

BUDGET 2020: PSPRS UNFUNDED LIABILITY FINANCIAL PLANS



May 23rd, 2019

PSPRS Pension Liability

Town's Budgeting Year	Town CAFR Year	PSPRS Measurement Year	Present Assets	Unfunded Actuarial Liability	Total Actuarial Liability
2020	2019	2018*	\$ 19,020,328	\$ 17,322,469	\$ 36,342,797
2019	2018	2017	17,549,901	17,398,284	34,948,185
2018	2017	2016	10,141,239	21,684,309	31,825,548
2017	2016	2015	7,885,294	21,133,464	29,018,758
2016	2015	2014	7,172,192	21,030,844	28,203,036
2015	2014	2013	8,362,281	15,492,521	23,854,802
2014	2013	2012	8,293,055	14,966,012	23,259,067
2013	2012	2011	8,970,186	12,742,243	21,712,429
2012	2011	2010	9,138,514	11,027,966	20,166,480
Rates	After Actuarial measurement year 2018: Paid \$5,000,000 in July of 2019				

More
detail on
Slides
A2b &
A3



Source: Actuarial Reports
(important to notice which report is being used)

Strategies for UAAL

Rates

- *This option is not being presented*
- Pays UAAL over next 16 years via high contribution rates through 2036 (p. A5)

Cash

- Payments of cash to the extent allowed by the AEL and Town's available budget
- This is a multi-year approach

Taxable Obligations

- Pays UAAL in PSPRS (5.9-7.4% roi)
- Repaid by Town over 2-5 years (3.0% int)

Tax Exempt Obligations

- Used to finance CIP; repaid 2-5 years
- Use CIP's AEL capacity to fully pay UAAL in PSPRS.



Town's Operating Goals

Steady Cash

- Maintain a healthy and predictable reserve through the course of short and long-term financial forecasts.
- Ready for an economic downturn

Quickest Funded

- Fast funding of PSPRS UAAL
- Maximizes returns and minimizes UAAL

Biggest ROI

- Overall, what is the best return on investment for the Town
- May be measure more than monetary

Minimized Debt

- Low to no long-term liabilities

Q: How to best Invest \$12.2M to pay the PSPRS UAAL?

Why \$12.2 Million

- Pays entire balance known March 2019
- Keeps options comparable; \$'s adjustable
Pre-Paying Bad News in 2019
- PSPRS communicated 2019 GASB report
- Discount rate decrease = UAAL increase
- Taxable Excise Tax Obligations
- Concerns when capital doesn't back debt
- Town can set aside cash payment fund to mitigate the lack of capital concern
- Tax Exempt Obligations
- \$6M for CIP is sufficient to fit the full PSPRS UAAL under the AEL in 1 year
- Must use proceeds before GF (most stringent source first)

Base options:

- 1) Status quo - \$6M per year (installments)
- 2) Accelerate -SQ but up to \$3M Y/E 2019
- 3) Taxable - \$12M proceeds in PSPRS, \$12.2M payment fund in Town pool
- 4) Tax Exempt - \$6M proceeds for CIP; \$12 to PSPRS; \$6.2M in Town pool

PSPRS assumed earnings: 7.40%

PSPRS 7-Year smooth: 5.90%

Towns current ROI: 2.75-3.05%

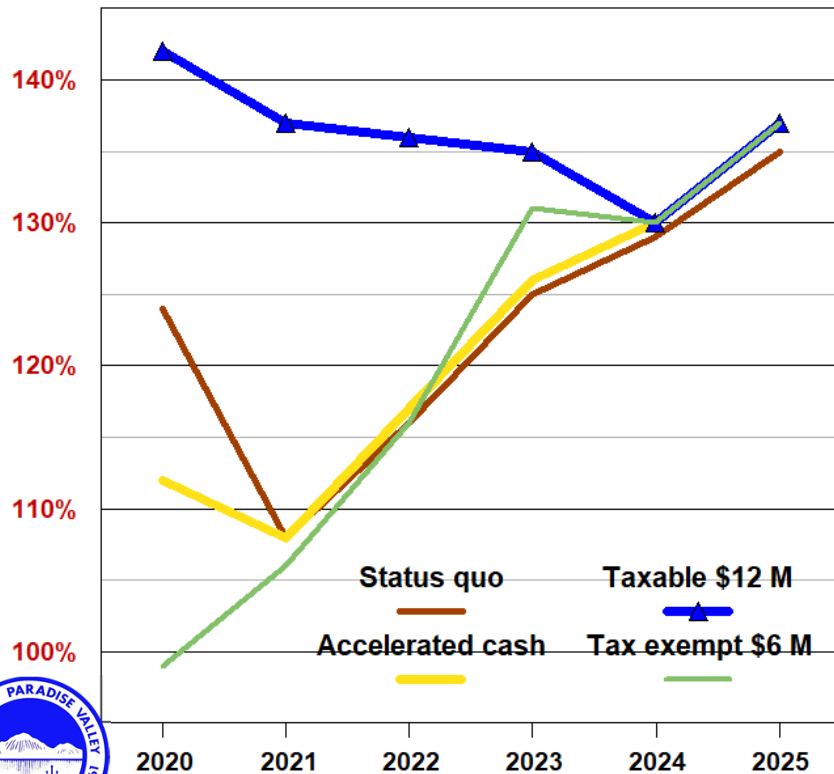
Taxable obligations: 3.00%

Tax-exempt obligations: 2.35%

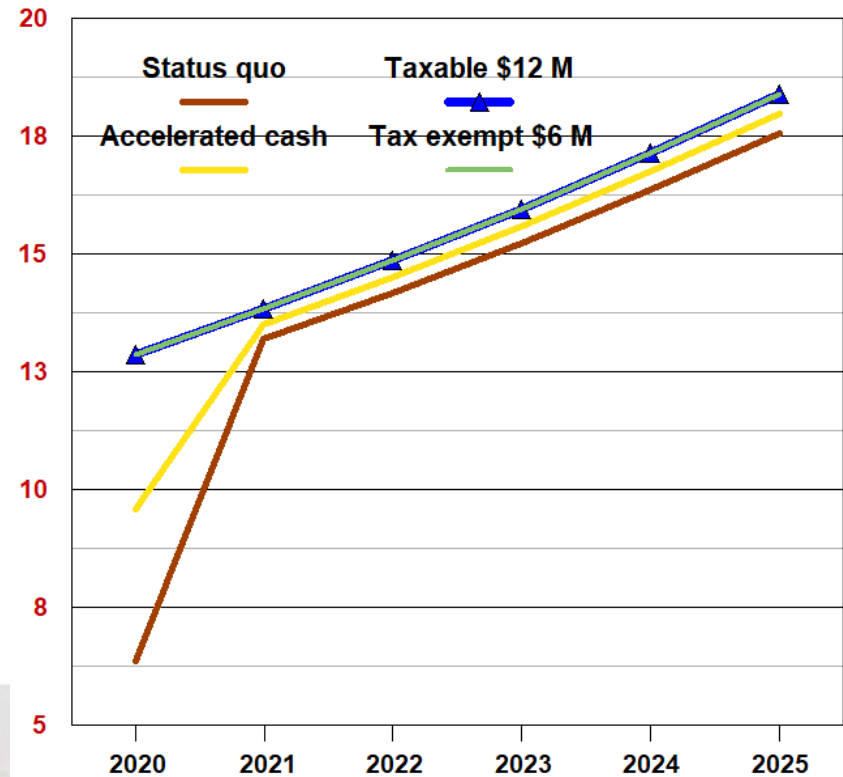


Options 1-4: Forecast 2020

Fund Balance % of next year's operations

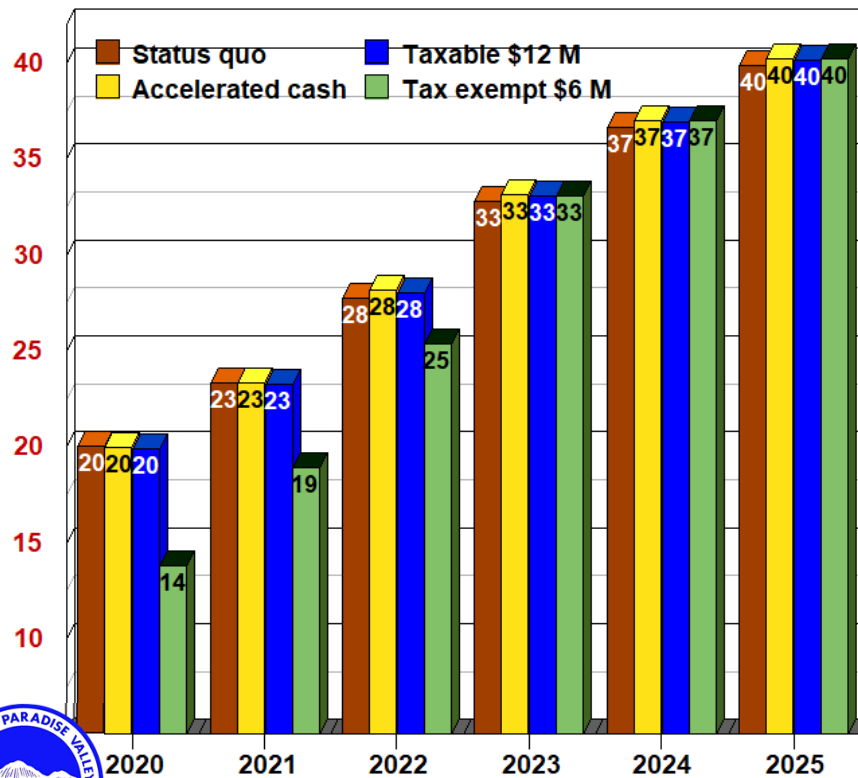


Value of \$12M PSPRS investment

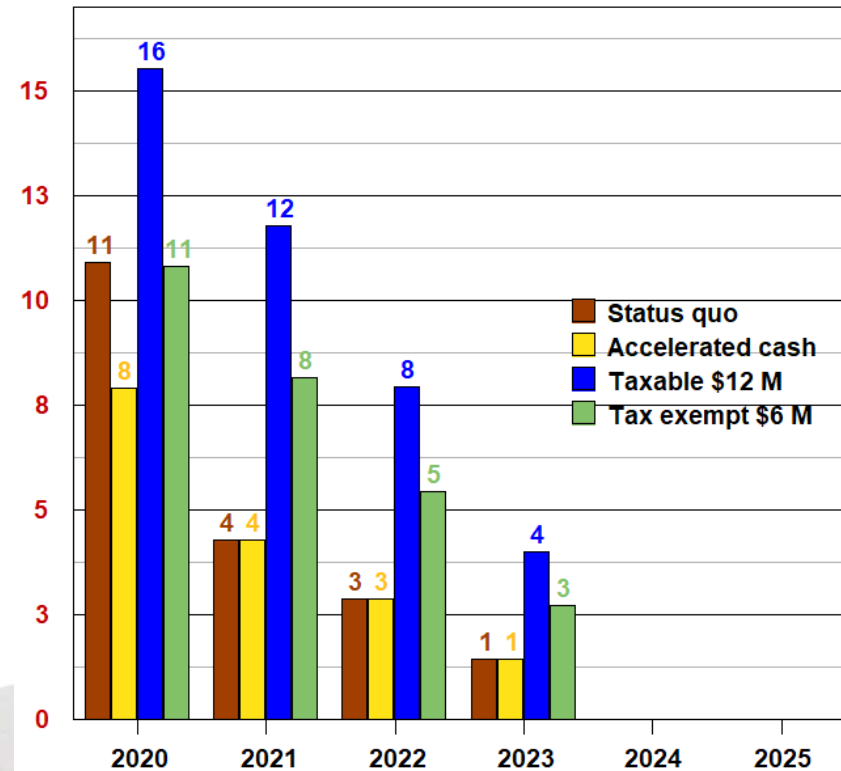


Options 1-4: Forecast 2020

Equivalent Net Worth

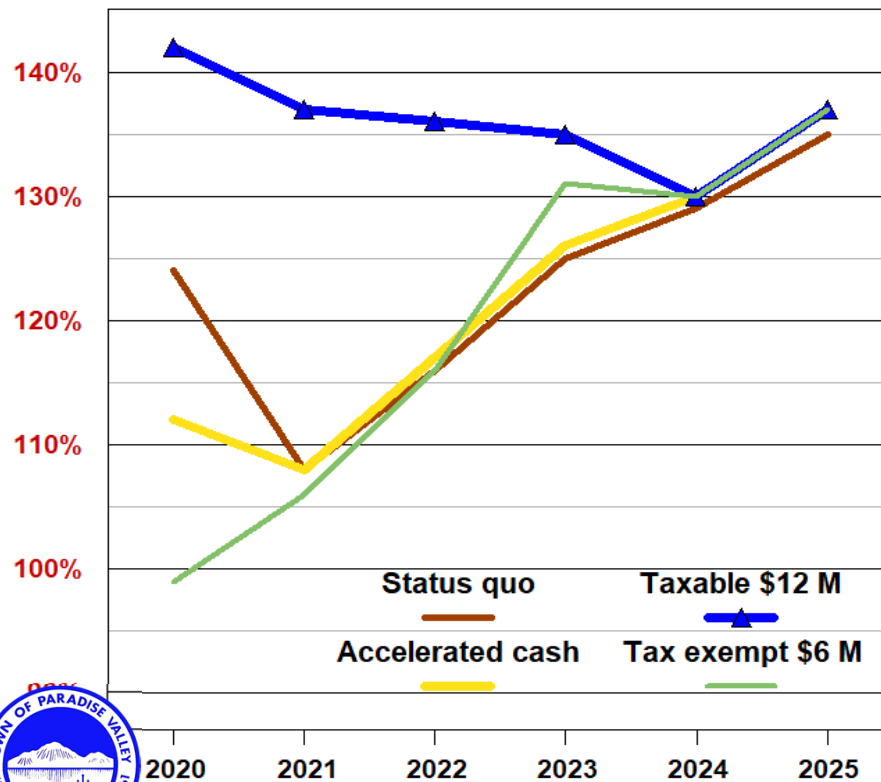


Total Remaining Long-Term Liabilities

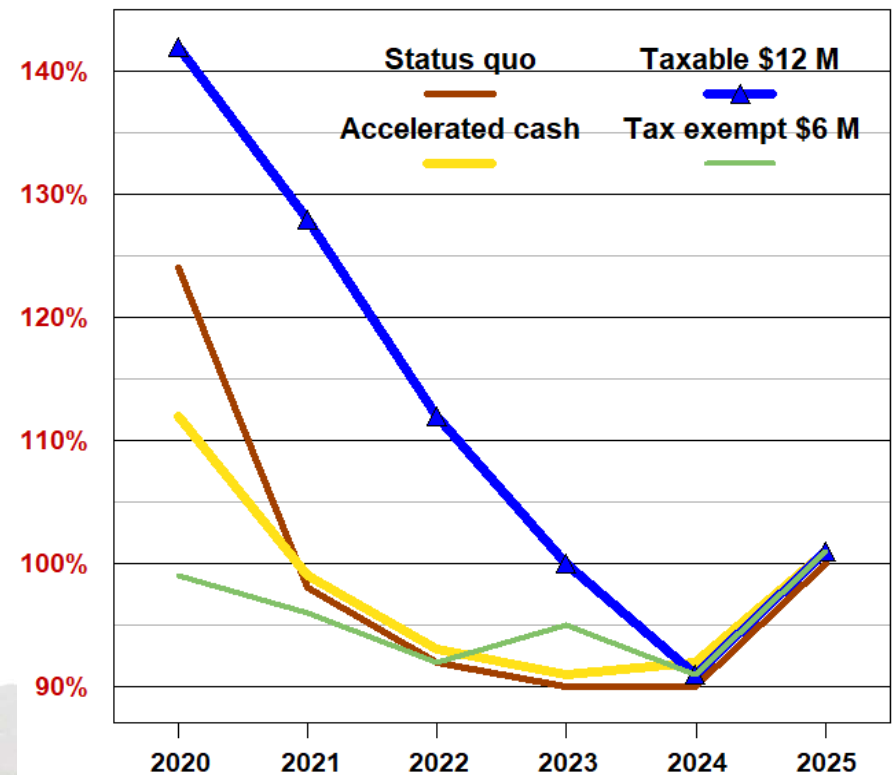


Options 1-4: Stress Test Revenues (Fund Balance)

Forecast 2020 (prior slide)

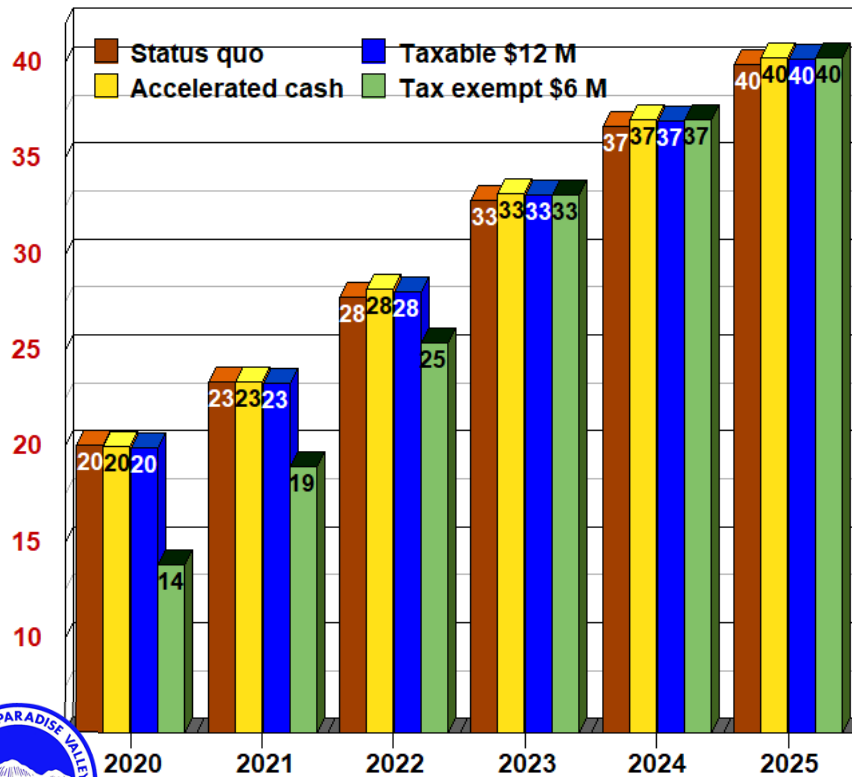


Fund Balance % of next year's operations

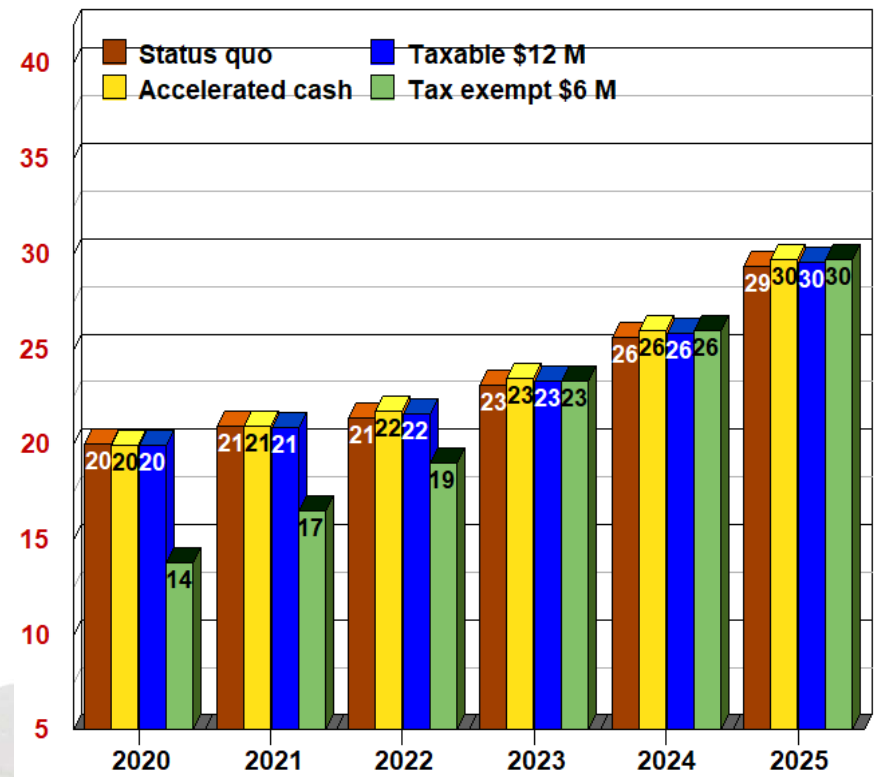


Options 1-4: Stress Test Revenues (Net Worth)

Forecast 2020 (prior slide)



Equivalent Net Worth



FORECAST MODELS FOR OPTIONS 1 - 4



Option 1: Status Quo

OVERVIEW

- Expend \$5,000,000 at the beginning of the fiscal year and another \$1,000,000 at the end if economic conditions are favorable and AEL available

ADVANTAGES

- Flexibility in timing of payments

LIMITATIONS

- Is part of the AEL = multi-year solution
- Once cash used; not available if downturn

IMPACT ON CIP / OTHER PROGRAMS

- \$6M spendable in CIP in 2020; \$6M in 2021; up \$12M thereafter.

Cash payment schedule		
Fiscal Year	Day	Amount
2019	2019, June 27	-
2020	2019, July 1	\$ 5,000,000
2020	2020, June 29	1,000,000
2021	2020, July 1	5,000,000
2021	2021, June 30	1,000,000
Total		\$ 12,000,000

Average Balance from \$12.2M		
Year end	PSPRS	Town
Beg '20	\$ 5,000,000	\$ 7,200,000
2020	6,370,000	6,398,000
2021	13,211,380	436,445
2022	14,189,022	448,447
2023	15,239,010	460,779
2024	16,366,697	473,450
2025	17,577,833	486,470
ROI	7.40%	2.75%



Option 1: Status Quo

OPTION 1: STATUS QUO						
Information based on 2020 Recommended Budget	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	\$ 27,686,760	\$ 29,019,949	\$ 30,734,630	\$ 31,755,374	\$ 31,226,413	\$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Total revenue	\$ 33,366,380	\$ 34,229,569	\$ 35,944,250	\$ 36,964,994	\$ 36,436,033	\$ 36,770,188
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
<i>Estimated rate reduction</i>	-	(547,376)	(1,071,347)	(1,373,969)	(1,373,969)	(1,373,969)
Debt obligations (net) 2016	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Debt obligations 2020	-	-	-	-	-	-
<i>Payment fund earnings</i>	(198,000)	(38,445)	(12,002)	(12,332)	(12,671)	(13,020)
Assigned for:						
PSPRS unfunded liability	6,000,000	5,233,108	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan (net)	2,800,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	\$ 33,780,667	\$ 37,570,923	\$ 32,888,050	\$ 33,375,603	\$ 34,048,545	\$ 33,552,383
Change in fund balance *	(414,287)	(3,341,354)	3,056,200	3,589,391	2,387,488	3,217,805
Beginning unassigned fund balance	31,358,052	30,943,765	27,602,411	30,658,611	34,248,002	36,635,490
Ending unassigned fund balance	\$ 30,943,765	\$ 27,602,411	\$ 30,658,611	\$ 34,248,002	\$ 36,635,490	\$ 39,853,295
Unassigned fund balance as percentage of operating expenditures for:						
Next fiscal year (Benchmark)	124%	108%	116%	125%	129%	135%
Remaining liability for:						
PSPRS unfunded liability	\$ 5,233,108	-	-	-	-	-
2016 Debt principal	5,700,000	\$ 4,310,000	\$ 2,895,000	\$ 1,460,000	-	-
2020 Debt principal	-	-	-	-	-	-
Equivalent net worth	\$ 20,010,657	\$ 23,292,411	\$ 27,763,611	\$ 32,788,002	\$ 36,635,490	\$ 39,853,295
Estimated rate (2-year lag)	57.29%	41.09%	24.89%	14.81%	14.81%	14.81%
Est. PSPRS Balance (from \$12M)	\$ 6,370,000	\$ 13,211,380	\$ 14,189,022	\$ 15,239,010	\$ 16,366,697	\$ 17,577,833

NEW

NET TRANSFER IN

NEW



Option 2: Accelerated Cash

OVERVIEW

- Same as Option 1, but pays up to an additional \$3,000,000 at the end of 2019

PAYMENT CONTINGENT ON

- Availability of cash, budget & AEL
- Limited carry forward in AEL since 2017

ADVANTAGES / LIMITATIONS

- Same as Option 1, but less cash in FY2019 to 2021

IMPACT ON CIP / OTHER PROGRAMS

- \$6M spendable in CIP in 2020; \$9M in 2021; up \$12M thereafter.

Cash payment schedule		
Fiscal Year	Day	Amount
2019	2019, June 27	\$ 3,000,000
2020	2019, July 1	5,000,000
2020	2020, June 29	1,000,000
2021	2020, July 1	3,000,000
2021	2021, June 30	-
Total		\$ 12,000,000

Average Balance from \$12.2M		
Year end	PSPRS	Town
Beg '20	\$ 8,000,000	\$ 4,200,000
2020	9,592,000	3,315,500
2021	13,523,808	324,176
2022	14,524,570	333,091
2023	15,599,388	342,251
2024	16,753,743	351,663
2025	17,993,520	361,334
ROI	7.40%	2.75%



Option 2: Accelerated Cash

OPTION 2: ACCELERATED CASH						
Information based on 2020 Recommended Budget	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	\$ 27,686,760	\$ 29,019,949	\$ 30,734,630	\$ 31,755,374	\$ 31,226,413	\$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Total revenue	\$ 33,366,380	\$ 34,229,569	\$ 35,944,250	\$ 36,964,994	\$ 36,436,033	\$ 36,770,188
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
<i>Estimated rate reduction</i>	-	(722,033)	(1,373,969)	(1,373,969)	(1,373,969)	(1,373,969)
Debt obligations (net) 2016	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Debt obligations 2020	-	-	-	-	-	-
<i>Payment fund earnings</i>	(115,500)	(8,676)	(8,915)	(9,160)	(9,412)	(9,671)
Assigned for:						
PSPRS unfunded liability	6,000,000	2,233,108	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan (net)	2,800,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	\$ 33,863,167	\$ 34,426,035	\$ 32,588,515	\$ 33,378,775	\$ 34,051,804	\$ 33,555,732
Change in fund balance *	(496,787)	(196,466)	3,355,735	3,586,219	2,384,229	3,214,456
Beginning unassigned fund balance	28,358,052	27,861,265	27,664,799	31,020,534	34,606,753	36,990,982
Ending unassigned fund balance	\$ 27,861,265	\$ 27,664,799	\$ 31,020,534	\$ 34,606,753	\$ 36,990,982	\$ 40,205,438
Unassigned fund balance as percentage of operating expenditures for:						
Next fiscal year	112%	108%	117%	126%	130%	137%
Benchmark: Status Quo	124%	108%	116%	125%	129%	135%
Remaining liability for:						
PSPRS unfunded liability	\$ 2,233,108	-	-	-	-	-
2016 Debt principal	5,700,000	\$ 4,310,000	\$ 2,895,000	\$ 1,460,000	-	-
2020 Debt principal	-	-	-	-	-	-
Equivalent net worth	\$ 19,928,157	\$ 23,354,799	\$ 28,125,534	\$ 33,146,753	\$ 36,990,982	\$ 40,205,438
Estimated rate (2-year lag)	57.29%	35.69%	14.81%	14.81%	14.81%	14.81%
Est. PSPRS Balance (from \$12M)	\$ 9,592,000	\$ 13,523,808	\$ 14,524,570	\$ 15,599,388	\$ 16,753,743	\$ 17,993,520



Option 3: Taxable Excise Tax Obligations 100% Est. Liab.

OVERVIEW

- Issue taxable obligation for 100% of the estimated unfunded liability @ Mar. 2019
- Set a “payment fund” in the Town’s investment pool to pay the obligations

ADVANTAGES

- Pays PSPRS UAAL in 1 year; extends Town cash payments over 2-5 years; AEL exempt

DISADVANTAGES

- Trades one debt for another (but lower rate)
- Change in Town’s Debt Policy needed

IMPACT ON CIP / OTHER PROGRAMS

- \$12M available in year obligations issued and going forward

Average Balance from \$12.2M		
Year end	PSPRS	Town
Beg '20	\$ 12,000,000	\$ 12,200,000
2020	12,888,000	9,906,517
2021	13,841,712	7,550,223
2022	14,865,999	5,126,435
2023	15,966,083	2,636,226
2024	17,147,573	75,762
2025	18,416,493	77,845
ROI	7.40%	2.75%

Excise tax obligation payment schedule (taxable)			
Paid in end of	Principal	Interest	Total
2020	\$ 2,300,000	\$ 328,983	\$ 2,628,983
2021	2,360,000	268,723	2,628,723
2022	2,425,000	206,419	2,631,419
2023	2,490,000	141,186	2,631,186
2024	2,560,000	72,960	2,632,960
Total	\$ 12,135,000	\$ 1,018,271	\$ 13,153,271



Option 3: Taxable Excise Tax Obligations 100% Est. Liab.

OPTION 3: TAXABLE EXCISE TAX OBLIGATIONS - 100% OF ESTIMATED LIABILITY						
Information based on 2020 Recommended Budget	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	\$ 27,686,760	\$ 29,019,949	\$ 30,734,630	\$ 31,755,374	\$ 31,226,413	\$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Total revenue	\$ 33,366,380	\$ 34,229,569	\$ 35,944,250	\$ 36,964,994	\$ 36,436,033	\$ 36,770,188
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Estimated rate reduction	-	(634,704)	(1,373,969)	(1,373,969)	(1,373,969)	(1,373,969)
Debt obligations (net) 2016	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Debt obligations 2020	2,628,983	2,628,723	2,631,419	2,631,186	2,632,960	-
Payment fund earnings	(335,500)	(272,429)	(207,631)	(140,977)	(72,496)	(2,083)
Assigned for:						
PSPRS unfunded liability	-	-	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan (net)	2,800,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	\$ 30,272,150	\$ 34,645,226	\$ 35,021,218	\$ 35,878,144	\$ 36,621,680	\$ 33,563,320
Change in fund balance *	3,094,230	(415,657)	923,032	1,086,850	(185,647)	3,206,868
Beginning unassigned fund balance	32,358,052	35,452,282	35,036,625	35,959,657	37,046,507	36,860,860
Ending unassigned fund balance	\$ 35,452,282	\$ 35,036,625	\$ 35,959,657	\$ 37,046,507	\$ 36,860,860	\$ 40,067,728
Unassigned fund balance as percentage of operating expenditures for:						
Next fiscal year	142%	137%	136%	135%	130%	136%
Benchmark: Status Quo	124%	108%	116%	125%	129%	135%
Remaining liability for:						
PSPRS unfunded liability	-	-	-	-	-	-
2016 Debt principal	\$ 5,700,000	\$ 4,310,000	\$ 2,895,000	\$ 1,460,000	-	-
2020 Debt principal	9,835,000	7,475,000	5,050,000	2,560,000	-	-
Equivalent net worth	\$ 19,917,282	\$ 23,251,625	\$ 28,014,657	\$ 33,026,507	\$ 36,860,860	\$ 40,067,728
Estimated rate (2-year lag)	57.29%	41.09%	14.81%	14.81%	14.81%	14.81%
Est. PSPRS Balance (from \$12M)	\$ 12,888,000	\$ 13,841,712	\$ 14,865,999	\$ 15,966,083	\$ 17,147,573	\$ 18,416,493



Option 4: Tax Exempt Excise Tax Obligations - 1 Year CIP

OVERVIEW

- Issue tax exempt obligations for 1 year of CIP; pay \$12,000,000 cash to PSPRS; GF maintains Construction TPT policy.
- CFO: “Must” use proceeds for CIP first; not GF and reimburse with proceeds later.

ADVANTAGES

- Pays PSPRS UAAL in 1 year; extends Town cash payments over 2-5 years; AEL exempt
- Lower interest rates than Taxable

DISADVANTAGES

- Trades one debt for another (but lower rate)

IMPACT ON CIP / OTHER PROGRAMS

- \$6M spendable in CIP in year issued; up \$12M thereafter.



Average Balance from \$12.2M		
Year end	PSPRS	Town
Beg '20	\$ 8,000,000	\$ 4,200,000
2020	9,592,000	3,315,500
2021	13,523,808	324,176
2022	14,524,570	333,091
2023	15,599,388	342,251
2024	16,753,743	351,663
2025	17,993,520	361,334
ROI	7.40%	2.75%

Excise tax obligation payment schedule (tax-exempt)			
Paid in end of	Principal	Interest	Total
2020	\$ 1,180,000	\$ 106,750	\$ 1,286,750
2021	1,200,000	86,100	1,286,100
2022	1,220,000	65,100	1,285,100
2023	1,240,000	43,750	1,283,750
2024	1,260,000	22,050	1,282,050
Total	\$ 6,100,000	\$ 323,750	\$ 6,423,750

Option 4: Tax Exempt Excise Tax Obligations - 1 Year CIP

OPTION 4: TAX EXEMPT EXCISE TAX OBLIGATIONS \$6M						
Information based on 2020 Recommended Budget	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	\$ 27,686,760	\$ 29,019,949	\$ 30,734,630	\$ 31,755,374	\$ 31,226,413	\$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Total revenue	\$ 33,366,380	\$ 34,229,569	\$ 35,944,250	\$ 36,964,994	\$ 36,436,033	\$ 36,770,188
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Estimated rate reduction	-	(634,704)	(1,373,969)	(1,373,969)	(1,373,969)	(1,373,969)
Debt obligations (net) 2016	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Debt obligations 2020	1,286,750	1,286,100	1,285,100	1,283,750	1,282,050	-
Payment fund earnings	(170,500)	(108,280)	(75,917)	(42,702)	(8,620)	(8,857)
Assigned for:						
PSPRS unfunded liability	12,000,000	-	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan (net)	2,800,000	4,348,000	4,348,000	3,378,400	5,925,600	6,000,000
Total uses	\$ 41,094,917	\$ 31,814,752	\$ 32,154,613	\$ 32,007,383	\$ 35,260,246	\$ 33,556,546
Change in fund balance *	(7,728,537)	2,414,817	3,789,637	4,957,611	1,175,787	3,213,642
Beginning unassigned fund balance	32,358,052	24,629,515	27,044,332	30,833,969	35,791,580	36,967,367
Ending unassigned fund balance	\$ 24,629,515	\$ 27,044,332	\$ 30,833,969	\$ 35,791,580	\$ 36,967,367	\$ 40,181,009
Unassigned fund balance as percentage of operating expenditures for:						
Next fiscal year	99%	106%	116%	131%	130%	137%
Benchmark: Status Quo	124%	108%	116%	125%	129%	135%
Remaining liability for:						
PSPRS unfunded liability	-	-	-	-	-	-
2016 Debt principal	\$ 5,700,000	\$ 4,310,000	\$ 2,895,000	\$ 1,460,000	-	-
2020 Debt principal	5,137,000	3,850,900	2,565,800	1,282,050	-	-
Equivalent net worth	\$ 13,792,515	\$ 18,883,432	\$ 25,373,169	\$ 33,049,530	\$ 36,967,367	\$ 40,181,009
Estimated rate (2-year lag)	57.29%	38.39%	14.81%	14.81%	14.81%	14.81%
Est. PSPRS Balance (from \$12M)	\$ 12,888,000	\$ 13,841,712	\$ 14,865,999	\$ 15,966,083	\$ 17,147,573	\$ 18,416,493



OPTIONS 5 & 6



Option 5: Tax Exempt Excise Tax Obligations – CIP v2

OVERVIEW

- Same as option 4, but temporarily suspends the policy for construction transaction privilege tax transfers to CIP for the next \$6M.

ADVANTAGES

- General fund recovers cash savings from issuing obligations by 2021 rather than 2024; however balances in CIP can be transfer to GF at Council's direction.

DISADVANTAGES

- Same as option 4, but temporary suspension of a Financial Management Policy (slide A10)

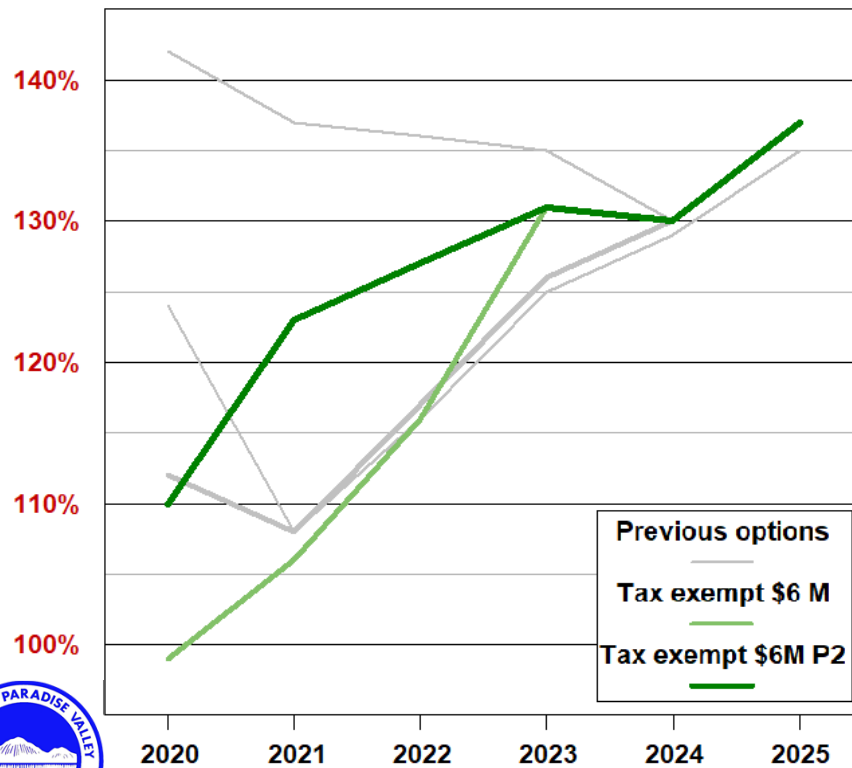


Average Balance from \$12.2M		
Year end	PSPRS	Town
Beg '20	\$ 12,000,000	\$ 6,200,000
2020	12,888,000	5,083,750
2021	13,841,712	3,937,453
2022	14,865,999	2,760,633
2023	15,966,083	1,552,800
2024	17,147,573	313,452
2025	18,416,493	322,072
ROI	7.40%	2.75%

Excise tax obligation payment schedule (tax-exempt)			
Paid in end of	Principal	Interest	Total
2020	\$ 1,180,000	\$ 106,750	\$ 1,286,750
2021	1,200,000	86,100	1,286,100
2022	1,220,000	65,100	1,285,100
2023	1,240,000	43,750	1,283,750
2024	1,260,000	22,050	1,282,050
Total	\$ 6,100,000	\$ 323,750	\$ 6,423,750

Option 5: Tax Exempt Excise Tax Obligations – CIP v2

Fund Balance % of next year's operations



OPTION 5: TAX EXEMPT EXCISE TAX OBLIGATIONS \$6M and SUSPEND CONSTRUCTION TPT POLICY						
Information based on 2020 Recommended Budget	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	\$ 27,686,760	\$ 29,019,949	\$ 30,734,630	\$ 31,755,374	\$ 31,226,413	\$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Total revenue	\$ 33,366,380	\$ 34,229,569	\$ 35,944,250	\$ 36,964,994	\$ 36,436,033	\$ 36,770,188
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Estimated rate reduction	-	(634,704)	(1,373,969)	(1,373,969)	(1,373,969)	(1,373,969)
Debt obligations (net) 2016	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Debt obligations 2020	1,286,750	1,286,100	1,285,100	1,283,750	1,282,050	-
Payment fund earnings	(170,500)	(108,280)	(75,917)	(42,702)	(8,620)	(8,857)
Assigned for:						
PSPRS unfunded liability	12,000,000	-	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan (net)	-	2,800,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	\$ 38,294,917	\$ 30,266,752	\$ 33,806,613	\$ 34,628,983	\$ 35,334,646	\$ 33,556,546
Change in fund balance *	(4,928,537)	3,962,817	2,137,637	2,336,011	1,101,387	3,213,642
Beginning unassigned fund balance	32,358,052	27,429,515	31,392,332	33,529,969	35,865,980	36,967,367
Ending unassigned fund balance	\$ 27,429,515	\$ 31,392,332	\$ 33,529,969	\$ 35,865,980	\$ 36,967,367	\$ 40,181,009
Unassigned fund balance as percentage of operating expenditures for:						
Next fiscal year	110%	123%	127%	131%	130%	137%
Benchmark: Status Quo	124%	108%	116%	125%	129%	135%
Remaining liability for:						
PSPRS unfunded liability	-	-	-	-	-	-
2016 Debt principal	\$ 5,700,000	\$ 4,310,000	\$ 2,895,000	\$ 1,460,000	-	-
2020 Debt principal	5,137,000	3,850,900	2,565,800	1,282,050	-	-
Equivalent net worth	\$ 16,592,515	\$ 23,231,432	\$ 28,069,169	\$ 33,123,930	\$ 36,967,367	\$ 40,181,009
Estimated rate (2-year lag)	57.29%	38.39%	14.81%	14.81%	14.81%	14.81%
Est. PSPRS Balance (from \$12M)	\$ 12,888,000	\$ 13,841,712	\$ 14,865,999	\$ 15,966,083	\$ 17,147,573	\$ 18,416,493

Option 6: Taxable Excise Tax Obligations – \$9M

OVERVIEW

- Same as option 3, but includes a cash payment of \$3M at the end of FY2019 and lower debt obligations of \$9M.

ADVANTAGES

- 1 year to pay PSPRS; extends Town cash payments over 2-5 years; AEL exempt

DISADVANTAGES

- Trades one debt for another (but lower rates)
- Change in Town's Debt Policy (p.A10)

IMPACT ON CIP / OTHER PROGRAMS

- \$9M available in year obligations issued; and \$12M thereafter

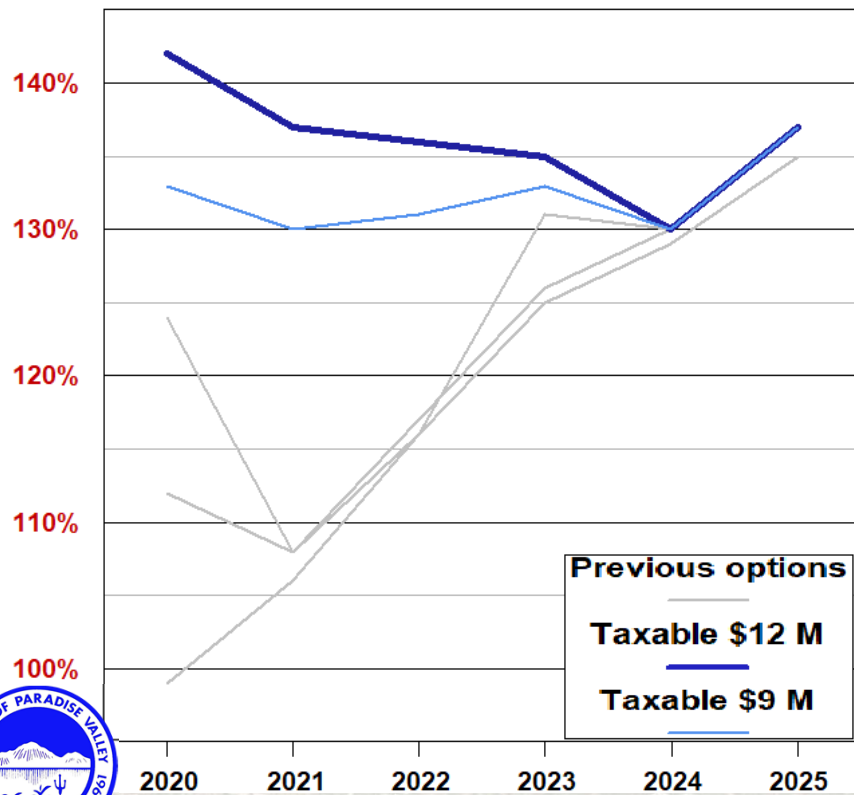
Average Balance from \$12.2M		
Year end	PSPRS	Town
Beg '20	\$ 12,000,000	\$ 9,200,000
2020	12,888,000	7,481,263
2021	13,841,712	5,713,228
2022	14,865,999	3,894,336
2023	15,966,083	2,025,399
2024	17,147,573	104,320
2025	18,416,493	107,189
ROI	7.40%	2.75%

Excise tax obligation payment schedule (taxable)			
Paid in end of	Principal	Interest	Total
2020	\$ 1,725,000	\$ 246,737	\$ 1,971,737
2021	1,772,000	201,770	1,973,770
2022	1,821,000	155,006	1,976,006
2023	1,870,000	106,031	1,976,031
2024	1,922,000	54,777	1,976,777
Total	\$ 9,110,000	\$ 764,321	\$ 9,874,321



Option 6: Taxable Excise Tax Obligations – \$9M

Fund Balance % of next year's operations



OPTION 6: TAXABLE EXCISE TAX OBLIGATIONS \$9M						
Information based on 2020 Recommended Budget	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	\$ 27,686,760	\$ 29,019,949	\$ 30,734,630	\$ 31,755,374	\$ 31,226,413	\$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Total revenue	\$ 33,366,380	\$ 34,229,569	\$ 35,944,250	\$ 36,964,994	\$ 36,436,033	\$ 36,770,188
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Estimated rate reduction	-	(722,033)	(1,373,969)	(1,373,969)	(1,373,969)	(1,373,969)
Debt obligations (net) 2016	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Debt obligations 2020	1,971,737	1,973,770	1,976,006	1,976,031	1,976,777	-
Payment fund earnings	(253,000)	(205,735)	(157,114)	(107,094)	(55,698)	(2,869)
Assigned for:						
PSPRS unfunded liability	-	-	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan (net)	2,800,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	\$ 29,697,404	\$ 33,969,638	\$ 34,416,322	\$ 35,256,872	\$ 35,982,295	\$ 33,562,534
Change in fund balance *	3,668,976	259,931	1,527,928	1,708,122	453,738	3,207,654
Beginning unassigned fund balance	29,358,052	33,027,028	33,286,959	34,814,887	36,523,009	36,976,747
Ending unassigned fund balance	\$ 33,027,028	\$ 33,286,959	\$ 34,814,887	\$ 36,523,009	\$ 36,976,747	\$ 40,184,401
Unassigned fund balance as percentage of operating expenditures for:						
Next fiscal year	133%	130%	131%	133%	130%	137%
Benchmark: Status Quo	124%	108%	116%	125%	129%	135%
Remaining liability for:						
PSPRS unfunded liability	-	-	-	-	-	-
2016 Debt principal	\$ 5,700,000	\$ 4,310,000	\$ 2,895,000	\$ 1,460,000	-	-
2020 Debt principal	7,385,000	5,613,000	3,792,000	1,922,000	-	-
Equivalent net worth	\$ 19,942,028	\$ 23,363,959	\$ 28,127,887	\$ 33,141,009	\$ 36,976,747	\$ 40,184,401
Estimated rate (2-year lag)	57.29%	35.69%	14.81%	14.81%	14.81%	14.81%
Est. PSPRS Balance (from \$12M)	\$ 12,888,000	\$ 13,841,712	\$ 14,865,999	\$ 15,966,083	\$ 17,147,573	\$ 18,416,493



PSPRS in the State Forms (Tentative Budget)

- Total budget \$68.3M
- Proceeds up to \$12,000,000; use of proceeds is in Expenditure Limitation Exclusion line
- Sets up payment fund with fund balance and budgets first years use
- \$5M PSPRS unfunded liability in Police Department budget
- \$7M PSPRS unfunded liability budgeted in General Fund Contingency
- AEL contingency of \$6M aligns the Town's total budget with it's AEL
- Debt service for ½ estimated maximum payment from the payment fund

CHANGES FROM THE RECOMMENDED TO THE TENTATIVE BUDGET 2020			
	Recommended Budget	Addition / (Reduction)	Tentative Budget
SOURCES			
Excise tax obligation proceeds	-	\$ 12,000,000	\$ 12,000,000
Use of fund balance / Carry forward	\$ 5,746,346	1,301,903	7,048,249
ALF grant for public transit	-	38,000	38,000
PD DUI and STEP grants	-	50,000	50,000
Non-Town funded projects	9,425,067	-	9,425,067
All other current revenue	39,769,880	-	39,769,880
Total revenue	\$ 54,941,293	\$ 13,389,903	\$ 68,331,196
EXPENDITURES / EXPENSES			
PSPRS unfunded in Police Dept	\$ 5,000,000	-	\$ 5,000,000
PSPRS unfunded in contingency	1,000,000	\$ 6,000,000	7,000,000
AEL contingency (budget = AEL)	-	6,000,000	6,000,000
Debt service (1/2 \$12M 5-yr)	-	1,286,750	1,286,750
Census 2020 outreach	-	20,000	20,000
Legislative outreach	-	5,000	5,000
Community services program	50,000	15,000	65,000
Offset 3rd party cost w/ new pos	-	(40,200)	(40,200)
Match IT allocation with ent.	-	(610)	(610)
General contingency	1,207,726	810	1,208,536
PD DUI and STEP grants	-	50,000	50,000
ALF grant for public transit	-	53,153	53,153
All other expenditures / expenses	47,683,567	-	47,683,567
Total Budget	\$ 54,941,293	\$ 13,389,903	\$ 68,331,196



PSPRS in the State Forms (Tentative Budget)

- State forms total budget \$68.3M and proceeds line \$12M
- If the Town issues less than \$12M or no obligations; the budget is adjustable downward
- The Town can not use proceeds without budget authority
- Council can modify the Tentative budget, before adopting it as “Tentative” or “Final”
- After the Tentative budget is approved, Council can adjust between lines and reduce the total budget; but not increase the total budget



TOWN OF PARADISE VALLEY Summary Schedule of Estimated Revenues and Expenditures/Expenses Fiscal Year 2020										
Fiscal Year	Schedule	FUNDS							Total All Funds	
		General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	Enterprise Funds	Internal Service Funds		
2019	Adopted/Adjusted Budgeted Expenditures/Expenses*	E	30,453,582	3,656,999	1,257,673	13,854,120	0	6,172,126	0	55,384,500
2019	Actual Expenditures/Expenses**	E	23,554,612	3,516,424	1,257,673	4,713,713	0	5,518,611	0	38,561,033
2020	Fund Balance/Net Position at July 1***		4,909,110	200,925	467,697	4,197,400		392,284	0	10,167,416
2020	Primary Property Tax Levy	B	0							0
2020	Secondary Property Tax Levy	B								0
2020	Estimated Revenues Other than Property Taxes	C	32,397,480	1,623,400	0	4,000,000	0	5,837,000	0	43,857,880
2020	Other Financing Sources	D	12,000,000	0	0	0	0	0	0	12,000,000
2020	Other Financing (Uses)	D	0	0	0	0	0	0	0	0
2020	Interfund Transfers In	D	1,500,000	2,085,113	1,455,244	4,300,000	0	100,000	0	9,440,357
2020	Interfund Transfers (Out)	D	(7,840,357)	0	0	(1,500,000)	0	(100,000)	0	(9,440,357)
2020	Reduction for Amounts Not Available:									
2020	LESS: Amounts for Future Debt Retirement:									0
2020										0
2020										0
2020	Total Financial Resources Available		58,646,947	3,909,438	1,922,941	13,997,400	0	6,429,284	0	84,906,010
2020	Budgeted Expenditures/Expenses	E	39,956,160	3,782,879	2,764,614	15,525,067	0	6,302,476	0	68,331,196

EXPENDITURE LIMITATION COMPARISON	
	2019
1. Budgeted expenditures/expenses	\$ 55,384,500
2. Add/subtract: estimated net reconciling items	(356,492)
3. Budgeted expenditures/expenses adjusted for reconciling items	55,028,008
4. Less: estimated exclusions	14,152,842
5. Amount subject to the expenditure limitation	\$ 40,875,166
6. EEC expenditure limitation	\$ 40,907,550

	2019	2020
1. Budgeted expenditures/expenses	\$ 55,384,500	\$ 68,331,196
2. Add/subtract: estimated net reconciling items	(356,492)	(10,220)
3. Budgeted expenditures/expenses adjusted for reconciling items	55,028,008	68,320,976
4. Less: estimated exclusions	14,152,842	26,124,394
5. Amount subject to the expenditure limitation	\$ 40,875,166	\$ 42,196,582
6. EEC expenditure limitation	\$ 40,907,550	\$ 42,196,582

☒ X The city/town does not levy property taxes and does not have special assessment districts for which property taxes are levied. Therefore, Schedule B has been omitted.

* Includes Expenditure/Expense Adjustments Approved in the current year from Schedule E.
 ** Includes actual amounts as of the date the proposed budget was prepared, adjusted for estimated activity for the remainder of the fiscal year.
 *** Amounts on this line represent Fund Balance/Net Position amounts except for amounts not in spendable form (e.g., prepaids and inventories) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

SCHEDULE A

Budget amendment for 2019 (Pages 26 & 191)

Expenditure Limitation Exhibit A-2

AEL FORECAST

ANNUAL EXPENDITURE LIMITATION

STATUS QUO	Projected 2019	Estimated 2020	Forecast 2021	Forecast 2022
Expenditure limitation:	\$ 40,907,550	\$ 42,196,582	\$ 43,251,497	\$ 44,332,784
Operating expenditures	22,325,251	24,530,963	24,925,949	25,622,328
Enterprise expenditures	5,518,611	6,302,476	6,491,550	6,686,297
Other expenditures (exclusions)	(673,625)	(736,857)	(705,324)	(708,377)
Total Operations	27,170,237	30,096,582	30,712,175	31,600,248
Limitation after operations	\$ 13,737,313	\$ 12,100,000	\$ 12,539,322	\$ 12,732,536
Repair and replacement spending	in operating expenditures above		563,582	557,000
Town funded CIP spending	4,713,713	6,100,000	6,000,000	6,000,000
PSPRS unfunded liability	6,000,000	6,000,000	5,233,108	-
Sub total	10,713,713	12,100,000	11,796,690	6,557,000
Available limitation	\$ 3,023,600	\$ -	\$ 742,632	\$ 6,175,536

(1)

(1) Use of excess AEL can be applied directed to the PSPRS unfunded liability; as recommended in budget amendments section 1.

Note: Fire vehicles due for replacement 2023-2024

BUDGET AMENDMENTS

RESOLUTION NUMBER 2019-TBD

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF PARADISE VALLEY, ARIZONA AMENDING THE FISCAL YEAR 2018-19 ADOPTED BUDGET.

WHEREAS, the Fiscal Year 2018-19 budget was adopted by Resolution 2018-19 on June 14, 2018;

WHEREAS, budget amendments are consistent with Generally Accepted Accounting Principles (GAAP) and recommended budgeted practices;

WHEREAS, the Town of Paradise Valley's Adopted Financial Management Policies requires the approval of the Town Council for the use contingency accounts in excess of \$25,000;

WHEREAS, the Town of Paradise Valley's Adopted Financial Management Policies requires the approval of the Town Council for shifts in appropriations within funds and in departments exceeding \$50,000;

WHEREAS, the Town of Paradise Valley's Adopted Financial Management Policies require that amendments to the capital improvement fund be approved by the Town Council;

WHEREAS, adjustments do not increase the total budget or enable the Town Council to increase spending in excess of the Adopted Budget;

NOW, THEREFORE, BE IT RESOLVED by the Town Council of the Town of Paradise Valley, Arizona, as follows:

Section 1. Record the FY2018-19 budget amendment of \$3,000,000 for payment for the Town's unfunded liability in PSPRS before June 30, 2019. This payment is to be made only if sufficient general fund cash is available, the expenditure limitation is not exceeded, it aligns to the Town's Financial Management policies for construction sales tax and fund balances, and the Town Council has not documented an alternate payment plan that supersedes this action. The use of CIP Contingency is for budget authority and the payment will be made from General Fund.

Description	Current Budget	Budget Increase	Budget Reduction	Amended Budget
PSPRS part III	-	\$3,000,000	-	\$ 3,000,000
CIP Contingency	\$ 2,814,357	-	\$(2,814,357)	-
General fund contingency	1,025,367	-	(185,643)	839,724



Budget amendment for 2019 (Expectations)

Section 1. Record the FY2018-19 budget amendment of \$3,000,000 for payment for the Town's unfunded liability in PSPRS before June 30, 2019. This payment is to be made only if sufficient general fund cash is available, the expenditure limitation is not exceeded, it aligns to the Town's Financial Management policies for construction sales tax and fund balances, and the Town Council has not documented an alternate payment plan that supersedes this action. The use of CIP Contingency is for budget authority and the payment will be made from General Fund.

Description	Current Budget	Budget Increase	Budget Reduction	Amended Budget
PSPRS part III	-	\$ 3,000,000	-	\$ 3,000,000
CIP Contingency	\$ 2,814,357	-	\$(2,814,357)	-
General fund contingency	1,025,367	-	(185,643)	839,724

Several stipulations

- Available General Fund cash
- Available Expenditure Limitation capacity
- Within overall budget authority
- No alternative plan by June 24th

Cautions

- The Recommended Budget 2020 estimated budget & AEL savings
- In mid June, an updated estimate will be made for 11 months ending May 31
- Not much room for error or unknown IBNR expenditures
- Limited AEL carryforward available (2 transactions in 2017 lowered to \$226k)



Impact on the Expenditure Limitation

Cash payments to PSPRS are included in the Expenditure Limitation

Use of long-term obligations proceeds and debt repayment are exempt from the expenditure limitation.

Information from contact with LHC and auditors is anticipated to be available by June 13th.



Expenditure Limitation Penalty

5. What is the penalty for exceeding the expenditure limitation?

In accordance with [A.R.S. §41-1279.07\(H\)](#), a city or town that exceeds its expenditure limitation without authorization will have the following amount of state income tax (urban revenue sharing monies) withheld based on the percentage of the excess expenditures:

- If the excess expenditures are less than 5 percent of the limitation, the amount withheld is equal to the excess expenditures.
- If the excess expenditures are between 5 percent and 10 percent of the limitation or are less than 5 percent of the limitation but it is at least the second consecutive instance of excess expenditures, the amount withheld is equal to three times the excess expenditures.
- If the excess expenditures are equal to 10 percent or more of the limitation, the amount withheld is equal to five times the excess expenditures or one-third of its allocation of state income tax, whichever is less.

Before state monies are withheld, the Auditor General must hold a hearing to determine if the city or town has exceeded the expenditure limitation without authorization. To ensure due process, the city or town representatives are invited to attend and participate in this hearing. The State Treasurer withholds the penalty in the fiscal year following the Auditor General's hearing.



Expenditure Limitation Penalty

Estimated State income tax for 2020 = \$1,891,800

One-third of State income tax for 2020 = \$624,294

Limitation 2020	\$42,196,582
5% of limitation	2,109,829
10% of limitation	4,219,658

Penalty in subsequent year:

< 5% = same amount

5% > 10% = 3 times the amount

=/> 10% = lesser of 5 times amount or 1/3 state income tax

*Less monetary concern; matter of public trust and confidence



Stabilization Fund

Similar to Fund Balance Policy

- Define specific purposes for its use
- Set a funding *range* to maintain in PSPRS

Anticipated bad news

- 2019 GASB 68 report; and
- 2020 lowering of the discount rate
(expected return rate, slide A3)

How Establish

- Established via Ordinance or Financial Management Policy.
- Not recommended to include in any debt obligations unless that would significantly benefit the Town



Other Items for discussion

Plan Objectives

Other Related Topics

- Procurement process
(formal process, State contract)
- Process for issuing excise tax obligations
(Specific steps and Council actions)
- Stabilization fund amount (<\$1M)
- Changes in the discount rate
(CAFR Note 4E page 62)
- Town's authority to issue debt
- Other options
- Consequences of challenges
- Reconcile GFOA advisory on POBs
- Communication for residence

Financial Plan Objectives

- Legal compliance
- Public confidence and trust
- Maintain Town operations
- Maintain adequate Town reserves
- Continue funding Capital Improvements
- Pay PSPRS as expediently as possible
- Minimize debt, interest rate and term
- Open to any and all options



Requested Council Direction

For Tonight (May 23rd)

- Keep or reduce up to \$12M for proceeds in the Tentative Budget?
- Update excise tax options for mid-year implementation or leave as is to assist in decisions?
- Any options to eliminate?
- Alternatives to add for consideration?

By Next Meeting (June 13th)

- If Budget Amendment is approved, place up to \$3M with PSPRS in 2019 regardless of what financing option is selected?
> Impacts Town contribution rates in 2021 if paid by June 28
- Place the scheduled \$5M with PSPRS in July of 2019 or hold until after summer?
> Earnings are based on the average daily balance

Note: The Strategic Revenue Plan will be updated based on the Tentative Budget



Appendix



Interest: How is it calculated; where does it go?

The formula is based on the Town's Total Pension Liability and *discount rate* (aka expected return rate).

PSPRS FY 2017: Interest on the Total Pension Liability	
Beginning balance of Total Pension Liability	\$ 31,825,548
Plus 50% of Service costs of \$625,699	312,850
Less 50% of Benefit payments of (\$2,250,789)	(1,125,395)
Subtotal	31,013,003
Multiply times the rate	7.50%
Interest on the Total Pension Liability	\$ 2,325,975

The “interest on the Total Pension Liability” is recorded in the Unfunded Liability; *as a non-cash transaction*.

The “Funded Liability” or “Plan Assets” or “Plan Fiduciary” earns investment income with the PSPRS investment pools

Source: GASB 68 Report; (which differs from Actuarial Reports due to actual market experience)



Interest: How is it calculated; where does it go?

The formula is base on the Town's Total Pension Liability and *discount rate* (aka expected return rate).

PSPRS FY 2017: Interest on the Total Pension Liability	
Beginning balance of Total Pension Liability	\$ 31,825,548
Plus 50% of Service costs of \$625,699	312,850
Less 50% of Benefit payments of (\$2,250,789)	(1,125,395)
Subtotal	31,013,003
Multiply times the rate	7.50%
Interest on the Total Pension Liability	\$ 2,325,975

Year ending June 30,	2017
Total Pension Liability	
Service Cost	\$ 625,699
Interest on the Total Pension Liability	2,325,975
Benefit Changes	388,150
Difference between Expected and Actual Experience	572,004
Assumption Changes	1,461,598
Benefit payments, including refunds of employee contributions	(2,250,789)
Net Change in Total Pension Liability	3,122,637
Total Pension Liability - Beginning	31,825,548
Total Pension Liability - Ending (a)	\$ 34,948,185
Plan Fiduciary Net Position	
Employer Contributions	\$ 8,029,673
Employee Contributions	320,063
Pension Plan Net Investment Income	1,380,854
Benefit payments, including refunds of employee contributions	(2,250,789)
Pension Plan Administrative Expense	(12,618)
Other*	182,874
Net Change in Plan Fiduciary Net Position	7,650,057
Plan Fiduciary Net Position - Beginning	9,349,880
Plan Fiduciary Net Position - Ending (b)	\$ 16,999,937
Net Pension Liability/(Asset) - Ending (a) - (b)	17,948,248



Sensitivity of Net Pension (aka Unfunded Liability)

Sensitivity of Net Pension Liability/(Asset) to the Single Discount Rate Assumption

Regarding the sensitivity of the net pension liability/(asset) to changes in the Single Discount Rate, the following presents the plan's net pension liability/(asset), calculated using a Single Discount Rate of 7.40%, as well as what the plan's net pension liability/(asset) would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Summary of Actuarial Methods and Assumptions Used in the Calculation of the Total Pension Liability

Methods and Assumptions Used to Determine Total Pension Liability:

Actuarial Cost Method Entry Age Normal
Asset Valuation Method Fair Value of Assets

Current Single Discount

	1% Decrease 6.40%	Rate Assumption 7.40%	1% Increase 8.40%
Total Pension Liability	\$ 39,429,712	\$ 34,948,185	\$ 31,259,791
Plan Fiduciary Net Position	16,999,937	16,999,937	16,999,937
Net Pension Liability/(Asset)	\$ 22,429,775	\$ 17,948,248	\$ 14,259,854

the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

A detailed description of the actuarial assumptions and methods can be found in the June 30, 2017 Arizona Public Safety Personnel Retirement System annual actuarial valuation report.



Accounting Schedules 2018

What is the Town's PSPRS contribution rate?

Normal Cost Rate:

14.81% = \$479,013 in FY2020

Unfunded Actuarial Liability Rate:

42.48%* = \$1,373,969 in FY2020

Total Rate: 57.29% = \$1,852,982 in the FY2020 budget

The Normal Cost Rate is unrelated to the Unfunded Liability

The Unfunded Actuarial Liability rate is to pay the Unfunded Liability, amortized over an established number of years

* The Unfunded Actuarial Liability rate is reduced when the Unfunded Liability is reduced.



Town's Rate Reduction Chart

Impact of Extra Contributions

Extra Contribution in \$(000)	\$0	\$100	\$200	\$300	\$400	\$500	\$600	\$700	\$800	\$900	\$1,000
Impact on:											
- June 30, 2018 Funded Status	52.3%	52.6%	52.9%	53.2%	53.5%	53.7%	54.0%	54.3%	54.6%	54.9%	55.1%
- FYE 2020 Contribution Rate	57.29%	57.02%	56.75%	56.48%	56.21%	55.94%	55.67%	55.40%	55.13%	54.86%	54.59%

Based on the June 30, 2018 actuarial valuation, the table above shows the hypothetical change in the funded status and contribution rate due to each additional \$100,000 in market value.



Actuarial

Previous meeting(s)

\$12,000,000, Estimated Taxable Analysis (PSPRS Advancement)

STIFEL

Security: Pledged Revenue Obligations

Rating: Aa2 (Moody's)

Call: Non-Callable

Maturity	Amount	TR Comp	TR Yld	Coupon	Yield	Spread
2020	\$ 2,300,000	1YR	2.42%	2.2%	2.24%	0.20
2021	2,360,000	2YR	2.34%	3.2%	3.23%	0.30
2022	2,425,000	2YR	2.34%	3.7%	3.73%	0.35
2023	2,490,000	3YR	2.29%	4.7%	4.73%	0.45
2024	2,560,000	5YR	2.30%	5.7%	5.73%	0.55

\$ 12,135,000



Previous meeting(s)

\$12,000,000, Estimated Taxable Analysis (PSPRS Advancement)

STIFEL

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			\$12,135,000 Excise Tax Revenue Obligations, Taxable Series 2019				
Year Ending June 30	Estimated Pledged Revenues	Outstanding Obligations Debt Service	Estimated Principal	Estimated Interest (a)	Total Debt Service	Combined Total Debt Service	Estimated Debt Service Coverage
2018	\$ 24,379,906	\$ 1,469,875				\$ 1,469,875	16.59x
2019		1,472,632				1,472,632	16.56x
2020		1,472,864	\$ 2,300,000	\$ 329,179	\$ 2,629,179	4,102,043	5.94x
2021		1,474,585	2,360,000	268,919	2,628,919	4,103,504	5.94x
2022		1,475,882	2,425,000	206,568	2,631,568	4,107,450	5.94x
2023		1,471,800	2,490,000	141,287	2,631,287	4,103,087	5.94x
2024		1,472,337	2,560,000	73,011	2,633,011	4,105,348	5.94x
Total		<u>\$ 10,309,974</u>	<u>\$ 12,135,000</u>	<u>\$ 1,018,965</u>	<u>\$ 13,153,965</u>	<u>\$ 23,463,939</u>	

(a) Estimated 3.0% taxable interest rate. Subject to change based on the final credit rating (if applicable) and market conditions.



Previous meeting(s)

\$6,000,000, Estimated Tax-Exempt Analysis (Capital Improvements) STIFEL

Security: Pledged Revenue

Rating: Aa2 (Moody's)

Call: Non-Callable

Maturity	Amount	MMD	Coupon	Yield	Spread
2020	\$ 1,180,000	1.53%	3.0%	1.15%	0.10
2021	1,200,000	1.55%	4.0%	1.26%	0.11
2022	1,220,000	1.58%	5.0%	1.46%	0.13
2023	1,240,000	1.62%	5.0%	1.66%	0.15
2024	1,260,000	1.68%	5.0%	1.87%	0.17

\$ 6,100,000



Previous meeting(s)

\$6,000,000, Estimated Tax-Exempt Analysis (Capital Improvements) STIFEL

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			\$6,100,000 Excise Revenue Obligations, Tax-Exempt Series 2019				
Year Ending June 30	Estimated Pledged Revenues	Outstanding Obligations Debt Service	Estimated Principal	Estimated Interest (a)	Total Debt Service	Estimated Total Debt Service	Estimated Debt Service Coverage
2018	\$ 24,379,906	\$ 1,469,875				\$ 1,469,875	16.59x
2019		1,472,632				1,472,632	16.56x
2020		1,472,864	\$ 1,180,000	\$ 106,750	\$ 1,286,750	2,759,614	8.83x
2021		1,474,585	1,200,000	86,100	1,286,100	2,760,685	8.83x
2022		1,475,882	1,220,000	65,100	1,285,100	2,760,982	8.83x
2023		1,471,800	1,240,000	43,750	1,283,750	2,755,550	8.85x
2024		1,472,337	1,260,000	22,050	1,282,050	2,754,387	8.85x
Total		<u>\$ 10,309,974</u>	<u>\$ 6,100,000</u>	<u>\$ 323,750</u>	<u>\$ 6,423,750</u>	<u>\$ 16,733,724</u>	

(a) Estimated as 2.35%



Related Financial Management Policies (Budget p.173)

Fund Balance

- Maintain reserve of 90-110% of the subsequent years operating budget (General fund and HURF)

Capital

- Construction TPT in excess of \$500,000 is for the Capital Improvement Plan

Debt Service

- Long-term debt not exceed resources to pay
- Bond issuance limited to capital improvement projects to large to be included in AEL

Contingency

- The contingency fund is intended to create budget authority for the Town's remaining spending authority under the AEL



Council Resolution

(PSPRS) UNFUNDED LIABILITY A PRIORITY;

WHEREAS, the Town has a PSPRS unfunded liability exceeding \$18 million; and
WHEREAS, the Town is assessed an 8% annual fee on any outstanding balance; and
WHEREAS, the State Legislature amended state law to correct the structural issues which
would generate future increases to the unfunded liability; and
WHEREAS, the Town Council has established a Council goal of a long term balanced budget;
NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE
TOWN OF PARADISE VALLEY, ARIZONA THAT:
The expedient resolution of the PSPRS unfunded liability is a Council priority. It is the
Council's intent to pay off the liability as quickly as reasonably possible. The Town will
plan through its budgeting processes to pay the unfunded liability over a three-year period
in an effort to avoid significant future assessment costs. Each year the Town will revisit the
schedule to ensure that current revenues are sufficient to allow for the continuation of the
aggressive payment schedule.

PASSED AND ADOPTED by the Town Council this 13th day of October 2016.



GFOA – Advisory on Evaluating Use of POB

A GFOA advisory identifies specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities. It is *not* to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure.

Evaluating the Use of Pension Obligation Bonds (1997 and 2005) (DEBT & CORBA)

Background. An unfunded actuarial accrued liability (UAAL) for pension benefits generally represents the difference between the present value of all benefits estimated to be payable to plan members as a result of their service through the valuation date and the actuarial value of plan assets available to pay those benefits. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base.

State and local governments normally reduce their unfunded actuarial pension liability over time as part of their annual required pension contribution. Some governments, however, have elected to issue pension obligation bonds to reduce their unfunded actuarial liability as a part of the overall strategy for managing its pension costs. Governments should also realize that, while the UAAL may initially be fully funded, actuarial experience may result in over or under funding over time. Policies should be developed to manage potential over or under funding, regardless of the issuance of POBs.

Pension obligation bonds must be issued on a taxable basis because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities. From a purely financial perspective, issuing pension obligation bonds can produce savings for a government if the interest rate paid on the bonds is less than the rate of return earned on proceeds placed in the pension plan. However, governments issuing pension obligation bonds must be aware of the risks involved with these instruments and have the ability to manage these risks.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments use caution when issuing pension obligation bonds. If a government chooses to issue pension obligation bonds, they should ensure they are legally authorized to issue these bonds and that other legal or statutory requirements governing the pension fund are not violated. Furthermore, the issuance of the pension obligation bonds should not become a substitute for prudent funding of pension plans.

Governments issuing pension obligation bonds should compare the bond's debt service schedule to the pension system's current UAAL amortization schedule, using the true interest cost of the bond issue as the discount rate to calculate the estimated net present value savings. Additionally, issuing governments should consider the amount of the estimated net present value savings, the spread between the true interest cost of the bonds, and the actuarial investment return assumption of the pension plan.

Even if the analysis indicates that financial benefits appear to outweigh the risks, governments should evaluate other issues that may arise if the bonds are issued, such as the loss of flexibility in difficult economic times because of the need to make timely payments of principal and interest in order not to default on the bonds, potential misunderstanding by policy makers regarding the possibility that an unfunded liability may reappear in the future, and potential pressures for additional benefits by government employees if plans are fully funded and the government's contribution as a percentage of payroll has declined relative to neighboring jurisdictions.

Before deciding to issue pension obligation bonds, a governmental entity should undertake a careful financial analysis that considers the following:

- Adequate disclosure of the fact that even if bonds are sold, governments could still face an unfunded liability in the future resulting from such factors as changes in benefit levels, investment returns, demographics, or other factors that were not anticipated when THE bonds were issued.
- Pension obligation bonds should be structured in a manner that does not defer principal payments. Additionally, the bonds should not have a maturity that is in excess of the current unfunded actuarial accrued liability amortization period.
- Most pension systems have investment practices that are designed to accept smaller incremental contributions than are typical with pension obligation bonds. A review of the system's ability to adequately incorporate a much larger contribution into the system without adversely affecting the system's asset allocation should be considered.
- Issuance of debt to fund pension liability increases debt burden and may use up debt capacity that could be used for other purposes.
- Issuing pension obligation bonds converts a liability that may not be fully reported on the face of the financial statements (i.e., the unfunded actuarial accrued liability) into a liability that is reported on the face of the financial statements (i.e., bonds payable).
- Governments should ensure that the pension system review its cash flow in order to ensure that benefits are paid in a timely manner, since annual employer contributions will be reduced in lieu of debt service payments on the POBs. Analysis should extend through the amortization period of the unfunded liability on a cash flow basis and the debt service period of the POB.
- Special consideration and analysis should be given to the actuarial and cost implications for individual employers participating in multiple-employer systems.

References

- *Financing Retirement Systems Benefits*, Richard G. Roeder, Public Employee Retirement Series, GFOA, 1987.
- "Pension Obligation Bonds: Practices and Perspectives," *Government Finance Review*, GFOA, December 1996.
- "Risky Business? Evaluating the Use of Pension Obligation Bonds," *Government Finance Review*, GFOA, June 2003, pp. 12-17.

Approved by the GFOA's Executive Board, March 2005.



GFOA – Advisory (Understanding the Recommendation)

Pension Obligation Bonds

Advisory:

GFOA Advisories identify specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities. It is not to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure.

BACKGROUND:

Pension obligation bonds (POBs) are taxable bonds¹ that some state and local governments have issued as part of an overall strategy to fund the unfunded portion of their pension liabilities by creating debt. The use of POBs rests on the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds. However, POBs involve considerable investment risk, making this goal very speculative.² Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated. In recent years, local jurisdictions across the country have faced increased financial stress as a result of their reliance on POBs, demonstrating the significant risks associated with these instruments for both small and large governments.

Notes:

¹ The Tax Reform Act of 1986 eliminated the tax exemption for pension obligation bonds.

² Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli, "An Update on Pension Obligation Bonds," Center for Retirement Research at Boston College, July 2014.

³ See GFOA Advisory – *Using Debt-Related Derivatives and Developing a Derivatives Policy* (2015)

Town's Plan & Objectives

- Addresses and mitigates these concerns?
- Highlights need for communication plan

RECOMMENDATION:

The Government Finance Officers Association (GFOA) recommends that state and local governments do not issue POBs for the following reasons:

1. The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.
2. POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk and interest rate risk.³
3. Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes. In addition, taxable debt is typically issued without call options or with "make-whole" calls, which can make it more difficult and costly to refund or restructure than traditional tax-exempt debt.
4. POBs are frequently structured in a manner that defers the principal payments or extends repayment over a period longer than the actuarial amortization period, thereby increasing the sponsor's overall costs.
5. Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.



BUDGET 2020: PSPRS UNFUNDED LIABILITY FINANCIAL PLANS



May 23rd, 2019