nutrient credit, dark fiber, and cell tower initiatives provided by the Town.

Estimated / Projected Residential Bill Impact Without Future CIP



■ All data is preliminary and subject to change per Stantec.

Base Case - No Refunding/Restructuring

	2021	2022	2023	2024	2025	2026	Cumulative Increase in Average Bill
Water User Rate Increase	0.00%	3.50%	3.50%	3.50%	3.50%	3.50%	
Bi-Monthly Average Bill	\$ 74.97	\$ 84.55	\$ 87.51	\$ 90.57	\$ 93.74	\$ 97.02	29%
Sewer User Rate Increase	0.00%	10.50%	10.50%	10.50%	10.00%	10.00%	
Bi-Monthly Average Bill	\$ 142.60	\$ 152.08	\$ 168.05	\$ 185.69	\$ 204.26	\$ 224.69	58%
Total	\$ 217.57	\$ 236.63	\$ 255.56	\$ 276.27	\$ 298.01	\$ 321.71	48%

*Assumes rate structure change beginning in FY 22 per Stantec.

Refunding/Restructuring - Atlantic Union Proposal

	2021	2022	2023	2024	2025	2026	Cumulative Increase in Average Bill
Water User Rate Increase	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Bi-Monthly Average Bill	\$ 74.97	\$ 84.14	\$ 86.66	\$ 89.26	\$ 91.94	\$ 94.70	26%
Sewer User Rate Increase	0.00%	5.00%	5.00%	7.00%	7.00%	7.00%	
Bi-Monthly Average Bill	\$ 142.60	\$ 144.51	\$ 151.74	\$ 162.36	\$ 173.72	\$ 185.88	30%
Total	\$ 217.57	\$ 228.65	\$ 238.40	\$ 251.62	\$ 265.67	\$ 280.59	29%

*Assumes rate structure change beginning in FY 22 per Stantec.

Appendix




Bid Summary



Purpose	Strategically refund/restructure the 2008 DEQ Loan, 2013A Bond, and 2017A Bond.	Strategically refund/restructure the 2008 DEQ Loan, 2013A Bond, and 2017A Bond.	Strategically refund/restructure the 2008 DEQ Loan, 2013A Bond, and 2017A Bond.
Maximum Par Amount	\$10,000,000	\$10,000,000	\$10,000,000
Tax Status	Taxable	Taxable	Taxable
Security/Collateral	General Obligation	General Obligation	General Obligation
Final Maturity	August 1, 2039 (18.5 years)	August 1, 2039 (18.5 years)	August 1, 2035 (14.5 years).
Interest Mode	Fixed through maturity.	Fixed through maturity.	Fixed through maturity with balloon maturity due August 1, 2035.
Interest Rate	2.69%	2.81%	2.988%
Prepayment Provisions	Prepayable in whole or in part at any time.	Non-callable until August 1, 2026. Prepayable in whole or in part at any time thereafter.	Non-callable for first year. Prepayable in whole, but not in part, at any time without penalty beginning one year after closing.
Lender's Counsel	Michael Graff McGuireWoods LLP	T.W. Bruno McGuireWoods LLP	Andrew Romshek and Bradley Nielsen of Kutak Rock LLP
Bank / Legal Fees	AUB will provide up to \$10,000 for Lender's Counsel. Any Lender's Counsel costs above \$10,000 payable by the Town. McGuireWoods has provided an estimated fee of \$5,800.	Not specified.	Lender's Counsel fee to be paid by Key Bank. No Up-Front Fee.
Proposal to be Accepted by	Not specified.	Not specified.	Thursday, February 4, 2021.
Proposal Expiration	Friday, March 12, 2021.	Monday, March 15, 2021.	Friday, March 12, 2021.
Notes / Other Terms & Conditions	<p><u>Select terms and conditions shown below.</u> <u>See complete proposal for full terms and conditions.</u></p> <p>Subject to final credit approval.</p> <ul style="list-style-type: none"> - Credit approval process could be completed in approximately two weeks. - Upon completion, credit approval can be held for up to 120 days. 	<p><u>Select terms and conditions shown below.</u> <u>See complete proposal for full terms and conditions.</u></p> <p>Credit approved.</p> <ul style="list-style-type: none"> - Truist would require financial statements to be delivered within 270 days after the conclusion of each fiscal year-end throughout the term of the financing or in accordance with state requirements. 	<p><u>Select terms and conditions shown below.</u> <u>See complete proposal for full terms and conditions.</u></p> <p>Subject to final credit approval.</p> <ul style="list-style-type: none"> - The estimated amount of time required to obtain final credit approval is 2-5 business days after receipt of formal award assuming timely receipt of additional information, if any. - Key Bank would require annual audited financial statements within 270 days of the Town's fiscal year end. - Key Bank has proposed a 14.5 year amortization with a bullet maturity in year 14.5 consisting of the requested par due in years 14.5 through 18.5 in the RFP.

Bid Summary (cont.)



			
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Maximum Par Amount	\$10,000,000	\$10,000,000	\$10,000,000
Tax Status	Taxable	Taxable	Taxable
Security/Collateral	General Obligation	General Obligation	General Obligation
Final Maturity	August 1, 2039 (18.5 years)	August 1, 2039 (18.5 years)	August 1, 2039 (18.5 years)
Interest Mode	Fixed through maturity.	Fixed through maturity.	Fixed through maturity.
Interest Rate	3.12%	3.80%	4.23%
Prepayment Provisions	Non-Callable for initial 7.5 years (closing through 7/31/2028). Prepayable, in whole but not in part, as follows: Prepayable with 1% Penalty in years 7.5 - 12.5 (8/1/28 - 7/31/33) Prepayable without penalty after 12.5 years (8/1/33 - maturity)	Non-callable for initial 10.5 years (until August 1, 2031). Prepayable in whole at par on any interest payment date on/after August 1, 2031.	Non-callable for initial 10 years (until February 1, 2031). Beginning February 1, 2031 prepayable in whole or in part at any time with a 2% penalty.
Lender's Counsel	Not specified.	Not specified	Chapman and Cutler LLP
Bank / Legal Fees	No fee for Lender's Counsel.	No fee for Lender's Counsel.	\$7,500 for Lender's Counsel.
Proposal to be Accepted by	Wednesday, February 10, 2021.	Thursday, February 4, 2021.	Not specified.
Proposal Expiration	Friday, March 12, 2021.	Friday, March 12, 2021.	Friday, March 12, 2021.
Notes / Other Terms & Conditions	<p><u>Select terms and conditions shown below.</u> <u>See complete proposal for full terms and conditions.</u></p> <p>Subject to final credit approval.</p> <p>- For credit approval, Sterling will require the Town's three (3) most recent audited financial statements, its most recently adopted budget, and any other information that Sterling may reasonably require.</p>	<p><u>Select terms and conditions shown below.</u> <u>See complete proposal for full terms and conditions.</u></p> <p>Subject to final credit approval.</p> <p>- Upon request, as soon as available, the Town shall send COPF a copy of its audited financial statements as of the end of the fiscal year.</p>	<p><u>Select terms and conditions shown below.</u> <u>See complete proposal for full terms and conditions.</u></p> <p>Subject to final credit approval.</p> <p>- Pinnacle would request that the Town agree to provide its CAFR within 210 days of the close of each fiscal year. Additionally, Pinnacle will request that the Town agree to provide such other financial information as Pinnacle may reasonably request, including but not limited to, its annual budget for any prior or current fiscal year or subsequent fiscal years. Subject to negotiation.</p> <p>- Pinnacle will ask the Town to provide a signed copy of a Certificate of Director of Finance Regarding COVID-19 Impact. A form of the certificate has been included with this proposal.</p>

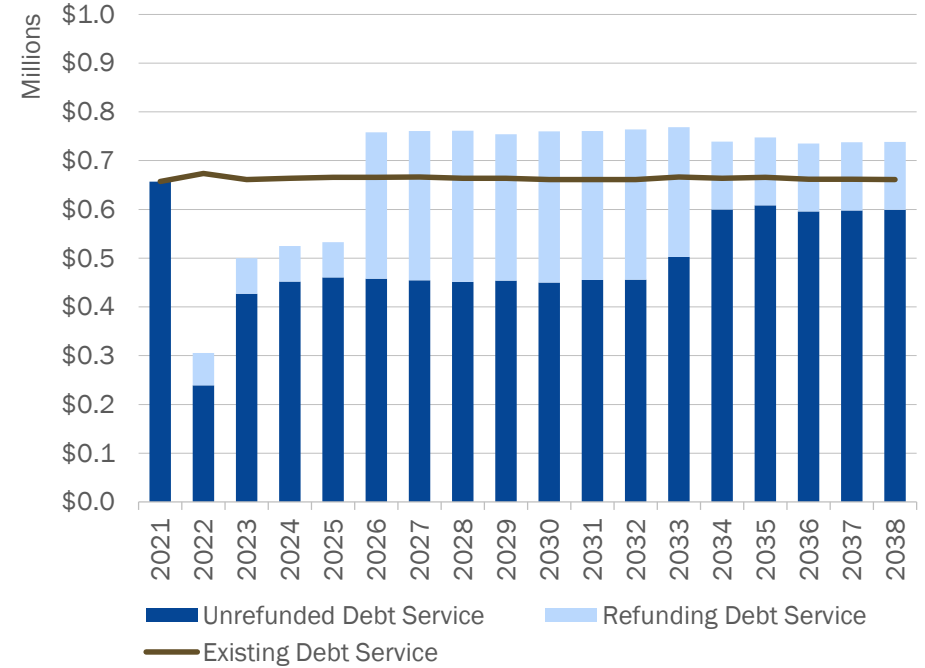
Scenario 2 – Water Fund

Atlantic Union Proposal – Interest Rate Fixed at 2.69% for 18.5 Years



- Approximately \$802,000 of cash-flow freed from FY 2022 through FY 2025.
- Estimated present value cost of approximately \$144,000.

FY	Existing Debt Service	Refunded Debt Service	Refunding Debt Service	Resulting Debt Service	Savings / Cost
Total	\$11,946,733	\$3,027,545	\$3,385,745	\$12,304,933	(\$358,200)
2021	\$657,069	\$0	\$0	\$657,069	\$0
2022	673,622	434,391	66,204	305,435	368,187
2023	661,478	234,137	72,442	499,783	161,695
2024	663,722	211,436	72,442	524,728	138,994
2025	665,878	205,638	72,442	532,682	133,196
2026	665,498	207,872	300,335	757,960	(92,462)
2027	666,548	211,881	305,959	760,626	(94,078)
2028	664,016	212,601	310,275	761,690	(97,674)
2029	663,931	210,127	300,483	754,287	(90,356)
2030	661,293	211,556	310,502	760,239	(98,946)
2031	661,050	205,760	305,266	760,556	(99,506)
2032	661,193	204,964	307,868	764,097	(102,904)
2033	666,719	164,007	265,807	768,519	(101,800)
2034	664,089	64,177	138,858	738,769	(74,681)
2035	665,743	57,406	139,495	747,832	(82,089)
2036	661,638	65,796	139,038	734,880	(73,242)
2037	661,886	63,864	139,488	737,510	(75,624)
2038	661,362	61,932	138,843	738,273	(76,911)



Key Statistics

Principal Refunded	\$2,455,000
Average Interest Rate of Refunded Bonds	3.25%
Average Estimated New All-In Interest Rate ⁽¹⁾	2.92%
Estimated Present Value Benefit / (Cost)	(\$144,151)
Final Maturity of Aggregate Water Fund Debt	FY 2038 (no change)

(1) Estimated results are preliminary, subject to change. Based on Atlantic Union Bank bid received on January 28, 2021. Actual results may vary from these estimates.

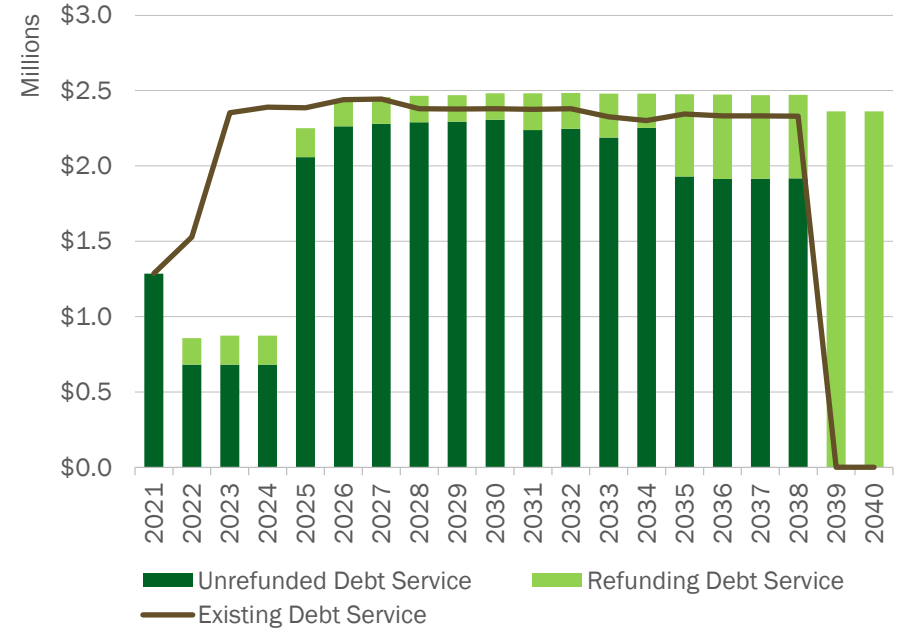
Scenario 2 – Sewer Fund

Atlantic Union Proposal – Interest Rate Fixed at 2.69% for 18.5 Years



- Approximately \$3.80 million of cash-flow freed from FY 2022 through FY 2025.
- Estimated present value cost of approximately \$364,000.

FY	Existing Debt Service	Refunded Debt Service	Refunding Debt Service	Resulting Debt Service	Savings / Cost
Total	\$40,683,792	\$7,259,390	\$9,576,856	\$43,001,258	(\$2,317,466)
2021	\$1,285,782	\$0	\$0	\$1,285,782	\$0
2022	1,528,363	847,201	177,222	858,384	669,979
2023	2,352,504	1,671,582	192,123	873,045	1,479,459
2024	2,391,077	1,709,661	191,720	873,136	1,517,941
2025	2,385,738	326,785	191,316	2,250,269	135,469
2026	2,439,654	176,332	176,114	2,439,436	218
2027	2,443,246	162,790	176,114	2,456,570	(13,324)
2028	2,379,828	89,570	176,114	2,466,373	(86,544)
2029	2,377,073	83,604	176,114	2,469,583	(92,510)
2030	2,379,157	72,799	176,114	2,482,472	(103,315)
2031	2,374,898	137,316	245,173	2,482,755	(107,857)
2032	2,380,896	134,740	238,357	2,484,513	(103,617)
2033	2,326,476	137,164	290,869	2,480,181	(153,705)
2034	2,301,393	49,427	228,448	2,480,413	(179,021)
2035	2,343,845	414,427	547,463	2,476,881	(133,036)
2036	2,331,666	417,674	560,783	2,474,775	(143,109)
2037	2,332,175	415,438	552,741	2,469,477	(137,303)
2038	2,330,023	412,880	554,483	2,471,626	(141,603)
2039	-	-	2,363,235	2,363,235	(2,363,235)
2040	-	-	2,362,352	2,362,352	(2,362,352)



Key Statistics

Principal Refunded	\$6,079,692
Average Interest Rate of Refunded Bonds	3.18%
Average Estimated New All-In Interest Rate ⁽¹⁾	2.83%
Estimated Present Value Benefit / (Cost)	(\$364,048)
Final Maturity of Aggregate Sewer Fund Debt	FY 2040

(1) Estimated results are preliminary, subject to change. Based on Atlantic Union Bank bid received on January 28, 2021. Actual results may vary from these estimates.

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