

# Strategic Enterprise Fund Plan of Finance Update

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May 23, 2017

# Goals and Objectives

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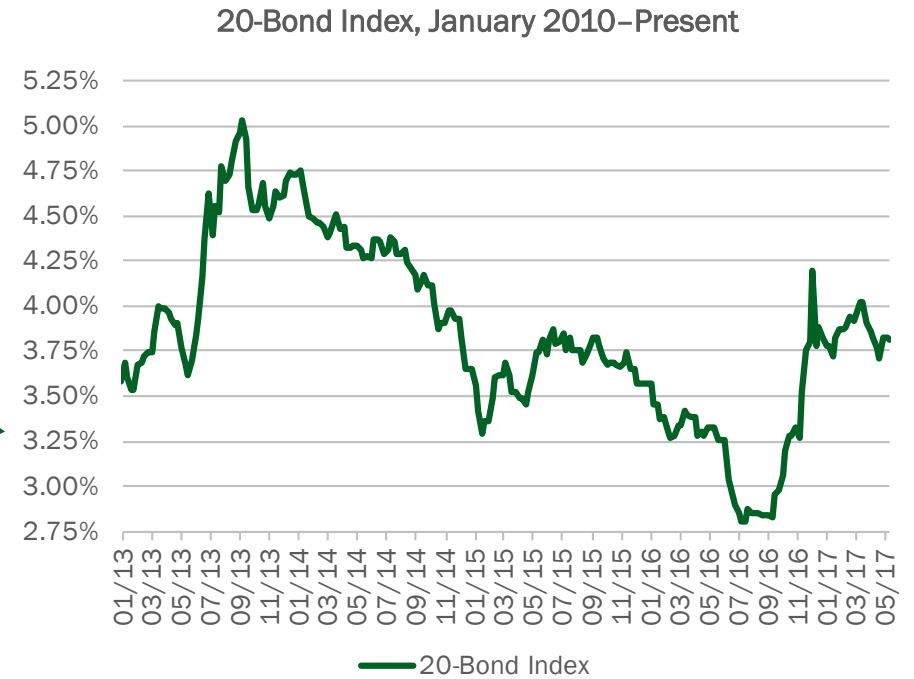
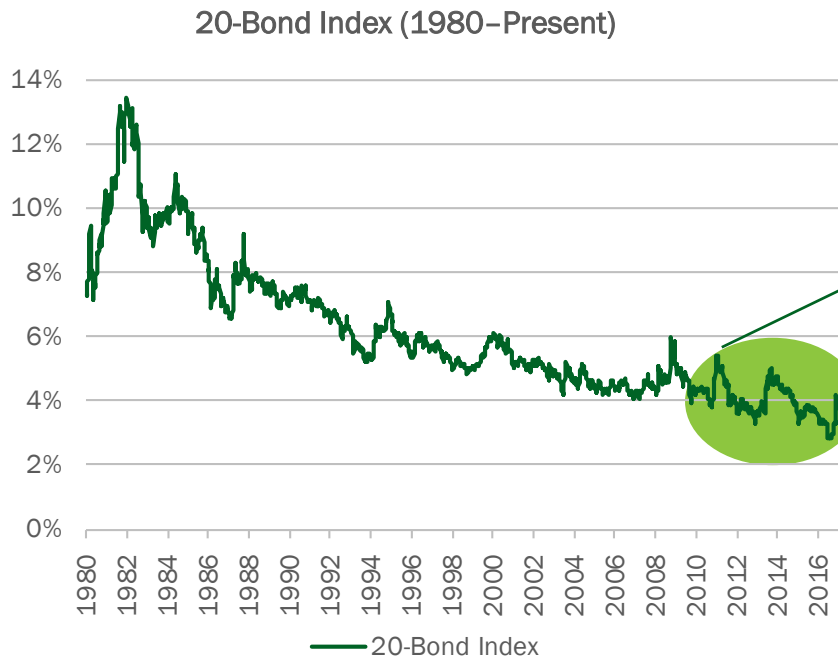


- The Town of Purcellville (the “Town”) has challenges in the Water & Sewer Utility Enterprise Funds, including the upcoming 2010 Build America Bond (the “2010 BAB”) Balloon payment due in FY 2021 of approximately \$1.44 million and existing debt service that increases by roughly \$2 million over the next 5 years.
  
- Davenport & Company, LLC, (“Davenport”) in our role as Financial Advisor, has worked with Town Staff to develop a potential Plan of Finance to structure the Town’s New and Existing Debt and strategically utilize existing cash, over and above the Town’s policy, to responsibly insulate the Town’s rate payers from required rate increases.
  
- In order to achieve the lowest cost of funds for New Capital Projects and/or a Strategic Realignment of current outstanding Debt, Davenport proposes soliciting financing options from local, regional, and national commercial banks, and if necessary, the Public Markets.
  
- As shown on the following page, interest rates have risen since the end of calendar year 2016, but are still historically low. Given the potential for further increases in interest rates, the Town may want to move quickly to lock in interest rates and secure the lowest cost of funds.

# Interest Rate Trends



- As shown below, Interest Rates have recently been rising, but are still near historic lows.



(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 May 11, 2017.

# Plan of Finance

## Key Observations/Assumptions

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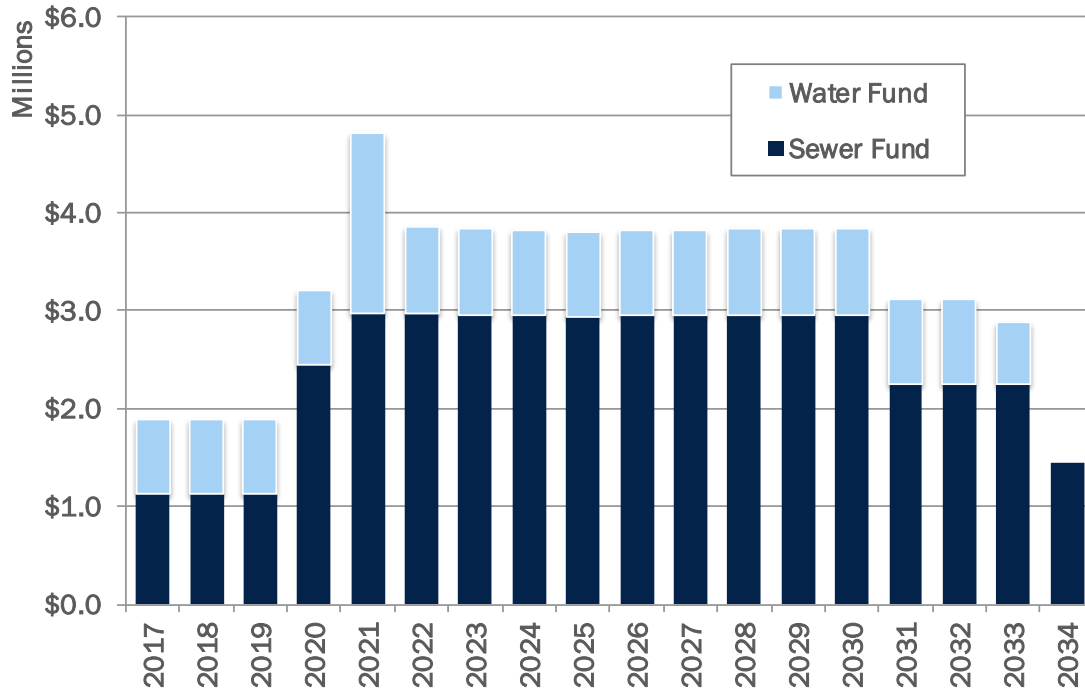
1. The Town's Enterprise Fund has approximately \$41 million of debt outstanding. All of this debt is fixed rate, but payments increase roughly \$2 million in the next 5 years. The Town also has a \$1.44 million balloon payment due in FY 2021 from the 2010 BAB.
2. Over the next 5 years, the Town has an additional \$10 million of Capital needs solely to maintain the system in proper working order. These costs are factored into the Plan of Finance.
3. Growth projections based on assumptions of availability connections only include Mayfair (ending in FY 2021), approved developments, and in-Town proposals.
4. A Strategic Debt Realignment allows the Town to minimize the impact on the Town's Water & Sewer User Rates over the next decade.
5. The average interest rate(s) on the Town's debt to be realigned is roughly 4.55%. The estimated new interest rate on the Strategic Debt Realignment is expected to be under 4% (roughly 3.80%<sup>(1)</sup>).
6. The use of Fund Balance to defease (i.e. pay off) the Water portion of the Town's 2010 BAB is contemplated herein. Doing so removes the Tax-Exempt restrictions currently in place and provides the Town greater flexibility to incorporate private use of the Aberdeen property.

(1) Based on estimated market interest rates as of May 15, 2017 for a General Obligation Public Sale. Actual results may vary substantially from these estimates.

# Current Debt Profile – Total Enterprise Fund



- The Town currently has roughly \$41 million in outstanding Enterprise debt.



## Total Enterprise Fund Debt Service

Fiscal Year	Principal	Net Interest <sup>(1)</sup>	Total
<b>Total</b>	<b>\$41,302,738</b>	<b>\$17,398,000</b>	<b>\$58,700,737</b>
2017	301,500	1,579,487	1,880,987
2018	316,500	1,567,024	1,883,524
2019	331,500	1,553,258	1,884,758
2020	1,679,691	1,520,590	3,200,281
2021	3,360,710	1,455,439	4,816,149
2022	2,482,515	1,369,598	3,852,113
2023	2,560,127	1,278,433	3,838,560
2024	2,643,566	1,184,190	3,827,756
2025	2,722,852	1,086,531	3,809,383
2026	2,833,008	985,934	3,818,942
2027	2,944,056	880,626	3,824,682
2028	3,066,018	770,835	3,836,853
2029	3,183,917	657,389	3,841,306
2030	3,302,777	539,362	3,842,139
2031	2,691,500	426,728	3,118,228
2032	2,812,500	298,661	3,111,161
2033	2,695,000	180,665	2,875,665
2034	1,375,000	63,250	1,438,250

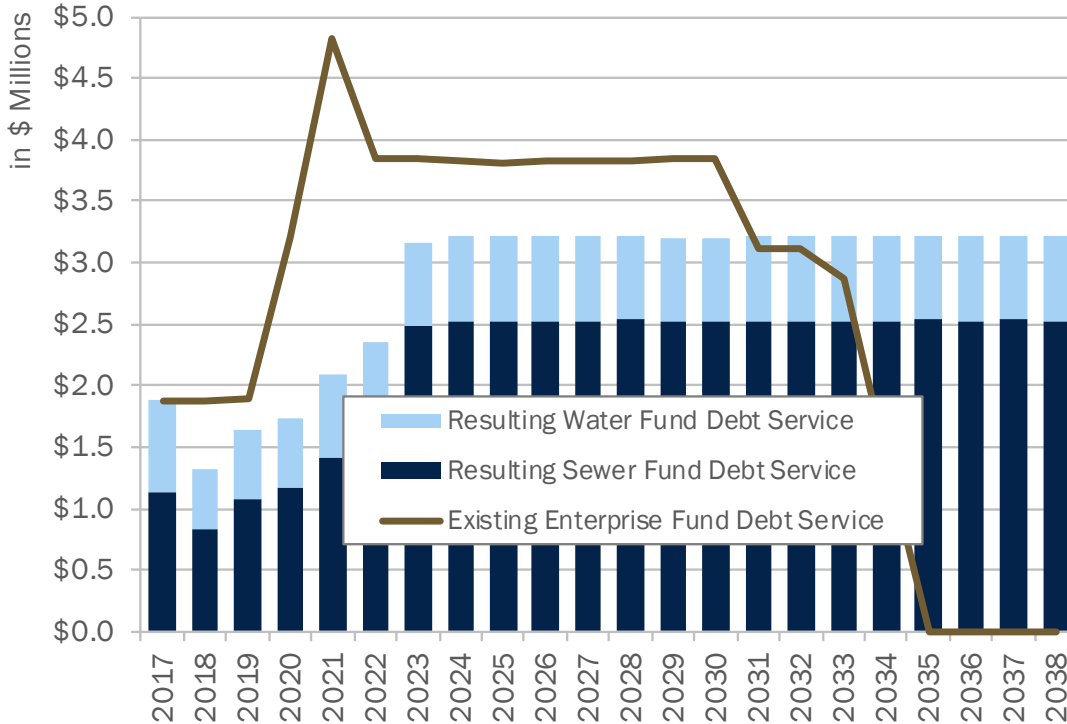
(1) Includes interest subsidy on the 2010 BAB paid from the Water Fund.

(1) Principal outstanding on the 2010 BAB includes a \$1,440,000 balloon maturity allocated to the Water Fund due on July 15, 2020. Net Interest incorporates the 2010 BAB interest subsidy.

# Estimated Defeasance/Debt Realignment Results



- Estimated results of the Defeasance/Realignment are shown below for the combined Water Fund and Sewer Fund<sup>(1)</sup>.
- On a Net Present Value Basis, the “cost” of the Debt Realignment is roughly \$1.5 million<sup>(1)</sup>.



<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>C + D = E</i>
Fiscal Year	Existing Enterprise Fund Debt Service	Resulting Sewer Fund Debt Service	Resulting Water Fund Debt Service	Total Resulting Enterprise Fund Debt Service <sup>(1)</sup>
Total	\$58,700,737	\$47,704,161	\$14,696,759	\$62,400,921
2017	1,880,987	1,125,805	755,181	1,880,987
2018	1,883,524	838,497	486,888	1,325,386
2019	1,884,758	1,081,728	560,559	1,642,287
2020	3,200,281	1,171,204	564,209	1,735,413
2021	4,816,149	1,419,254	673,145	2,092,399
2022	3,852,113	1,661,274	684,503	2,345,778
2023	3,838,560	2,482,726	686,755	3,169,481
2024	3,827,756	2,524,451	687,867	3,212,318
2025	3,809,383	2,524,929	683,323	3,208,252
2026	3,818,942	2,524,941	683,324	3,208,266
2027	3,824,682	2,524,721	687,619	3,212,341
2028	3,836,853	2,534,171	686,091	3,220,262
2029	3,841,306	2,522,171	685,818	3,207,990
2030	3,842,139	2,520,346	685,077	3,205,423
2031	3,118,228	2,527,310	683,617	3,210,927
2032	3,111,161	2,525,585	687,699	3,213,284
2033	2,875,665	2,530,630	683,634	3,214,264
2034	1,438,250	2,529,730	683,750	3,213,480
2035	-	2,535,108	686,040	3,221,148
2036	-	2,530,815	687,310	3,218,125
2037	-	2,537,905	687,560	3,225,465
2038	-	2,530,858	686,790	3,217,648

(1) Estimated results shown above are preliminary, subject to change. Based on estimated market interest rates as of May 15, 2017. Actual results may vary substantially from these estimates.

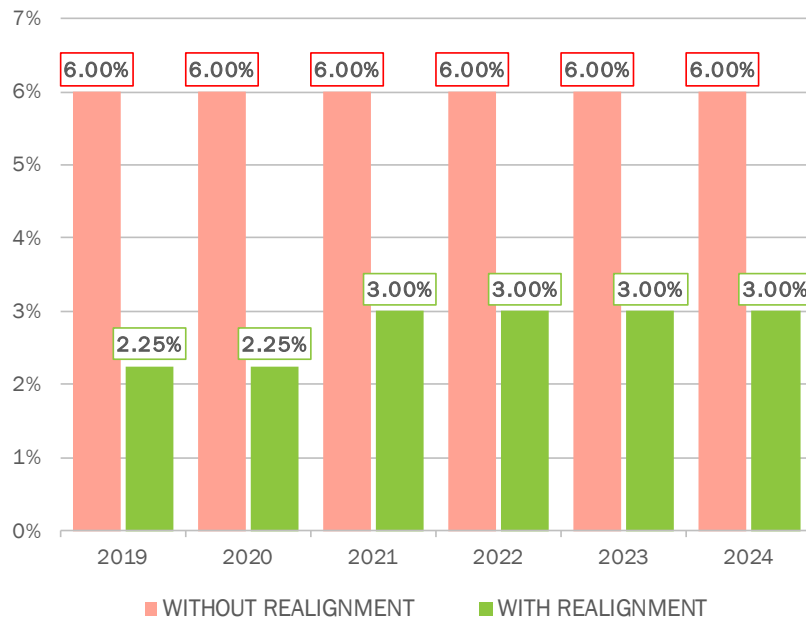
# Effects of Strategic Debt Realignment

## Annual User Rate Increase Requirements

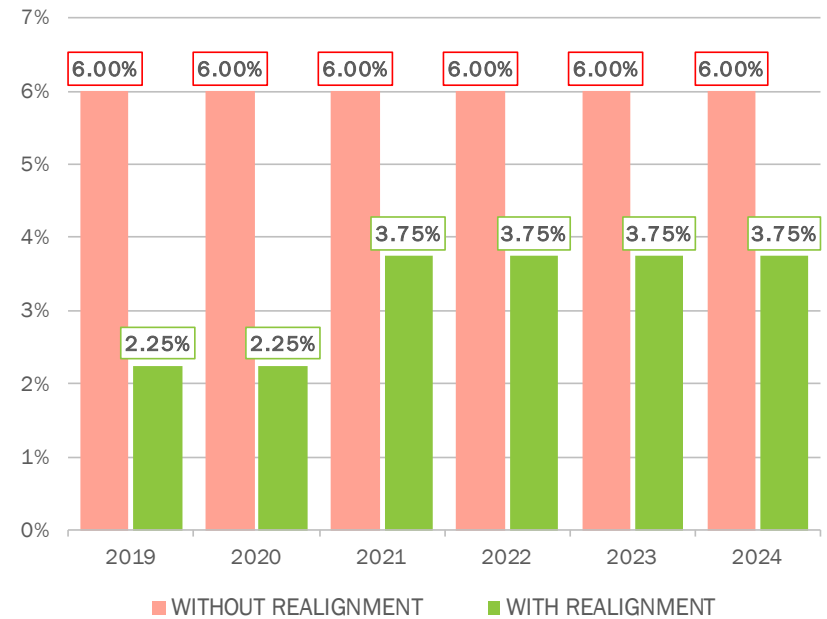


- Based on Preliminary estimates, the Strategic Debt Realignment could allow the Town to limit Water & Sewer rate increases to roughly 2.25%-3.75% per year over the next 6 years, as opposed to the 6% Rate Increases required without the Realignment.

Annual Rate Increase Requirements - Water Rates



Annual Rate Increase Requirements - Sewer Rates



Without Realignment								
Rate Increase	2018	2019	2020	2021	2022	2023	2024	Cumulative
Sewer	0.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	41.85%
Water	0.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	41.85%
With Realignment								
Rate Increase	2018	2019	2020	2021	2022	2023	2024	Cumulative
Sewer	0.00%	2.25%	2.25%	3.75%	3.75%	3.75%	3.75%	17.67%
Water	0.00%	2.25%	2.25%	3.00%	3.00%	3.00%	3.00%	21.14%

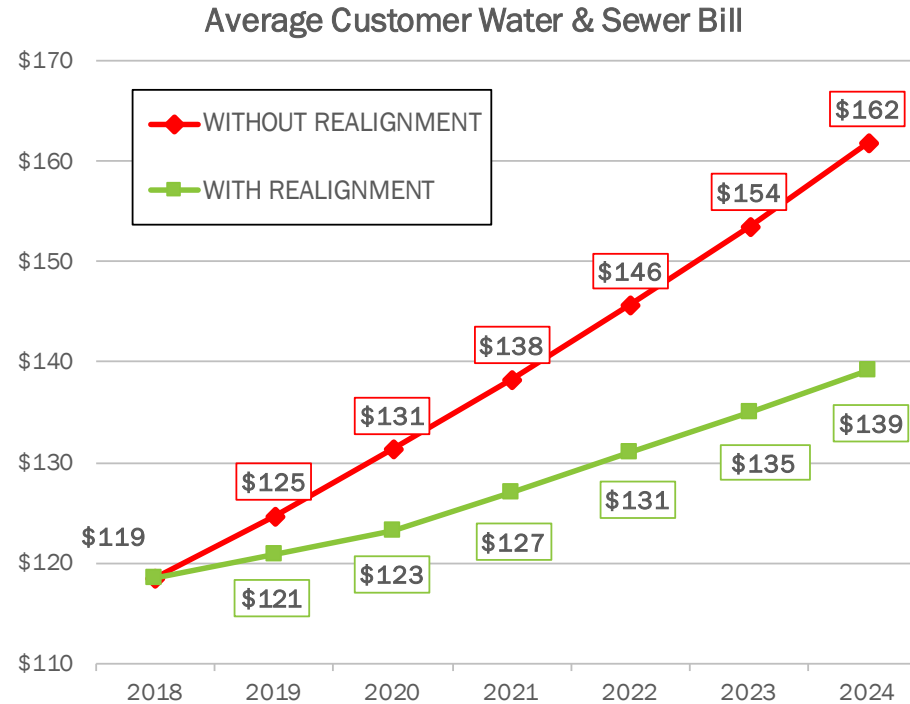
Notes: Projected rate increases after FY 2024 are assumed to be 3% for both the Without Realignment and With Realignment Cases. Estimated results shown above are preliminary, subject to change. Based on estimated market interest rates as of May 15, 2017. Actual results may vary substantially from these estimates.

# Effects of Strategic Debt Realignment

## Average Customer Bill



- Based on Preliminary estimates, the Strategic Debt Realignment could save the Average Customer approximately \$23 on their Water and Sewer Bill by FY 2024.



Without Realignment							
Average Bills	2018	2019	2020	2021	2022	2023	2024
Sewer	77.40	81.60	86.04	90.76	95.75	101.05	106.66
Water	41.11	43.13	45.27	47.53	49.93	52.48	55.18
<b>Total Bill</b>	<b>\$ 118.51</b>	<b>\$ 124.73</b>	<b>\$ 131.31</b>	<b>\$ 138.29</b>	<b>\$ 145.68</b>	<b>\$ 153.53</b>	<b>\$ 161.84</b>

With Realignment							
Average Bills	2018	2019	2020	2021	2022	2023	2024
Sewer	77.40	78.98	80.59	83.33	86.17	89.12	92.18
Water	41.11	41.87	42.64	43.69	44.78	45.90	47.05
<b>Total Bill</b>	<b>\$ 118.51</b>	<b>\$ 120.84</b>	<b>\$ 123.23</b>	<b>\$ 127.02</b>	<b>\$ 130.95</b>	<b>\$ 135.02</b>	<b>\$ 139.23</b>

Notes: Estimated results shown above are preliminary, subject to change. Based on estimated market interest rates as of May 15, 2017. Actual results may vary substantially from these estimates. Average Customer Bill assumes residential connections with 4,600 gallons used per month.



# Results of the Strategic Debt Realignment

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1. Cumulative projected increases in the Town's estimated Water and Sewer bill are less than half the amount required without the Debt Realignment.
2. The Debt Realignment spreads the cost of the Town's existing system over the users that will benefit from it, and becomes sustainable without any new growth aside from Mayfair (ending in FY 2021), approved developments, and in-Town proposals.
3. Given current assumptions in the MFSG planning model, the Town would maintain compliance with existing Financial Policy Guidelines related to reserve levels.
4. Tax-Exempt financing restrictions are eliminated from the Aberdeen property.

# Next Steps

## Executing the Plan of Finance

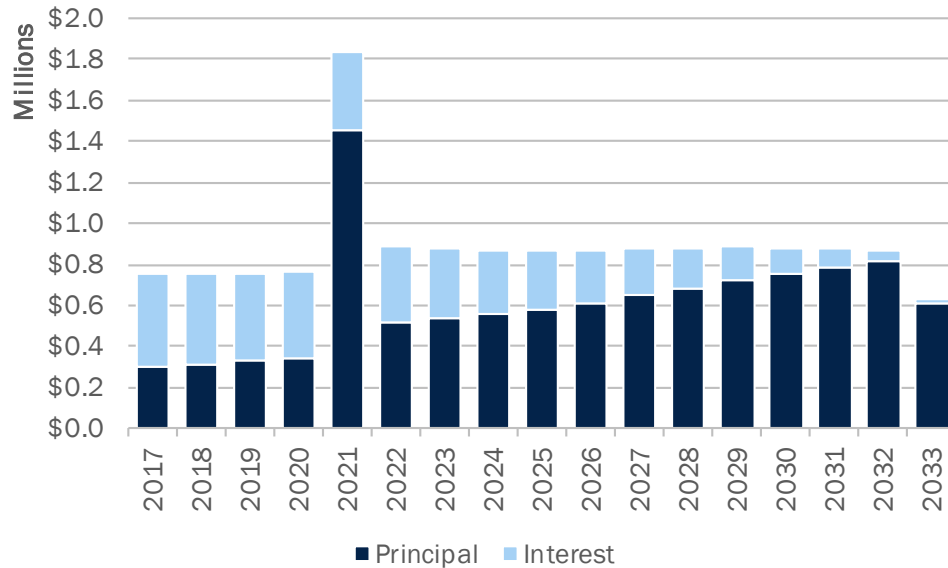
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- Davenport recommends a potential Two-Step Process/Approach.
  
- The Two-Step Approach contemplates the following:
  1. Formally contact all local/regional Commercial Banks about their interest/willingness to assist in the Strategic Debt Realignment.
    - Davenport/Town Staff, on behalf of the Town, requests firm bids on the entire amount desired to complete the Strategic Debt Realignment.
    - Based upon the responses, if any, Davenport/Town Staff would present viable options from the Banks at the July 11<sup>th</sup> meeting of Town Council.
    - If the responses are favorable, the Town would move toward a Closing on the Strategic Debt Realignment with the Bank(s).
  2. To the extent the Bank(s) responses are not recommended by Davenport/Town Staff, the Town would then proceed with a Public Sale. The Town could Close on the Public Sale and receive funding for the Strategic Debt Realignment by/about Labor Day (i.e. Early September).

# Appendix

# Debt Profile – Water Fund



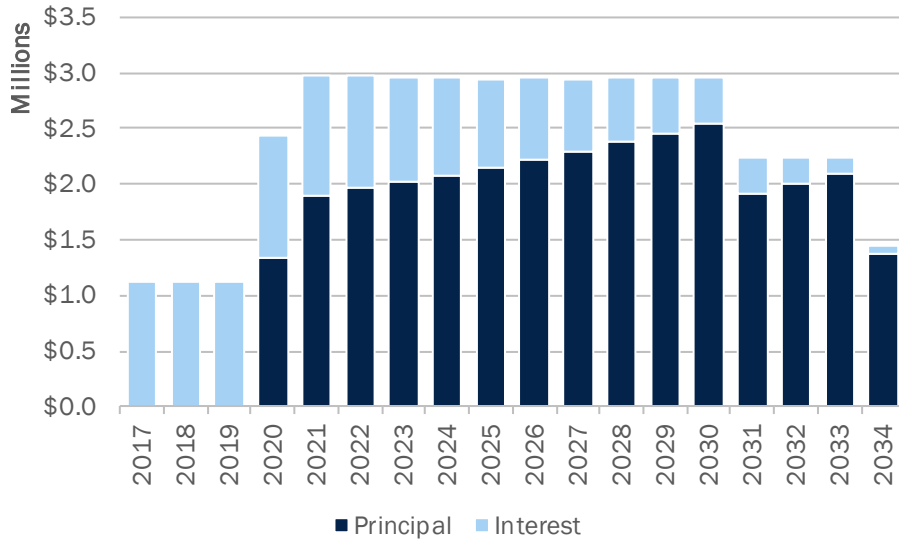
## Aggregate Water Fund

Fiscal Year	Principal	Net Interest <sup>(1)</sup>	Total
<b>Total</b>	<b>\$10,580,000</b>	<b>\$4,557,719</b>	<b>\$15,137,719</b>
2017	301,500	453,681	755,181
2018	316,500	441,219	757,719
2019	331,500	427,453	758,953
2020	346,500	412,966	759,466
2021	1,456,500	383,234	1,839,734
2022	521,500	361,698	883,198
2023	541,500	336,894	878,394
2024	561,500	311,091	872,591
2025	581,500	284,218	865,718
2026	611,500	256,527	868,027
2027	651,500	227,267	878,767
2028	686,500	196,188	882,688
2029	721,500	163,291	884,791
2030	751,500	128,824	880,324
2031	781,500	92,789	874,289
2032	812,500	55,422	867,922
2033	605,000	24,956	629,956

Series	Principal Outstanding (As of 6/30/2016)
2010 Build America Bond <sup>(1)</sup>	\$1,865,000
2010C VRA Bond	820,000
2012 G.O. Public Improvement and Refunding Bond	790,000
2013A G.O. Refunding Bonds	7,105,000
<b>Total Outstanding</b>	<b>\$10,580,000</b>

(1) Principal outstanding on the 2010 BAB includes a \$1,440,000 balloon maturity due on July 15, 2020. Net Interest incorporates the 2010 BAB interest subsidy.

# Debt Profile – Sewer Fund



## Aggregate Sewer Fund

Fiscal Year	Principal	Net Interest	Total
<b>Total</b>	<b>30,722,738</b>	<b>12,840,281</b>	<b>43,563,019</b>
2017	0	1,125,805	1,125,805
2018	0	1,125,805	1,125,805
2019	0	1,125,805	1,125,805
2020	1,333,191	1,107,624	2,440,815
2021	1,904,210	1,072,205	2,976,415
2022	1,961,015	1,007,900	2,968,915
2023	2,018,627	941,538	2,960,165
2024	2,082,066	873,100	2,955,165
2025	2,141,352	802,313	2,943,665
2026	2,221,508	729,407	2,950,915
2027	2,292,556	653,359	2,945,915
2028	2,379,518	574,647	2,954,165
2029	2,462,417	494,098	2,956,515
2030	2,551,277	410,538	2,961,815
2031	1,910,000	333,939	2,243,939
2032	2,000,000	243,239	2,243,239
2033	2,090,000	155,709	2,245,709
2034	1,375,000	63,250	1,438,250

## Principal Outstanding (As of 6/30/2016)

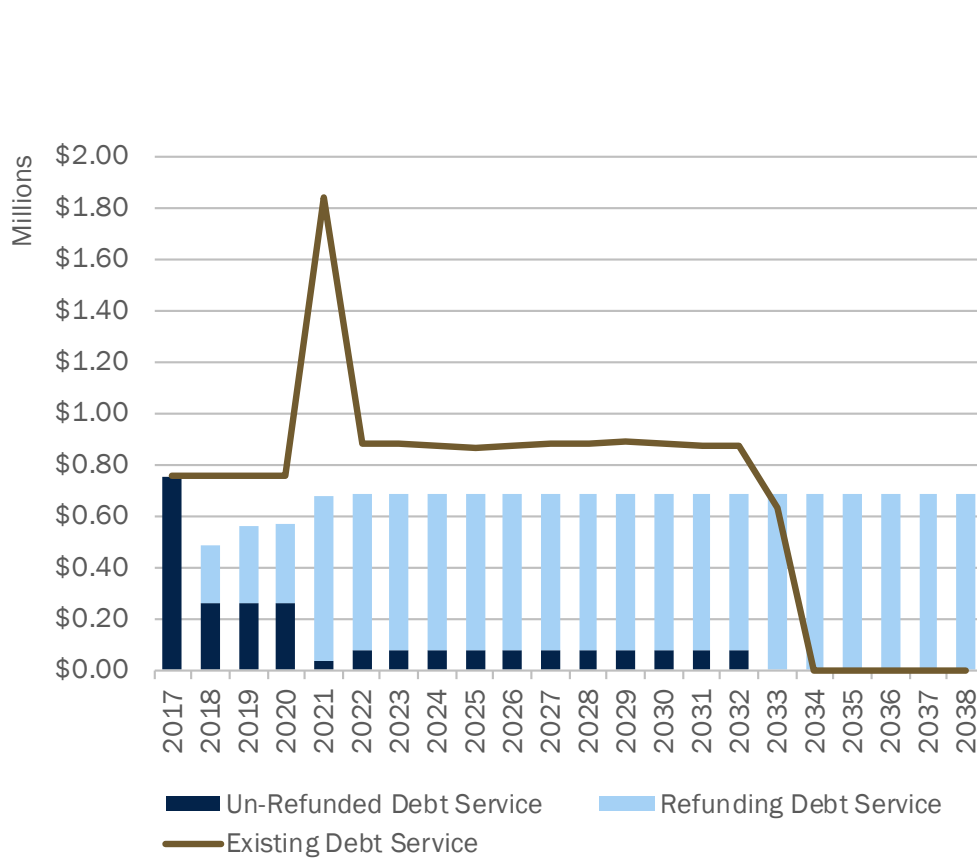
2008 VRA DEQ	\$15,297,738
2013A G.O. Refunding Bonds	8,890,000
2013B G.O. Refunding Bonds	6,535,000
<b>Total Outstanding</b>	<b>\$30,722,738</b>

# Estimated Defeasance/Restructuring Results

## Water Fund



- Estimated results are shown below for (a) a defeasance of the entirety of the 2010 BAB and (b) a Restructuring of the 2013A G.O. Bonds through FY 2038. <sup>(1)</sup>



	<i>A</i>	<i>B</i>	<i>A - B = C</i>	<i>D</i>	<i>C + D = E</i>
	Existing Debt Service	Refunded Debt Service	Un-Refunded Debt Service	Refunding Debt Service	Resulting Debt Service
<b>FY</b>					
Total	\$15,137,719	\$12,725,702	\$2,412,017	\$12,284,743	\$14,696,760
2017	\$755,181	\$0	\$755,181	\$0	\$755,181
2018	757,719	497,938	259,781	227,108	486,888
2019	758,953	499,944	259,009	301,549	560,559
2020	759,466	496,807	262,659	301,549	564,209
2021	1,839,734	1,803,138	36,596	636,549	673,145
2022	883,198	807,606	75,592	608,911	684,503
2023	878,394	804,356	74,038	612,717	686,755
2024	872,591	800,106	72,484	615,382	687,867
2025	865,718	789,856	75,862	607,461	683,323
2026	868,027	793,856	74,171	609,154	683,324
2027	878,767	801,356	77,411	610,209	687,619
2028	882,688	807,106	75,582	610,509	686,091
2029	884,791	806,106	78,684	607,134	685,818
2030	880,324	803,606	76,718	608,359	685,077
2031	874,289	794,606	79,683	603,934	683,617
2032	867,922	789,356	78,566	609,134	687,699
2033	629,956	629,956	-	683,634	683,634
2034	-	-	-	683,750	683,750
2035	-	-	-	686,040	686,040
2036	-	-	-	687,310	687,310
2037	-	-	-	687,560	687,560
2038	-	-	-	686,790	686,790

(1) Estimated results shown above are preliminary, subject to change. Based on estimated market interest rates as of May 15, 2017. Actual results may vary substantially from these estimates.

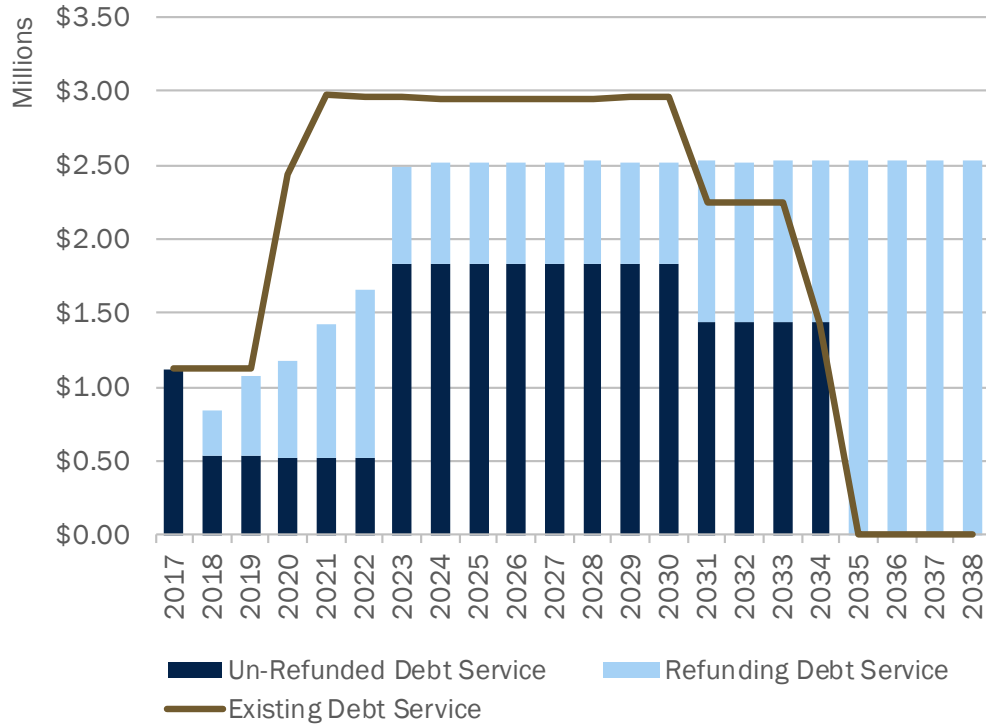
(2) Existing debt service includes federal interest subsidy on the 2010 BAB. In FY 2017, the BAB subsidy was cut from 35% to 32.585%. The gross interest rate paid by the Town on the 2010 BAB is 4.23%, but the effective interest rate net of the current BAB subsidy is 2.85%.

# Estimated Defeasance/Restructuring Results

## Sewer Fund



- Estimated results are shown below for (a) a Restructuring of a portion of the Town's 2008 DEQ Loan through FY 2038 (b) a Restructuring of the 2013A G.O. Bonds through FY 2038, and (c) a Restructuring of a portion of the 2013B G.O. Bonds through FY 2038.



	<i>A</i>	<i>B</i>	<i>A - B = C</i>	<i>D</i>	<i>C + D = E</i>
FY	Existing Debt Service	Refunded Debt Service	Un-Refunded Debt Service	Refunding Debt Service	Resulting Debt Service
Total	\$43,563,019	\$19,327,711	\$24,235,308	\$23,468,853	\$47,704,161
2017	\$1,125,805	\$0	\$1,125,805	\$0	\$1,125,805
2018	1,125,805	587,947	537,858	300,639	838,497
2019	1,125,805	587,947	537,858	543,870	1,081,728
2020	2,440,815	1,913,480	527,335	643,870	1,171,204
2021	2,976,415	2,449,080	527,335	891,920	1,419,254
2022	2,968,915	2,441,580	527,335	1,133,940	1,661,274
2023	2,960,165	1,122,459	1,837,706	645,020	2,482,726
2024	2,955,165	1,117,459	1,837,706	686,745	2,524,451
2025	2,943,665	1,105,959	1,837,706	687,223	2,524,929
2026	2,950,915	1,113,209	1,837,706	687,235	2,524,941
2027	2,945,915	1,108,209	1,837,706	687,015	2,524,721
2028	2,954,165	1,116,459	1,837,706	696,465	2,534,171
2029	2,956,515	1,118,809	1,837,706	684,465	2,522,171
2030	2,961,815	1,124,109	1,837,706	682,640	2,520,346
2031	2,243,939	807,269	1,436,670	1,090,640	2,527,310
2032	2,243,239	806,769	1,436,470	1,089,115	2,525,585
2033	2,245,709	806,969	1,438,740	1,091,890	2,530,630
2034	1,438,250	-	1,438,250	1,091,480	2,529,730
2035	-	-	-	2,535,108	2,535,108
2036	-	-	-	2,530,815	2,530,815
2037	-	-	-	2,537,905	2,537,905
2038	-	-	-	2,530,858	2,530,858

(1) Estimated results shown above are preliminary, subject to change. Based on estimated market interest rates as of May 15, 2017. Actual results may vary substantially from these estimates.

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