

ADOPT RESOLUTION 2020-06
AUTHORIZING A PRIVATE PLACEMENT OF
EXCISE TAX REVENUE OBLIGATIONS
(CAPITAL IMPROVEMENT PROJECTS)



March 12th, 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 in a single year; the Town has been steadily 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.



“External AEL Risk” Defined

A potential risk to the Town involves its obligation under the Five Star Development Agreement which requires the Town to pay monthly for all costs associated with the construction of the perimeter roads and then invoice Five Star for its portion of the costs.

In the event some of the costs are disputed or reimbursement is delayed, the Town’s payment would be under the AEL, therefore potentially restricting other anticipated expenditures.

The expenditures at risk under this scenario include other CIP projects, the anticipated PSPRS unfunded liability payment, or other operating expenditures.

By bonding to fund CIPs, including but not limited to street and drainage construction for Five Star, the risk to reaching and being restricted on other projects and/or high priority expenditures by the AEL is mitigated.



Town Council Financial Priorities

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 (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

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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	-
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Why Bond in Good Economic Times

- 1) Ensures the Town is compliant with the required Expenditure Limitation in;
 - a. Honoring development agreement obligations to front cash for Capital Projects and then invoice for reimbursement;
 - b. Assisting with the timing of CIP reimbursement delays or possible developer refusal;
- 2) Protects the Council designated 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. Maintaining the Town's existing level of government services;
 - d. Maintaining the Town's emergency cash reserves; and
 - e. Rebuilding the Town's AEL carry over capacity to limit future debt issuance for AEL purposes.



Presented on February 27th - UPDATED

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 Debt Service	All in TIC	Total Debt Service
Public Sale	1.675%	\$ 8,520,183	1.976% *	\$ 8,615,467
Private Placement Bidder 1	1.930%	\$ 8,604,325	1.59%	\$ 8,469,754

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

Lowest direct and indirect cost for capital;
Continues to give future Council's ability to be flexible and adaptive
Mitigates external risk for the Town's AEL compliance;
Meets multi-year timing for Town and DA projects;



Flexible, Adaptive and Mitigating Risk

Council has demonstrated that adaptability and flexibility are key attributes to mitigating risk and fiscal resiliency.

Over the past few months, Council has diligently and thoroughly examined the prospects with various options for issuing debt obligations, even though the Town is experiencing good economic times.

This patience and dedication to finding the best solutions has resulted in finding very low costs of capital borrowing while providing flexibility for future Councils.

This presents a clear path for the Town's financial plan to ensure the Town:

- ✓ Remains compliant with the Annual Expenditure Limitation,
- ✓ Meets the Council's goal of paying down the PSPRS unfunded liability,
- ✓ Continue the CIP and status quo Town operations;
- ✓ Maintain sufficient reserves to protect the town from external stresses;
- ✓ Honors the Five Star development agreement obligations to front cash for projects and invoice for reimbursement,
- ✓ Hedges the actual timing of reimbursements for the next two year.



RECOMMENDATION:
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