

City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 21, 2004
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*
SUBJECT: ALEXANDRIA INDUSTRIAL DEVELOPMENT AUTHORITY ANNUAL REPORT FOR JULY 1, 2003 THROUGH JUNE 30, 2004

ISSUE: City Council consideration of the Alexandria Industrial Development Authority (AIDA) Annual Report for the period July 1, 2003 through June 30, 2004.

RECOMMENDATION: That City Council receive the Alexandria Industrial Development Authority Annual Report for the period July 1, 2003 through June 30, 2004.

DISCUSSION: The Alexandria Industrial Development Authority was established to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate or remain in Virginia. The AIDA has the authority to issue tax exempt Industrial Revenue Bonds for certain non-profit organizations, small manufacturers, government entities and certain solid waste disposal projects. An administrative fee is charged to applicants for the bond financing. The fee is used to partially offset the cost of promoting economic development in the City.

By City ordinance and in accordance with State code the AIDA consists of a seven-member body appointed by City Council for staggered four-year terms. No bonds were issued during FY 2004, largely because with low market commercial mortgage interest rates the benefits of using the AIDA to obtain tax-exempt financing were far less in FY 2004 than in prior years. However, \$58,000 in fees from prior year bond issues were collected. The AIDA Board recorded no changes to procedures, policies or functions during this reporting period.

FISCAL IMPACT: None.

ATTACHMENT: Alexandria Industrial Development Authority Annual Report for the period July 1, 2003 through June 30, 2004.

STAFF:

Mark Jinks, Assistant City Manager for Fiscal and Financial Affairs


D. A. Neckel, Director of Finance

Paula Riley, Executive Director, Alexandria Economic Development Partnership, Inc.

ALEXANDRIA INDUSTRIAL DEVELOPMENT AUTHORITY

DATE: September 7, 2004

TO: Rose Williams Boyd, Executive Secretary
Boards and Commissions

FROM:  Scott Humphrey, Chair
Alexandria Industrial Development Authority (IDA)

RE: IDA Annual Report (July 1, 2003 - June 30, 2004)



According to Alexandria's City Code Section 2-4-4(c)(2), attached is the Alexandria IDA's Annual Report for July 1, 2003 through June 30, 2004.

The Report includes a current list of IDA board members and their attendance records. Also, included is a brief explanation of the purpose and function of the IDA. No bonds were issued during FY'03. The IDA Board recorded no changes to procedures, policies, and functions during this reporting period.

In partnership with IDA's general counsel, McGuire Woods, AEDP co-hosted a seminar for 501(c)(3) organizations and brokers. More than 40 attendees were informed of the program and were provided updated information.

If you have any questions, please do not hesitate to contact me or Paula Riley, Executive Director, Alexandria Economic Development Partnership, Inc. at 703/739-3820, Ext. 16.

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ALEXANDRIA
INDUSTRIAL DEVELOPMENT AUTHORITY

ANNUAL REPORT
JULY 1, 2003 - JUNE 30, 2004

ALEXANDRIA INDUSTRIAL DEVELOPMENT AUTHORITY

June 2004

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**CITY OF ALEXANDRIA
BOARDS AND COMMISSIONS
MEETINGS ATTENDANCE REPORT**

JULY 1, 2003 THROUGH JUNE 30, 2004

COMMISSION: ALEXANDRIA INDUSTRIAL
DEVELOPMENT AUTHORITY

CHAIRPERSON: SCOTT HUMPHREY

MEMBER'S NAME	2003						2004					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
SCOTT HUMPHREY			E									
DONALD SIMPSON, SA			X									
ROGER MACHANIC			X									
DAVID TRACY			X									
RANDAL KELL			X									
LOIS WALKER			X									
MARK WILLIAMS			X									

INDICATE: X - FOR PRESENT E - FOR EXCUSED U - FOR UNEXCUSED

LIST OF THOSE WHO DID NOT ATTEND 75% OF MEETINGS:

(FORM MUST BE SIGNED BY CHAIRPERSON)

APPROVED: Scott Humphrey
(Chairperson)

ALEXANDRIA INDUSTRIAL DEVELOPMENT AUTHORITY
“Key to Industrial Revenue Bond Financing”
ALEXANDRIA, VIRGINIA

IDA Bond Counsel

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The Alexandria Industrial Development Authority (IDA) by ordinance of the city Council of Alexandria, Virginia according to the Industrial Development and Revenue Bond Act (Chapter 49, Section 15.2 of the Code of Virginia) is a seven-member body appointed by City Council for staggered four year terms.

PURPOSE: To promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate in or remain in Virginia.

FUNCTION: The interest on these bonds enjoys a tax exempt status for federal income tax purposes and for Virginia income tax purposes, thus the bonds generally carry lower interest rates than conventional financing.

ELIGIBLE PROJECTS:

501 (c)(3) Associations	Medical Facilities
Elementary, Secondary Facilities	Pollution Control
Higher Education Facilities	Parking Facilities
Industrial Facilities	

HOW TO APPLY: As early as possible in the planning of the project, the applicant should contact Michael Graff, General Counsel of the IDA for specific information on procedural considerations and to determine the information the Authority will need to evaluate the request. At this stage, approaching potential lenders on a preliminary basis is necessary and to consult with legal counsel knowledgeable on industrial development revenue bonds.

POLICY & PROCEDURAL GUIDELINES: The Alexandria IDA has established the following policy and procedural guidelines governing its consideration of industrial revenue bond applications:

- 1) All types of projects which are authorized under the Alexandria IDA's legislation will be considered for approval on a case-by-case basis.
- 2) The Alexandria IDA will charge the applicant an administrative fee.
- 3) The Alexandria IDA pays no costs, taxes, etc., all of which the applicant will bear.

WHAT IS TAX-EXEMPT FINANCING? Tax-exempt financing is a mechanism by which state and local government can promote a variety of public purposes, such as economic development and charitable activities, education, and healthcare. In Virginia, the Industrial Development and Revenue Bond Act provides the legal framework for such financing. Under the Act, local industrial development authorities act as conduits, issuing their bonds and lending the proceeds to 501(c)(3) organizations, small manufacturers and others. The financial markets set interest rates on such bonds below comparable rates for taxable financings because bondholders can exclude interest on the bonds from their gross income.

WHO IS ELIGIBLE TO USE TAX-EXEMPT FINANCING? In general, the only organizations which may benefit from tax-exempt financings are those organizations which are exempt from federal income taxation by virtue of their Section 501(c)(3) status under the Internal Revenue Code, small manufacturing companies, governmental entities and certain solid waste disposal projects and other utilities. The internal Revenue Code was substantially amended in 1986, however, and it is possible that certain exempt organizations which do not have 501(c)(3) status may have undertaken tax-exempt financing before that time.

WHAT KINDS OF NEW PROJECTS CAN BE FINANCED? Under applicable federal and state law, a variety of projects can be financed. In exempt organizations, all property financed with tax-exempt bonds must be owned by a 501(c)(3) organization or governmental unit; in addition, proceeds of tax-exempt bonds cannot be used in connection with a trade or business unrelated to the 501(c)(3) organization's exempt purpose. State law permits an exempt organization to finance any of the following if they are within the Commonwealth: educational facilities; medical facilities; athletic, health and recreational facilities and operation centers; and facilities for museums and historical education, demonstration, and interpretation. Working capital and certain interest payments on tax-exempt bonds may also be included in the financing.

IS IT POSSIBLE TO REFINANCE EXISTING DEBT? Because of ambiguities under Virginia law, the ability of an exempt organization to refinance existing debt will vary. Under certain circumstances, the organization may be required to obtain the approval of a Virginia court of competent jurisdiction before proceeding with the transaction. Generally, however, refinancing of existing debt will be possible from the state law perspective.

Under federal tax law, the refinancing of tax-exempt debt issued on or after August 16, 1986 is generally possible if the proceeds of the new tax-exempt debt are used immediately to pay off the old tax-exempt debt and certain other limitations are met. For bonds issued before August 16, 1986 changes in the federal tax law since that date have imposed new restrictions on refinancings. Under the so-called "transition rules," such refinancings may still be possible upon compliance with certain limitations on the amount financed, the average maturity of the new bonds, and the amount of issuance costs financed. Certain new requirements will also be imposed on the new bonds; these relate to public hearing requirements, arbitrage and information report; and changes in use of the bond-financed project.

WHAT IS THE MINIMUM SIZE OF A TAX-EXEMPT FINANCING? While the law imposes no minimum size on tax-exempt financings, the complexities involved in structuring and obtaining approvals for such financings can result in transaction costs which are higher than those for comparable taxable financings. These transaction costs may make it prohibitive to undertake financings of less than a certain size, since the advantage to the borrower of lower interest rates would be offset by the increased transaction costs. It has been our experience that a bond financing is generally most efficient when the size of the financing is at least \$1-\$2 million. There are several strategies for dealing with these higher transaction costs. One is to combine present projects with projects to be financed within the next few years. Another is to combine financings of an exempt organization and its affiliates in a single issue.

HOW ARE TAX-EXEMPT FINANCINGS STRUCTURED? An exempt organization has the same options in structuring a tax-exempt financing which it would have in a taxable financing. Interest rates may be fixed or variable; repayment schedules can be arranged to meet the cash flow needs of the exempt organization; and various forms of credit enhancement or ratings may be called into play to improve the interest rate on the financing. The usual issues relating to credit and security must also be addressed. It is the job of the underwriter to ensure that each of these issues is addressed in a way that will accommodate the exempt organization's desire to minimize its debt service and the constraints imposed by the financing while addressing bondholders' concerns with payment and security.

HOW DO I GET STARTED? The exempt organization would generally contact an investment bank or law firm knowledgeable in the subject of tax-exempt financing for assistance in assembling a financing team. The financing team typically consists of the underwriter, officials of the exempt organization, and necessary governmental approvals, sell the bonds and draft the necessary legal documents.

GENERAL PROCEDURES

- Week 1**
1. The Borrower decides to construct or renovate a facility (the “Project”).
 2. The Borrower consults with Bond Counsel who determines that the Project qualifies for financing under federal and state laws and that the interest on the Bonds will be exempt from state and federal income tax (the IDA’s Counsel can act as Bond Counsel).
 3. The Borrower goes to a bank or investment banking firm and formally request a commitment to purchase or place the Bonds.
 4. The bank or investment banking firm analyzes the Project and the financial strength of the Borrower to repay the bonds and, if it agrees to finance the Project, structures credit requirements (collateral, insurance, ratings, etc.)
- Week 2**
5. The Borrower completes and files an application requesting the Industrial Development Authority to issue its Bonds in an amount estimated to cover the cost of acquisition, construction, renovation and equipping of the Project.
- Week 3**
6. Bond Counsel prepares a resolution (the “Inducement Resolution”) to be presented to the Authority approving the application and publishes a notice of public hearing with respect to the Project.
- Week 5**
7. The Authority holds a public hearing on the Project, and if the application is in order, adopts the Inducement Resolution.
- Week 6**
8. The Inducement Resolution and certain documentation prepared by Bond Counsel are forwarded to the City Council for approval.
- Week 7**
9. The City Council meets and adopts a resolution approving the bond issue.
- Week 7-10**
10. Bond Counsel prepares bond documents and a final resolution authorizing the issuance of the Bonds. The Final Resolution and bond documents are reviewed by all parties to the transaction and revised documents are circulated. All documents are finalized.
- Week 10**
11. The Final Resolution authorizing the issuance of the Bonds is adopted by the Authority.
- Week 11**
12. All parties met to execute the bond documents and close the bond issue.
- NOTE:**
- ◆ The Borrower agrees to make all payments of principal and interest on the Bonds and the Authority has no obligation to make payments on the Bonds or to pay costs of the Project.
 - ◆ At closing, the bond proceeds are deposited in a special account to be used by the Borrower to pay for costs of acquisition, construction, renovation and equipping of the Project. Only 2% of the bond proceeds may be used to pay for issuance costs.
 - ◆ Although a bond issue typically follows these steps, each financing is unique and the procedures may vary depending on individual circumstances. The foregoing may take more time, depending upon complexity of transaction.

**INDUSTRIAL DEVELOPMENT AUTHORITY
BONDS ISSUED
JULY 2003 - JUNE 2004**

<u>DATE</u>	<u>AMOUNT</u>	<u>COMPANY</u>	<u>LENDER</u>	<u>FEE</u>
July 2003		Institute for Defense Analyses	First Union	\$57,000**
September 2003		National Sherrifs' Association		\$ 1,000*

*Modification Fee
** 4th & Final Installment