

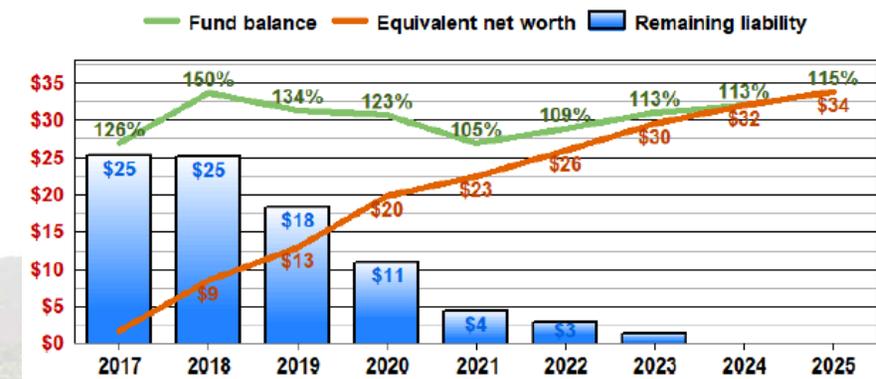
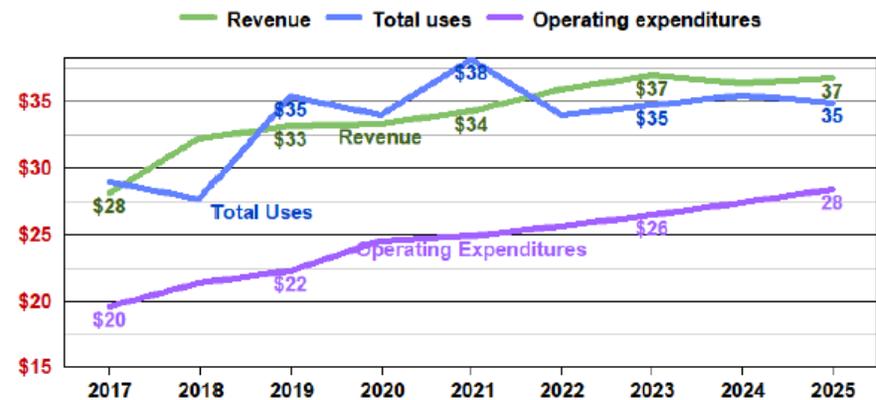
FINANCING THE CAPITAL IMPROVEMENT PLAN AND PSPRS UNFUNDED LIABILITY



November 21st, 2019

Why Bond in Good Economic Times

The 2020 Budget and 2019 draft financial statements identify that there is enough revenue and cash for the Town to pay the entire PSPRS Unfunded Liability, all the Capital Improvement Plan (“CIP”) and continuing status quo Town operations, while maintaining sufficient reserves in the event of a sudden stress on the Town’s economy. But there is not adequate Annual Expenditure Limitation capacity to do so. An added concern with the Annual Expenditure Limitation capacity for FY2020 and FY2021 is the timeliness of developer reimbursements for Capital Expenditures.



Why Bond in Good Economic Times

The Arizona Constitution prescribes an Annual Expenditure Limitation (“AEL”)

Paradise Valley voters approved an increase the AEL to assist paying the PSPR unfunded liability

Two types of expenditures: “subject to” the AEL and “exempt from” the AEL

Expenditures that are “exempt from” the AEL include federal grants, investment earnings, contributions and donations from private organizations, and



the use of bond proceeds and the repayment of bonded debt.

The Town’s total CIP is over \$17 million and “subject to the AEL” with certain reimbursed projects qualifying as “exempt from” the AEL.

By development agreement, the Town fronts cash for the 5-star related projects and developer reimburses

Timing of or not receiving the reimbursements could put the Town at risk of exceeding its expenditure limitation

Why Bond in Good Economic Times

Paying the PSPRS unfunded liability has been a Council priority

\$5,000,000 in FY2017; \$1,000,000 in FY2018; \$9,000,000 in FY2019; and \$3,000,000 in July, the first week of FY2020 for a total of \$18,000,000.

Based on PSPRS 2018 actuarial and payments made in FY2019 and FY200, the Unfunded Liability balance is at least \$5,800,000 and expected to increase as PSPRS realigns pension expectations

Current PSPRS expected rate of return (“ROI”) for investments is 7.3%, down from 7.4%, but still not reflective of investment earning over last 7 years. Could lead to more changes in the future

Suggests for every \$1,000,000 invested in PSPRS will yield \$73,000 in 12 months; \$5,800,000 at 7.3% is \$423,400.

Actual PSPRS investment earnings have ranged from 13% to 0.4% with a smoothing average of 5.9% the last 7 years.

The Town’s current fixed income investment pools yield 2%.



Financial Plan (Oct 24th)

AEL Status for FY2020

By issuing excise tax obligations for CIP projects shifts from being “subject to the AEL” to being “Exempt from the AEL”

This opens AEL capacity to offset increases in construction costs, honor contractual development obligations, secure the PSPRS pension and trades the PSPRS unfunded liability 7.3% rate for a bonded debt rate of 2% (estimated).

Example shifts \$5,420,000;
Expands AEL capacity
Increases PSPRS payments



AEL REALLOCATION POTENTIAL IN CURRENT CIP				
TOWN FUNDED PROJECTS (General fund & Wastewater)	Amount Change	Amended Project	AEL STATUS	
			Subject to	Exempt from
Roadway and utility construction and improvements	\$ 300,000	\$ 4,410,000	\$ -	\$ 4,410,000
Drainage and flood control	-	300,000	-	300,000
Municipal facilities and improvements	110,000	710,000	-	710,000
Equipment and technology	-	550,000	550,000	-
Other	(200,000)	340,000	340,000	-
Wastewater	-	734,200	734,200	-
TOTAL TOWN FUNDED CIP	\$ 210,000	\$ 7,044,200	\$ 1,624,200	\$ 5,420,000
Private organization funded	-	9,425,067	-	9,425,067
PSPRS Unfunded liability	2,800,000	8,800,000	8,800,000	-
Contingency for PSPRS / CIP financing	(2,885,000)	9,115,000	-	9,115,000
General fund contingency used for CIP	(125,000)	(125,000)	(125,000)	-
TOTAL CIP & PSPRS	\$ -	\$ 34,259,267	\$ 10,299,200	\$ 23,960,067

CURRENT AEL OF CAPITAL PROJECTS & PSPRS				
TOWN FUNDED PROJECTS (General fund & Wastewater)	Project Code	Total Project	AEL STATUS	
			Subject to	Exempt from
Roadway and utility construction and improvements	RD	\$ 4,110,000	\$ 4,110,000	\$ -
Drainage and flood control	DR	300,000	300,000	-
Municipal facilities and improvements	MF	600,000	600,000	-
Equipment and technology	ET	550,000	550,000	-
Other	O	540,000	540,000	-
Wastewater	WW	734,200	734,200	-
TOTAL TOWN FUNDED CIP		\$ 6,834,200	\$ 6,834,200	\$ -
Private organization funded		9,425,067	-	9,425,067
PSPRS Unfunded liability		6,000,000	6,000,000	-
Contingency for PSPRS / CIP financing		12,000,000	-	12,000,000
General fund contingency used for CIP		-	-	-
TOTAL CIP & PSPRS		\$ 34,259,267	\$ 12,834,200	\$ 21,425,067

Financial Plan (Oct 24th)

AEL Status Project Level

CURRENT AEL OF CAPITAL PROJECTS & PSPRS				
TOWN FUNDED PROJECTS (General fund & Wastewater)		Total Project	AEL STATUS	
			Subject to	Exempt from
Roadway & Utility Improvements: Lincoln Dr, Mockingbird Ln, Indian Bend Rd	2016-14 RD	\$ 2,500,000	\$ 2,500,000	\$ -
Lincoln Dr Sidewalks	2017-05 RD	80,000	80,000	-
Town Hall Optimization-Office Spaces & Entry	2018-12 MF	600,000	600,000	-
SRP Denton Ln Underground Conversion	2020-02 O	170,000	170,000	-
Drainage Improvements (various locations)	2020-10 DR	300,000	300,000	-
Lincoln Dr & Tatum Blvd Improvement - VSC	2020-15 O	10,000	10,000	-
Intersection Improvement: 56th St & Doubletree Ranch Rd	2020-11 O	20,000	20,000	-
License Plate Readers Update	2020-12 ET	350,000	350,000	-
Lincoln Dr Median Improvements: 32nd St to Tatum Blvd	2020-13 RD	650,000	650,000	-
Lincoln Dr Median Improvements: Tatum Blvd to Mockingbird Ln	2020-14 RD	650,000	650,000	-
Intersection Realignment: Lincoln & Invergordon	2019-01 RD	230,000	230,000	-
Telecommunications System Update	2019-04 ET	200,000	200,000	-
Public Works Remodel	2018-01 O	90,000	90,000	-
CIP Contingencies (general)	2099-99 O	200,000	200,000	-
Town-wide general infrastructure improvements	n/a	-	-	-
CIP Scope & Cost Estimating	2099-99 O	30,000	30,000	-
Town of Paradise Valley Operating Funds		6,100,000	6,100,000	-
Sewer system assessment	2017-06 WW	234,200	234,200	-
Sewer system improvements	2019-05 WW	500,000	500,000	-
Total Wastewater Enterprise Funds		734,200	734,200	-
SUB TOTAL TOWN FUNDED CIP		\$ 6,834,200	\$ 6,834,200	\$ -
PRIVATE ORGANIZATION FUNDED				
Roadway & Utility Improvements: Lincoln Dr, Mockingbird Ln, Indian Bend Rd	2016-14	\$ 10,395,000	\$ -	\$ 10,395,000
SRP Denton Ln Underground - Aesthetics	2020-02	200,000	-	200,000
SRP Denton Ln Underground - Residents	2020-02	180,067	-	180,067
Deferred capital contributions		(1,350,000)	-	(1,350,000)
SUB TOTAL PRIVATELY FUNDED CIP		\$ 9,425,067	\$ -	\$ 9,425,067
PSPRS AND CONTINGENCIES				
PSPRS Unfunded liability		6,000,000	6,000,000	-
Contingency for PSPRS / CIP financing		12,000,000	-	12,000,000
General fund contingency used for CIP		-	-	-
TOTAL CIP & PSPRS		\$ 34,259,267	\$ 12,834,200	\$ 21,425,067

AEL REALLOCATION POTENTIAL IN CURRENT CIP					
TOWN FUNDED PROJECTS (General fund & Wastewater)		Amount Change	Amended Project	AEL STATUS	
				Subject to	Exempt from
Roadway & Utility Improvements: Lincoln Dr, Mockingbird Ln, Indian Bend Rd		\$ -	\$ 2,500,000	\$ -	\$ 2,500,000
Lincoln Dr Sidewalks		300,000	380,000	-	380,000
Town Hall Optimization-Office Spaces & Entry		110,000	710,000	-	710,000
SRP Denton Ln Underground Conversion		-	170,000	170,000	-
Drainage Improvements (various locations)		-	300,000	-	300,000
Lincoln Dr & Tatum Blvd Improvement - VSC		-	10,000	10,000	-
Intersection Improvement: 56th St & Doubletree Ranch Rd		-	20,000	20,000	-
License Plate Readers Update		-	350,000	350,000	-
Lincoln Dr Median Improvements: 32nd St to Tatum Blvd		-	650,000	-	650,000
Lincoln Dr Median Improvements: Tatum Blvd to Mockingbird Ln		-	650,000	-	650,000
Intersection Realignment: Lincoln & Invergordon		-	230,000	-	230,000
Telecommunications System Update		-	200,000	200,000	-
Public Works Remodel		-	90,000	90,000	-
CIP Contingencies (general)		(200,000)	-	-	-
Town-wide general infrastructure improvements		-	-	-	-
CIP Scope & Cost Estimating		-	30,000	30,000	-
Town of Paradise Valley Operating Funds		210,000	6,310,000	890,000	5,420,000
Sewer system assessment		-	234,200	234,200	-
Sewer system improvements		-	500,000	500,000	-
Total Wastewater Enterprise Funds		-	734,200	734,200	-
SUB TOTAL TOWN FUNDED CIP		\$ 210,000	\$ 7,044,200	\$ 1,624,200	\$ 5,420,000
PRIVATE ORGANIZATION FUNDED					
Roadway & Utility Improvements: Lincoln Dr, Mockingbird Ln, Indian Bend Rd		\$ -	10,395,000	\$ -	\$ 10,395,000
SRP Denton Ln Underground - Aesthetics		-	200,000	-	200,000
SRP Denton Ln Underground - Residents		-	180,067	-	180,067
Deferred capital contributions		-	(1,350,000)	-	(1,350,000)
SUB TOTAL PRIVATELY FUNDED CIP		\$ -	\$ 9,425,067	\$ -	\$ 9,425,067
PSPRS AND CONTINGENCIES					
PSPRS Unfunded liability		2,800,000	8,800,000	8,800,000	-
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General fund contingency used for CIP		(125,000)	(125,000)	(125,000)	-
TOTAL CIP & PSPRS		\$ -	\$ 34,259,267	\$ 10,299,200	\$ 23,960,067



Why Bond in Good Economic Times

- 1) Trades large costs of the PSPRS debt for a smaller interest rate on Bonded debt;
- 2) Ensures the Town is compliant with the required Expenditure Limitation; and
- 3) Frees AEL capacity that allows the Town flexibility for:
 - a. Paying down the Town's PSPRS Unfunded Liability in conformance with Council Resolution;
 - b. Keeping current and prefunding the PSPRS "bad news" to hedge the recalculations of base (normal costs) and unfunded pension liabilities because of changes in assumptions;
 - c. Honoring development agreement obligations to front cash for Capital Projects and invoice for reimbursement;
 - d. Assisting with the timing of CIP reimbursement delays or possible developer refusal;
 - e. Maintaining the Town's existing level of government services;
 - f. Maintaining the Town's emergency cash reserves; and
 - g. Rebuilding the Town's AEL carry over capacity to limit future debt issuance for AEL purposes.



Resolution 2019-21

Reimburse Proceeds

RESOLUTION NUMBER 2019-21

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF PARADISE VALLEY, ARIZONA, DECLARING, FOR PURPOSES OF SECTION 1.150-2 OF THE FEDERAL TREASURY REGULATIONS, ITS OFFICIAL INTENT TO BE REIMBURSED IN CONNECTION WITH CERTAIN CAPITAL EXPENDITURES IN AND FOR THE TOWN.

WHEREAS, the Town of Paradise Valley, Arizona, a municipal corporation of the State of Arizona (hereinafter referred to as the "Town"), is authorized and empowered by law to issue or cause to be issued obligations to finance the costs of various capital facilities owned or to be owned by the Town; and

WHEREAS, it is contemplated that certain expenditures made by the Town with regard to capital facilities owned or to be owned by the Town identified more specifically in the Exhibit hereto labeled "TOWN FUNDED PROJECTS" together with any other capital facilities owned or to be owned by the Town related thereto, the "Projects") will be reimbursed from the proceeds of the sale of obligations to be issued in the future by or on behalf of the Town;

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COMMON COUNCIL OF TOWN OF PARADISE VALLEY, ARIZONA, that:

Section 1. Definitions. The following terms shall have the meanings assigned thereto as follows:

"Official Intent" means a declaration of intent of the Town to reimburse an original expenditure with proceeds of an obligation.

"Original Expenditure" means an expenditure for a governmental purpose that is originally paid from a source other than a reimbursement bond.

"Reimbursement Bond" means the portion of an issue of obligations allocated to reimburse an original expenditure that was paid before the issue date of such issue.

Section 2. Official Intent. This Resolution is the Official Intent relating to reimbursement for the Original Expenditures for the Projects which are capital expenditures (being any cost of a type that is properly chargeable to a capital account, or would be so chargeable with a proper election, under general federal income tax principles) made within sixty (60) days before and any time after the date of this Resolution.

Section 3. Project Descriptions. The maximum principal amount of obligations (including the Reimbursement Bonds for such purposes) to be issued for the Projects will not exceed \$8,000,000.

Section 4. Reasonableness of Official Intent. On the date of this Resolution, the Mayor and Common Council of the Town have a reasonable expectation (being that a prudent person in the same circumstances would have based on all the objective facts and circumstances) that it will reimburse such original expenditures with proceeds of such obligations. (Official intents have not been declared by the Town as a matter of course or in amounts substantially in excess of the amounts expected to be necessary for such projects. Moreover, the Town does not have a pattern (other than in extraordinary circumstances) of failure to reimburse actual original expenditures covered by official intents.)

Section 5. Reimbursement Period. With certain exceptions, an allocation in writing that evidences use of proceeds of the reimbursement bonds to reimburse the original expenditures shall be made not later than 18 months after the later of the date that the original expenditure is paid.

Section 6. Public Record. This Resolution shall be included as of the date hereof in the publicly available official records of the Town, such records being maintained and supervised by the Clerk of the Town, being the main administrative office of the Town, and shall remain available for public inspection on a reasonable basis.

PASSED, ADOPTED AND APPROVED by the Town Council of the Town of Paradise Valley this 21st day of November 2019.



Stifle

Information Available
by Tuesday
November 19th





November 21st, 2019