

# DAVENPORT

& COMPANY LLC

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**One James Center  
901 East Cary Street  
11<sup>th</sup> Floor  
Richmond, Virginia 23219**

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## Montgomery County, Virginia



### Proposed Plan of Finance for School Capital Projects

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**July 25, 2011**

# Overview



## Montgomery County, Virginia

- Montgomery County (the “County”) has identified potential school capital projects including a new Auburn High School, the old Auburn High School renovated into Auburn Middle School and a new Blacksburg High School.
- The School Board has decided on using a PPEA arrangement to design and build the schools.
- The County Board has approved the use of the PPEA arrangement.
- The amount allocated for the projects is \$124.5 million.
- Funds in the amount of \$12.1 million due to cost savings on the Prices Fork ES and Elliston-Lafayette ES and insurance proceeds from Blacksburg High School will be applied to the projects.
- Therefore, a balance of \$97.4 million in addition to the \$15 million in QSCBs will need to be borrowed for the projects.
- Construction is proceeding using the \$12.1 million funds on hand. However, due to a rapid construction schedule the balance of the funds will need to be borrowed this fall.

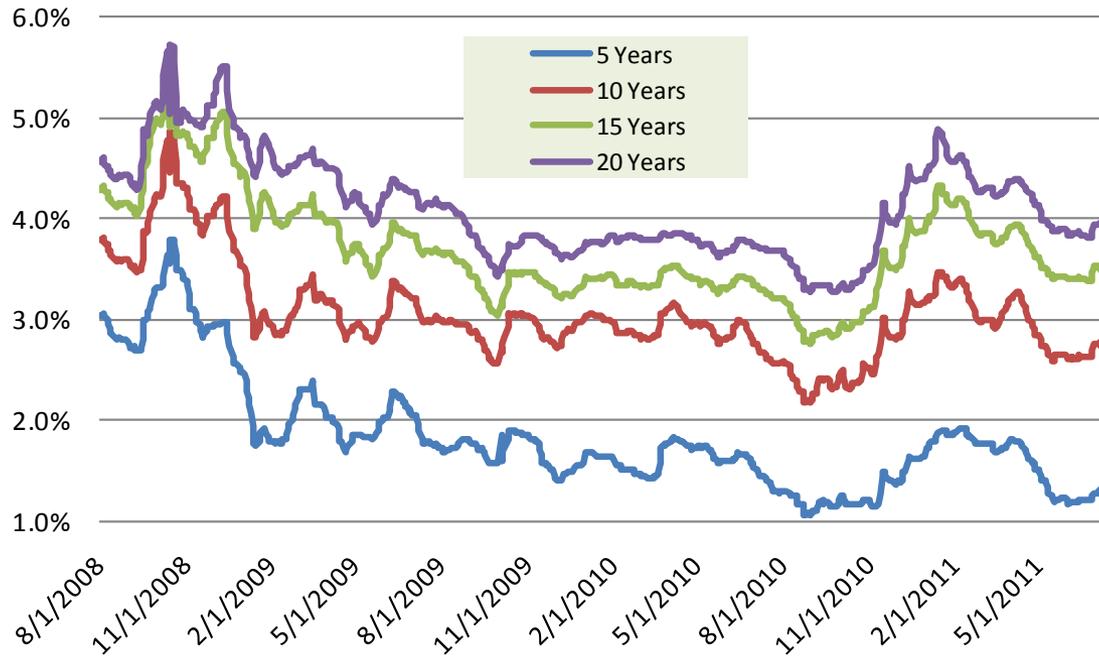
*Light blue denotes items which have been updated since the May 23, 2011 presentation.*

# Municipal Market Overview

Montgomery County, Virginia



**AAA Municipal Bond Interest Rates  
Since August 1, 2008**



# Municipal Market Overview



## Montgomery County, Virginia

### Spotsylvania County

GO Public Improvement Bonds Series 2011A  
 \$11,070,000 (Competitive)  
 Sale Date 7/13/2011  
 Call Date 1/15/2021  
 Aa2/AA+

### City of Newport News

Series 2011  
 \$42,000,000 (Competitive)  
 Sale Date 7/12/2011  
 Call Date 7/1/2020  
 Aa1/AA

Maturity	Par	Coupon	AAA			YTM	
			MMD as of 7/12/11	Reoffering Yield	Spread to MMD	Yield to Maturity	Spread to MMD
1/15/2012	1,000,000	3.000%	0.200%	0.200%	0.000%		
1/15/2013	585,000	3.000%	0.400%	0.450%	0.050%		
1/15/2014	585,000	3.000%	0.650%	0.700%	0.050%		
1/15/2015	585,000	3.000%	0.920%	1.000%	0.080%		
1/15/2016	585,000	3.000%	1.200%	1.290%	0.090%		
1/15/2017	585,000	3.000%	1.560%	1.660%	0.100%		
1/15/2018	585,000	3.000%	1.920%	2.030%	0.110%		
1/15/2019	560,000	4.000%	2.250%	2.350%	0.100%		
1/15/2020	560,000	4.000%	2.490%	2.620%	0.130%		
1/15/2021	560,000	4.000%	2.660%	2.780%	0.120%		
1/15/2022	560,000	4.000%	2.850%	2.900%	0.050%	2.987%	0.137%
1/15/2023	560,000	4.000%	3.010%	3.100%	0.090%	3.230%	0.220%
1/15/2024	470,000	4.000%	3.150%	3.250%	0.100%	3.399%	0.249%
1/15/2025	470,000	4.000%	3.280%	3.380%	0.100%	3.531%	0.251%
1/15/2026	470,000	4.000%	3.380%	3.530%	0.150%	3.663%	0.283%
1/15/2027	470,000	4.000%	3.470%	3.670%	0.200%	3.775%	0.305%
1/15/2028	470,000	4.000%	3.560%	4.010%	0.450%		
1/15/2029	470,000	4.000%	3.650%	4.100%	0.450%		
1/15/2030	470,000	4.000%	3.740%	4.190%	0.450%		
1/15/2031	470,000	4.000%	3.840%	4.290%	0.450%		

All-in-cost: 3.33%

Maturity	Par	Coupon	AAA			YTM	
			MMD as of 7/12/11	Reoffering Yield	Spread to MMD	Yield to Maturity	Spread to MMD
7/1/2012	2,100,000	3.500%	0.200%	0.200%	0.000%		
7/1/2013	2,100,000	4.000%	0.400%	0.400%	0.000%		
7/1/2014	2,100,000	4.000%	0.650%	0.650%	0.000%		
7/1/2015	2,100,000	5.000%	0.920%	0.950%	0.030%		
7/1/2016	2,100,000	5.000%	1.200%	1.250%	0.050%		
7/1/2017	2,100,000	5.000%	1.560%	1.630%	0.070%		
7/1/2018	2,100,000	5.000%	1.920%	1.980%	0.060%		
7/1/2019	2,100,000	5.000%	2.250%	2.300%	0.050%		
7/1/2020	2,100,000	5.000%	2.490%	2.530%	0.040%		
7/1/2021	2,100,000	5.000%	2.660%	2.700%	0.040%	2.886%	0.226%
7/1/2022	2,100,000	5.000%	2.850%	2.890%	0.040%	3.199%	0.349%
7/1/2023	2,100,000	5.000%	3.010%	3.050%	0.040%	3.442%	0.432%
7/1/2024	2,100,000	5.000%	3.150%	3.200%	0.050%	3.644%	0.494%
7/1/2025	2,100,000	5.000%	3.280%	3.330%	0.050%	3.807%	0.527%
7/1/2026	2,100,000	3.750%	3.380%	3.800%	0.420%		
7/1/2027	2,100,000	3.750%	3.470%	3.870%	0.400%		
7/1/2028	2,100,000	4.000%	3.560%	4.000%	0.440%		
7/1/2029	2,100,000	4.000%	3.650%	4.050%	0.400%		
7/1/2030	2,100,000	4.000%	3.740%	4.120%	0.380%		
7/1/2031	2,100,000	4.250%	3.840%	4.250%	0.410%		

TIC: 3.31%

# Estimated Borrowing Size

Montgomery County, Virginia



Total Project Cost	\$124,500,000
Less: Funds on Hand	<u>12,100,000</u>
Borrowed Funds required	112,400,000
Less: QSCB	<u>15,000,000</u>
Total Project Cost Balance to be borrowed	\$97,400,000
Estimated Costs of Issuance (1%)	<u>974,000</u>
Estimated total Borrowing Size	\$98,374,000



# Capital Projects Funding – Key Assumptions

Montgomery County, Virginia

- Projected debt service is added to the existing tax-supported debt service (see page 7 columns B, C & D).
- Assumed one long term bond issuance in fall 2011.
  - *The County would save roughly \$200,000 by delaying part of the long term issuance until January 2013 (roughly \$50 million). However, if interest rates increase by just 1% the County would pay an additional \$4.6 million in interest cost.*
- The first interest payment will occur in Fiscal Year 2012 in an estimated amount of approximately \$900,000. The plan would be to fund this payment with monies earmarked from the 4 cents of the tax rate previously set aside to shave the cost of debt service. The first principal payment is assumed to occur in Fiscal Year 2013.
- Principal will be structured over 20 years to minimize the impact on the tax rate.
  - *Stretching the debt over 25 or 30 years reduces the debt payout ratio while not materially reducing cash flow in the next ten years.*
- Current market interest rates assumes the County's current Aa2/AA rating plus 25 basis points (1/4 of one percent) have been used for the analysis (i.e. should interest rates rise above this mark the debt service amounts will increase). The analysis assumes the use of \$15 million of Qualified School Construction Bonds (0%) expected to be issued by the end of November 2011.
- Construction period for the combined three projects will last approximately 36 months. IRS rules for tax-exempt bonds require issuer to expect 95% of proceeds to be spent within 36 months. The plan of finance meets this requirement.



# Budget Impact and Debt Capacity Analysis – Key Assumptions

Montgomery County, Virginia

- Estimated Value of 1¢ = \$700,000 for FY 2012
- For the Debt to Assessed Value ratio calculation future Real Estate Assessed Value is assumed to grow by 1% in FY13 to FY14, 3% for the next revaluation in FY 15 and 2% thereafter.
- For the Debt Service to Expenditure ratio calculation future Expenditure growth, not counting debt service, is assumed to grow by 1% in FY13, 2% in FY14 and 3% thereafter.
- **Equivalent Tax Rate Impact takes into account Capital costs only – No Operating Expenditures have been factored in.**

# Capital Projects Funding – Estimated Cash Flow Impact



Montgomery County, Virginia

A	B	C	D (B+C)	E	F	G	H	I (E+F+G+H)	J (D-I)	K
<u>Annual Net Debt Service Payments</u>										
<u>Fiscal Year</u>	<u>Existing Debt Service</u>	<u>Projected Debt Service</u>	<u>Existing and Projected Debt Service</u>	<u>General Fund Transfer to Debt Service</u>	<u>DSRF Reduction &amp; Interest</u>	<u>Revenues from Incremental Tax Effect</u>	<u>Capital Projects Withdrawals</u>	<u>Total Revenues Available</u>	<u>Surplus/ (Additional Dollars Needed)</u>	<u>Estimated Incremental Tax Effect</u>
2012	17,359,791	872,974	18,232,765	15,623,985	206,190	0	2,402,591	18,232,766	0	
2013	16,890,648	6,266,900	23,157,548	15,623,985	174,025	7,000,000	359,539	23,157,549	0	0.100
2014	16,857,290	5,946,300	22,803,590	15,623,985	140,437	7,000,000	39,169	22,803,591	0	0.000
2015	16,599,160	6,228,500	22,827,660	15,623,985	149,800	7,000,000	53,875	22,827,660	0	0.000
2016	16,302,363	6,540,650	22,843,013	15,623,985	149,800	7,000,000	69,228	22,843,013	0	0.000
2017	16,046,789	6,844,050	22,890,839	15,623,985	187,250	7,000,000	79,605	22,890,840	0	0.000
2018	15,648,070	7,224,800	22,872,870	15,623,985	149,800	7,000,000	99,085	22,872,870	0	0.000
2019	15,160,155	7,765,850	22,926,005	15,623,985	187,250	7,000,000	114,771	22,926,006	0	0.000
2020	13,972,187	9,413,250	23,385,437	15,623,985	649,500	7,000,000	111,952	23,385,437	0	0.000
2021	13,746,035	9,181,650	22,927,685	15,623,985	192,750	7,000,000	110,951	22,927,686	0	0.000
2022	10,429,241	11,292,250	21,721,491	15,623,985	163,844	7,000,000	0	22,787,829	1,066,338	0.000
2023	9,239,967	11,032,500	20,272,467	15,623,985	168,525	7,000,000	0	22,792,510	2,520,043	0.000
2024	7,026,693	11,749,750	18,776,443	15,623,985	187,250	7,000,000	0	22,811,235	4,034,792	0.000
2025	6,071,544	11,235,000	17,306,544	15,623,985	187,250	7,000,000	0	22,811,235	5,504,691	0.000
2026	5,884,294	9,787,250	15,671,544	15,623,985	187,250	0	0	17,911,235	2,239,691	0.000
2027	5,697,044	8,148,500	13,845,544	15,623,985	187,250	0	0	17,911,235	4,065,691	0.000
2028	4,119,500	8,570,750	12,690,250	15,623,985	187,250	0	0	17,911,235	5,220,985	0.000
2029	3,932,250	7,686,500	11,618,750	15,623,985	187,250	0	0	17,911,235	6,292,485	0.000
2030	0	7,358,750	7,358,750	15,623,985	0	0	0	15,623,985	8,265,235	0.000
2031		5,406,000	5,406,000	15,623,985	0	0	0	15,623,985	10,217,985	0.000
2032		4,819,500	4,819,500	15,623,985	0	0	0	15,623,985	10,804,485	0.000
							3,440,763			0.100

**Cash Flow Impact requires a 10 cent real estate tax equivalent increase in FY 2013**



# Financing Options for the Fall 2011 Issuance

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Montgomery County, Virginia

1. Issue through the EDA Lease Revenue Bonds
2. Issue through the Virginia Public School Authority
  - Stand Alone
    - Issue Bonds in the name of VPSA but uses the County's General Obligation Credit Rating
    - Offers flexibility over the pool in structuring, timing and ability to refinance
  - Pooled Financing
    - Would be combined with other school projects from around the state
    - Limited ability to refinance, only when entire pool is refinanced
    - Annual fee charged for use of the pool (not charged for Stand-Alone)
  - Will need to get approval from the VPSA Board of Directors to do a Stand Alone financing.
  - On Tuesday, July 19 Prince William County issued approximately \$45 million of bonds through VPSA via a stand alone issuance.

# Financing options



Montgomery County, Virginia

Issuer	EDA of Montgomery County	Virginia Public School Authority	Virginia Public School Authority
Issue Type	Stand Alone	Stand Alone	Pool
Security	Lease Revenue Bonds	General Obligation Bonds	General Obligation Bonds
Rating	Aa3/AA-	Aa2/AA	Aa1/AA+
Estimated Interest Rate Level in basis points above a AAA GO Bond	+45 basis points	+20 basis points	+15 basis points
Pool Administration Fee	None	None	+5 basis points
Net Est. Interest Rate Level above AAA GO Bond	+45 basis points	+20 basis points	+20 basis points

Davenport recommends the County proceed with the stand alone VPSA option. This gives the County the lowest cost of financing with the most flexibility for possible future refinancings.

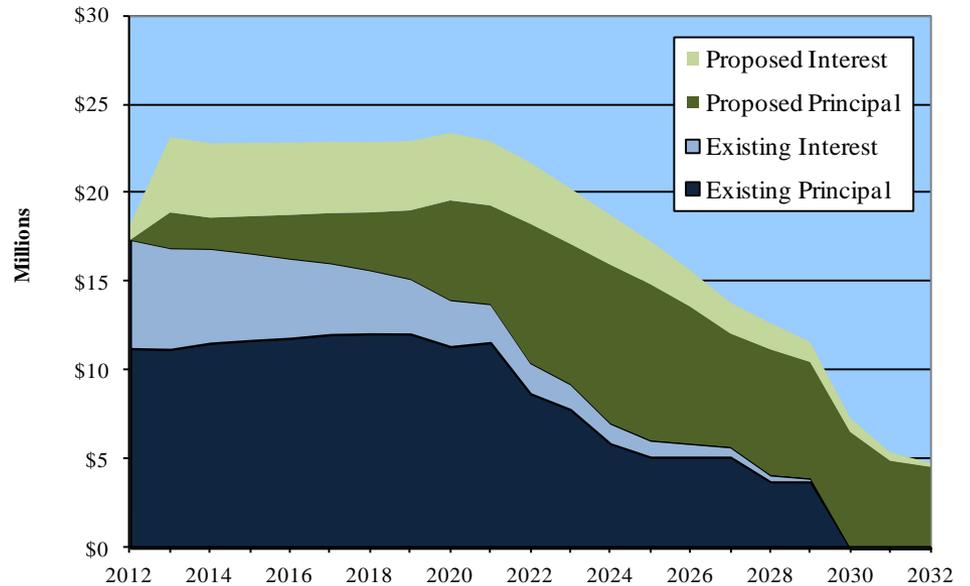


# Capital Projects Funding – Analysis Summary

Montgomery County, Virginia

<u>Fiscal Year</u>	<u>Existing Debt Service</u>	<u>Projected New Debt Service</u>	<u>Projected Total Debt Service</u>	<u>Payout Ratio</u>
	<b>\$210,983,022</b>	<b>\$163,371,674</b>	<b>\$374,354,696</b>	
2012	\$17,359,791	\$872,974	\$18,232,765	4.2%
2013	16,890,648	6,266,900	23,157,548	9.1%
2014	16,857,290	5,946,300	22,803,590	14.1%
2015	16,599,160	6,228,500	22,827,660	19.2%
2016	16,302,363	6,540,650	22,843,013	24.5%
2017	16,046,789	6,844,050	22,890,839	30.0%
2018	15,648,070	7,224,800	22,872,870	35.7%
2019	15,160,155	7,765,850	22,926,005	41.7%
2020	13,972,187	9,413,250	23,385,437	48.0%
2021	13,746,035	9,181,650	22,927,685	54.4%
2022	10,429,241	11,292,250	21,721,491	60.5%
2023	9,239,967	11,032,500	20,272,467	66.4%
2024	7,026,693	11,749,750	18,776,443	71.9%
2025	6,071,544	11,235,000	17,306,544	77.1%
2026	5,884,294	9,787,250	15,671,544	81.9%
2027	5,697,044	8,148,500	13,845,544	86.2%
2028	4,119,500	8,570,750	12,690,250	90.2%
2029	3,932,250	7,686,500	11,618,750	94.0%
2030	0	7,358,750	7,358,750	96.5%
2031	0	5,406,000	5,406,000	98.3%
2032	0	4,819,500	4,819,500	100.0%
2033	0	0	0	100.0%

**Total Existing and Proposed Debt**



# Capital Projects Funding – Impact on Key Fiscal Policies

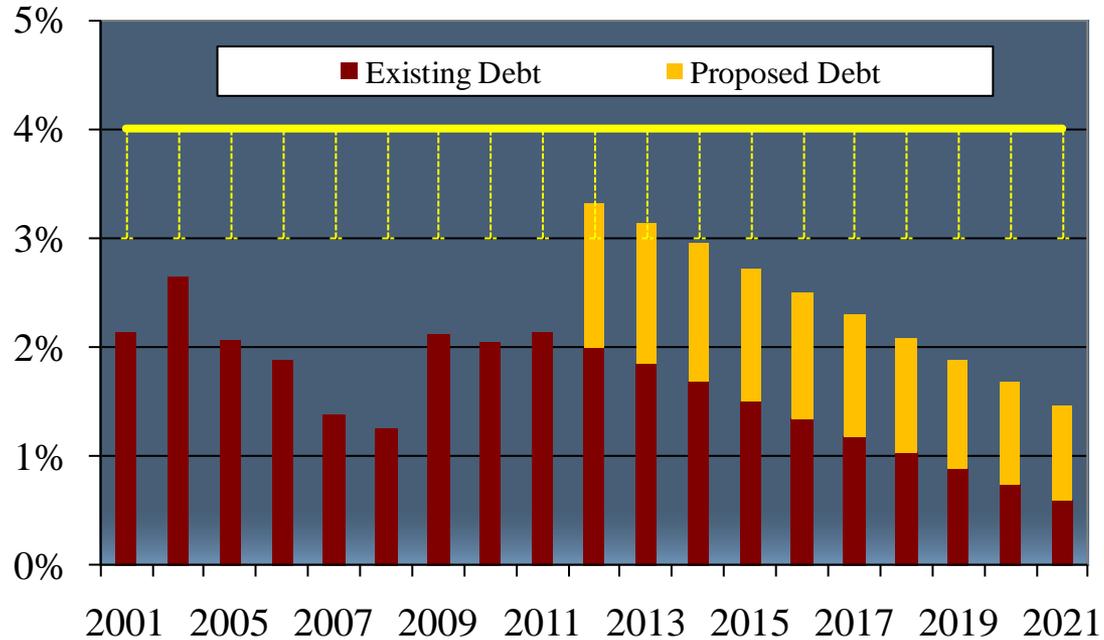


Montgomery County, Virginia

## Debt to Assessed Value Policy

**Net debt as a percentage of estimated market value of taxable property should target 3.0% but not exceed 4.0%.**

### Debt vs. Assessed Value



*Assessed Value has been assumed to grow at 1% in FY13 – FY14, 3% in FY15, and 2% per year thereafter.*

# Capital Projects Funding – Impact on Key Fiscal Policies

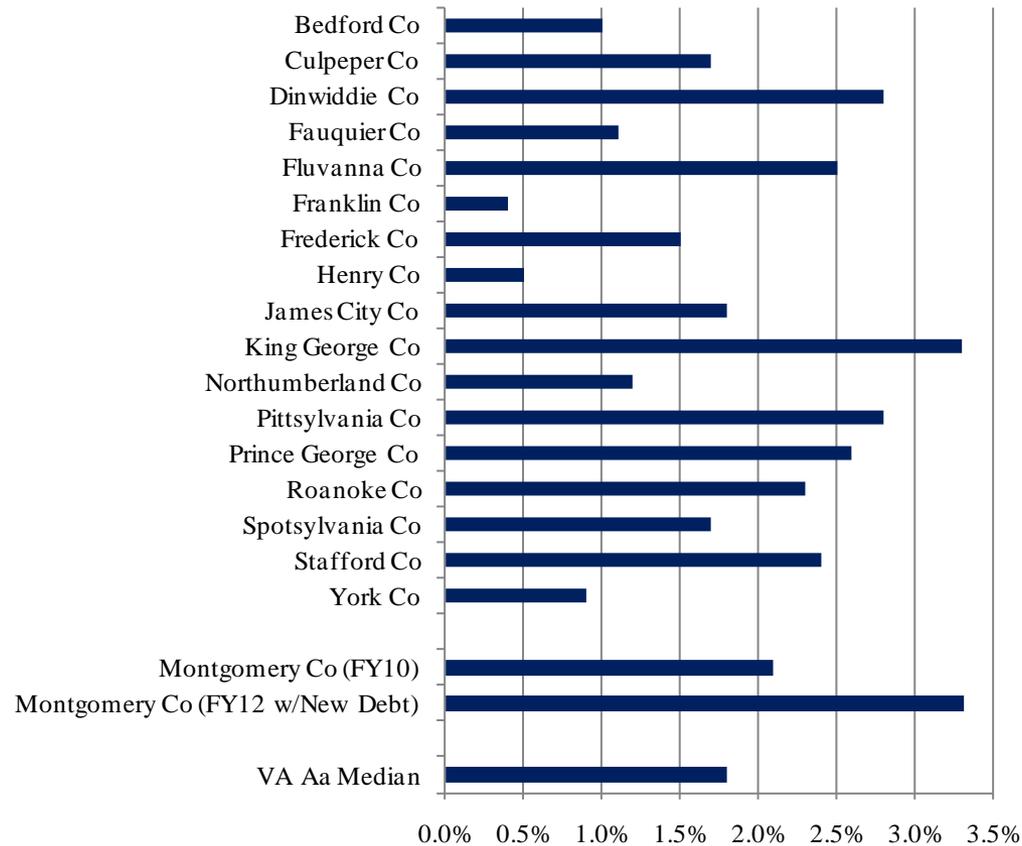


Montgomery County, Virginia

## Debt to Assessed Value Comparative

Virginia Counties rated Aa1, Aa2 or Aa3 by Moody's Investor's Service.

### Debt to Assessed Value (FY 2010)



Source: Moody's Investors Service

# Capital Projects Funding – Impact on Key Fiscal Policies

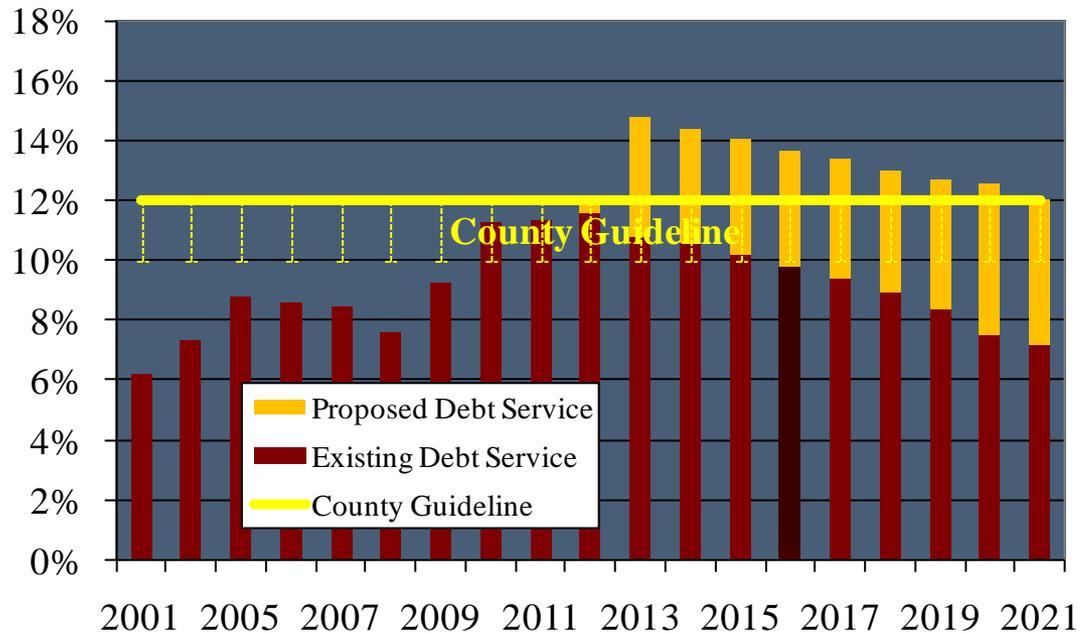


Montgomery County, Virginia

## Debt Service as Percent of Expenditures Policy

The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10%, but not exceed 12%.

Debt Service vs. Expenditures



*Expenditures have been assumed to grow at 1% in FY13, 2% in FY14 and 3% per year thereafter.*

# Capital Projects Funding – Impact on Key Fiscal Policies

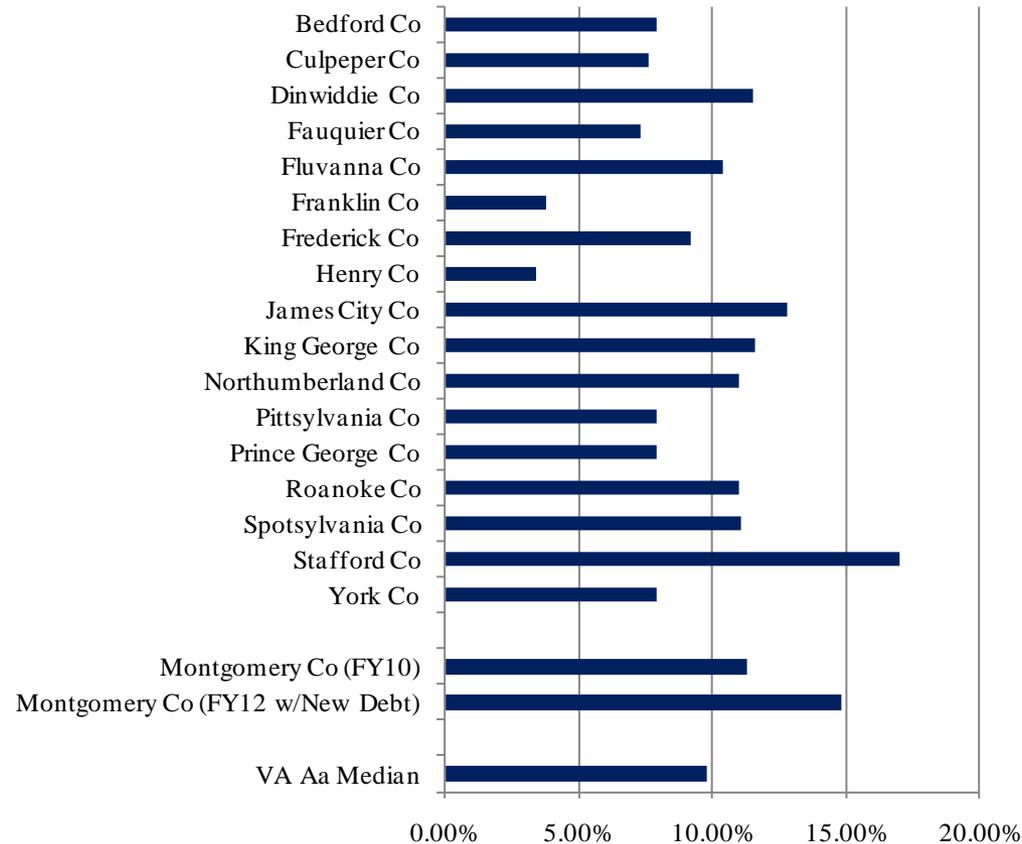


Montgomery County, Virginia

## Debt Service as Percent of Expenditures Comparative

Virginia Counties rated Aa1, Aa2 or Aa3 by Moody's Investor's Service.

### Debt Service to Expenditures (FY 2010)



Source: Moody's Investors Service



# Proposed Timetable

Montgomery County, Virginia

<b>Week of</b>	<b>Bonds</b>
August 1	Begin work on Preliminary Official Statement and Bond Resolution for Bonds
August 15	Draft POS & Bond Resolution Distributed
Balance of August	Review and Updating of Bond Documents
Week of Aug 22 or Aug 29	Information Package sent to Rating Agencies including draft POS
Week of Aug 29 or Sept 5	Rating Meetings (either site visit or trip to New York City)
Sept 8	Virginia Public School Authority Board Meeting
Week of Sept 12	Ratings received for Bonds
Sept 12	Board Meeting and Public Hearing to Approve Documents including POS and Parameters for the Bonds
Week of Sept 19	Post POS for Bond Sale
Sept 27	Sale of Bonds
Oct 11	Close Bonds



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Montgomery County, Virginia

Questions?