

FINANCING THE CAPITAL IMPROVEMENT PLAN AND PSPRS UNFUNDED LIABILITY



February 11th, 2020

Expenditure Limitation & the Town's Financial Plan

The Arizona Constitution prescribes an Annual Expenditure Limitation ("AEL")

PV voters approved an increase to the AEL to assist paying the Public Safety Personnel Retirement System ("PSPRS") unfunded liability

Expenditures are either "subject to" or "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 2020 Budget and 2019 audit identify adequate revenues and cash for the Town to:

- ✓ Pay the entire PSPRS Unfunded Liability;
- ✓ Fund the Capital Improvement Plan;
- ✓ Continue status quo Town operations; and
- ✓ Maintain sufficient reserves per the Town's policy.

But there is not adequate Annual Expenditure Limitation capacity to do so.

Another concern with the Town's AEL is the timing of developer reimbursements for Capital Expenditures.

Capital Improvement Plan & PSPRS Unfunded Liability

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

Paying the PSPRS unfunded liability has been a PV Council priority.

PV voters approved an increase to the Town's expenditure limitation; eff FY2018.

\$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 FY2020, the Unfunded Liability balance is at least \$5,800,000 and expected to increase as PSPRS realigns pension expectations.



Impacts of Excise Tax Debt Obligations

By issuing excise tax obligations certain CIP projects can shift 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



CIP Projects (for information only)

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	2099-98 O	50,000	50,000	-
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	-	50,000	50,000	-
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	-
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



Budget Amendments

Section 1. Record the FY2019-20 budget amendment of \$759,682 for costs of construction contracts (including the CMAR – Construction Management at Risk) for road improvements and drainage with \$607,746 from the “Contingency for projects exempt from the annual expenditure limitation” and \$151,936 from the “General fund contingency”; and a budget amendment of \$105,000 to strategically expedite a 2021 CIP project to 2020 from the “General fund contingency”. Should the Town subsequently issue CIP obligations to finance these projects, the General fund contingency allocation will not be necessary.

Description	Project Number	Current Budget	Budget Increase	Budget Reduction	Amended Budget
Town roadway and utility improvements:					
Lincoln, Mockingbird, Indian bend	2016-14	\$2,500,000	\$ 151,936	-	\$2,651,936
Mockingbird: 56th to Invergordon	2021-03	-	105,000	-	105,000
Private contributions for improvements:					
Lincoln, Mockingbird, Indian bend	2016-14	10,395,000	607,746	-	11,002,746
Contingency for:					
General fund	n/a	1,083,536	-	\$ (256,936)	826,600
AEL exempt programs and projects	n/a	6,000,000	-	(607,746)	5,392,254



Budget Amendments

Section 4. Record the FY2019-20 budget amendment of \$53,306 for costs related to Change order #3 TYLIN 6-month extension from the “General fund contingency”. Should the Town subsequently issue CIP obligations to finance these projects, the General fund contingency allocation will not be necessary.

Description	Project Number	Current Budget	Budget Increase	Budget Reduction	Amended Budget
Town roadway and utility improvements:					
Lincoln, Mockingbird, Indian bend	2016-14	\$2,651,936	\$ 21,783	-	\$2,673,719
Private contributions for improvements:					
Lincoln, Mockingbird, Indian bend	2016-14	11,002,746	31,523	-	11,034,269
Contingency for:					
General fund	n/a	576,600	-	\$ (21,783)	554,817
AEL exempt programs and projects	n/a	5,392,254	-	(31,523)	5,360,731



SB1280 – Pensions, Unfunded Liability, Expenditure Limit

Proposed: to categorize payments of the PSPRS Unfunded Liability as **long-term debt** for the purposes of the Annual Expenditure Limitation (“AEL”) reporting.

This would exclude PSPRS Unfunded Liability payments from the AEL with all other long-term debt.

This impacts municipalities that have the revenue and cash to pay the PSPRS unfunded liability; but lack AEL capacity and are not seeking an increase to the AEL.

Impacts on excise tax obligations for CIP is relevant (*further analysis will be provided*):

- After paying additional \$3MM to PSPRS unfunded liability in FY2019, FY2021 had planned for a **\$2.8MM** balance (SB1280 excludes); however
- Construction costs are **increasing**;
- FY2020 CIP project costs are **carrying into** FY2021 more than expected;
- Unused AEL designated to CIP **does not** carry over; and
- Timing of payments and costs of **one** vs. **two** obligation issuances.



Considerations for the Financial Plan:

Likelihood to pass and effective date.

Stifle

Information Available
by Tuesday
February 11th





February 11th, 2020