

# **FINANCING THE CAPITAL IMPROVEMENT PLAN (AND MEETING FINANCIAL GOALS)**



February 27<sup>th</sup>, 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 AEL capacity to do so in a single year and the Town has been navigating a multi-year plan to meet these goals.

An external AEL risk to mitigate is the timing of reimbursements for Capital Expenditures. Per development agreement, the Town pays and invoices for reimbursement.



# Town Council Priorities

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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.

Unaddressed, this could strain the Town's AEL capacity to force delaying other Town projects and priorities.

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, and potentially secures paying the PSPRS unfunded liability. Timing of development reimbursements creates a two-year AEL concern.

Example shifts \$5,420,000;

Expands AEL capacity

Protects the Town from timing of reimbursements

| AEL REALLOCATION POTENTIAL IN CURRENT CIP           |                   |                      |                      |                      |
|---|-------------------|----------------------|----------------------|----------------------|
| TOWN FUNDED PROJECTS<br>(General fund & Wastewater) | Amount<br>Change  | Amended<br>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              | -                    |
| <b>TOTAL TOWN FUNDED CIP</b>                        | <b>\$ 210,000</b> | <b>\$ 7,044,200</b>  | <b>\$ 1,624,200</b>  | <b>\$ 5,420,000</b>  |
| 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)            | -                    |
| <b>TOTAL CIP &amp; PSPRS</b>                        | <b>\$ -</b>       | <b>\$ 34,259,267</b> | <b>\$ 10,299,200</b> | <b>\$ 23,960,067</b> |

| CURRENT AEL OF CAPITAL PROJECTS & PSPRS             |                 |                      |                      |                      |
|---|-----------------|----------------------|----------------------|----------------------|
| TOWN FUNDED PROJECTS<br>(General fund & Wastewater) | Project<br>Code | Total<br>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              | -                    |
| <b>TOTAL TOWN FUNDED CIP</b>                        |                 | <b>\$ 6,834,200</b>  | <b>\$ 6,834,200</b>  | <b>\$ -</b>          |
| 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               |                 | -                    | -                    | -                    |
| <b>TOTAL CIP &amp; PSPRS</b>                        |                 | <b>\$ 34,259,267</b> | <b>\$ 12,834,200</b> | <b>\$ 21,425,067</b> |





# CIP Projects (for information only)

| CURRENT AEL OF CAPITAL PROJECTS & PSPRS                                    |                         |                      |                      |          |
|--|-------------------------|----------------------|----------------------|----------|
| TOWN FUNDED PROJECTS<br>(General fund & Wastewater)                        | Total<br>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               | -                    | -        |
| <b>Town of Paradise Valley Operating Funds</b>                             | <b>6,100,000</b>        | <b>6,100,000</b>     | <b>-</b>             | <b>-</b> |
| Sewer system assessment  | 2017-06 WW 234,200      | 234,200              | -                    | -        |
| Sewer system improvements  | 2019-05 WW 500,000      | 500,000              | -                    | -        |
| <b>Total Wastewater Enterprise Funds</b>                                   | <b>734,200</b>          | <b>734,200</b>       | <b>-</b>             | <b>-</b> |
| <b>SUB TOTAL TOWN FUNDED CIP</b>   | <b>\$ 6,834,200</b>     | <b>\$ 6,834,200</b>  | <b>\$ -</b>          | <b>-</b> |
| 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)          | -        |
| <b>SUB TOTAL PRIVATELY FUNDED CIP</b>                                      | <b>\$ 9,425,067</b>     | <b>\$ -</b>          | <b>\$ 9,425,067</b>  | <b>-</b> |
| 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                                      | -                       | -                    | -                    | -        |
| <b>TOTAL CIP &amp; PSPRS</b>   | <b>\$ 34,259,267</b>    | <b>\$ 12,834,200</b> | <b>\$ 21,425,067</b> | <b>-</b> |

| AEL REALLOCATION POTENTIAL IN CURRENT CIP                                  |                   |                      |                      |                      |
|--|-------------------|----------------------|----------------------|----------------------|
| TOWN FUNDED PROJECTS<br>(General fund & Wastewater)                        | Amount<br>Change  | Amended<br>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               | -                    |
| <b>Town of Paradise Valley Operating Funds</b>                             | <b>210,000</b>    | <b>6,310,000</b>     | <b>890,000</b>       | <b>5,420,000</b>     |
| Sewer system assessment  | -                 | 234,200              | 234,200              | -                    |
| Sewer system improvements  | -                 | 500,000              | 500,000              | -                    |
| <b>Total Wastewater Enterprise Funds</b>                                   | <b>-</b>          | <b>734,200</b>       | <b>734,200</b>       | <b>-</b>             |
| <b>SUB TOTAL TOWN FUNDED CIP</b>   | <b>\$ 210,000</b> | <b>\$ 7,044,200</b>  | <b>\$ 1,624,200</b>  | <b>\$ 5,420,000</b>  |
| 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)          |
| <b>SUB TOTAL PRIVATELY FUNDED CIP</b>                                      | <b>\$ -</b>       | <b>\$ 9,425,067</b>  | <b>\$ -</b>          | <b>\$ 9,425,067</b>  |
| 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)            | -                    |
| <b>TOTAL CIP &amp; PSPRS</b>   | <b>\$ -</b>       | <b>\$ 34,259,267</b> | <b>\$ 10,299,200</b> | <b>\$ 23,960,067</b> |



# 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.

The effect of this legislation on the AEL would impact the potential amount to issue in excise tax obligations for CIP.

However, please consider:

- Larger FY2020 CIP budgeted project costs are carrying into FY2021 than expected;
- Unused AEL designated to CIP does not carry over to future years;
- Timing of developer reimbursements and costs of doing one vs. two obligation issuances; and
- The current favorable market conditions.



**Considerations for the Financial Plan:**  
Likelihood to pass and effective date.

# Directives on February 13<sup>th</sup>

Council gave direction to continue with the Town's financial plan that ensures the Town remains compliant with the Expenditure Limitation, meets the Council's goal of paying down the PSPRS unfunded liability, honors development agreement obligations to front cash for the Five Star project and invoice for reimbursement, and hedges the actual timing of reimbursements and directed staff to:

- Prepare to proceed with a public "bond" offering secured by excise tax revenues;
- Return to Council with more refined cost with options for callable and non-callable bonds in 2-3 years; and
- Attempt to negotiate a private placement option by locking in a rate for 45 days.
- Bank #1 will lock a rate once the full structure is known



**TOWN OF PARADISE VALLEY, ARIZONA**  
**Excise Tax Revenue Obligation, Series 2020**  
**6.5 Year Scenarios**

|                            | Non-callable |                       | 4-yr Par Call |                       |
|----------------------------|--------------|-----------------------|---------------|-----------------------|
|                            | All in TIC   | Total<br>Debt Service | All in TIC    | Total<br>Debt Service |
| Public Sale                | 1.675%       | \$ 8,520,183          | 1.976% *      | \$ 8,615,467          |
| Private Placement Bidder 1 | 1.930%       | \$ 8,604,525          | 1.990%        | \$ 8,623,506          |

\* Assumes 5 basis points reduction due to market conditions and/or potential credit rating upgrade. Current estimated All in TIC is 2.02%.

Assume a 10-15 basis point reduction for 3 year call.





# Requested Direction for March 12<sup>th</sup> or 26<sup>th</sup>

TOWN OF PARADISE VALLEY, ARIZONA  
Excise Tax Revenue Obligation, Series 2020  
6.5 Year Scenarios

|                            | Non-callable |                       | 4-yr Par Call |                       |
|----------------------------|--------------|-----------------------|---------------|-----------------------|
|                            | All in TIC   | Total<br>Debt Service | All in TIC    | Total<br>Debt Service |
| Public Sale                | 1.675%       | \$ 8,520,183          | 1.976% *      | \$ 8,615,467          |
| Private Placement Bidder 1 | 1.930%       | \$ 8,604,525          | 1.990%        | \$ 8,623,506          |

\* Assumes 5 basis points reduction due to market conditions and/or potential credit rating upgrade. Current estimated All in TIC is 2.02%.

- Non-callable or Callable
- Public Sale or Private Placement
- Principal amount \$8,000,000 or \$6,000,000
- Level of accepted risk with reimbursements
- Off-set with other CIP





February 27<sup>th</sup>, 2020