



## Legislation Details (With Text)

**File #:** 20-071      **Version:** 1      **Name:**  
**Type:** Study Session Item      **Status:** Agenda Ready  
**File created:** 2/6/2020      **In control:** Town Council  
**On agenda:** 2/13/2020      **Final action:** 2/13/2020  
**Title:** Update and Discussion of the CIP and PSPRS Financial Plans  
45 Minutes

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. PowerPoint Presentation - CIP and PSPRS financial plan 2020 v5, 2. STIFEL Presentation

| Date      | Ver. | Action By    | Action             | Result |
|-----------|------|--------------|--------------------|--------|
| 2/13/2020 | 1    | Town Council | Received and Filed |        |

**TO:** Mayor Bien-Willner and Town Council Members

**FROM:** Jill Keimach, Town Manager  
Douglas Allen, CPA

**DATE:** February 13, 2020

**DEPARTMENT:** Finance

### AGENDA TITLE:

**Update and Discussion of the CIP and PSPRS Financial Plans**

### SUMMARY STATEMENT:

The 2020 Budget and 2019 audited Financial Statements identify adequate revenue 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 Town 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.

Staff will have a brief presentation followed by Council discuss regarding the current status on the Town's Capital Improvement Plan ("CIP") and Public Safety Personnel Retirement System ("PSPRS") financing plans for the fiscal year ending June 30, 2020.

Other related topics for discussion include SB1280 that proposes to exclude payments of the PSPRS Unfunded Liability from the Annual Expenditure Limitation (“AEL”) and potential impacts on the Town’s AEL and issuing Excise Tax Debt Obligations for CIP.

A Stifle representative will provide an update of recent activities, next steps and timing to issuing excise tax obligations that will be available by Tuesday February 11<sup>th</sup>.

## **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 PSPRS unfunded liability
- Two types of expenditures: “subject to” the AEL and “exempt from” the AEL
- Expenditures that are “exempt from” include spending federal grant funds, investment earnings, contributions and donations from private organizations, the use of bond proceeds and the repayment of bonded debt.
- Availability of cash and revenue is not the concern; the concern is the AEL capacity and the timeliness and willingness of developer reimbursements for Capital Expenditures.
- 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 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%.
- FY2020 budget gives flexibility to navigate anticipated and unknown challenges, including increasing construction costs and paying the PSPRS Unfunded Liability
- By issuing excise tax obligations for CIP projects move from being “subject to the AEL” to being “Exempt from the AEL” and opens AEL capacity for increases in construction costs, honor contractual obligations, secure the PSPRS pension and trades the PSPRS unfunded liability 7.3% rate for a bonded debt rate of less than 2%.

Issuing debt obligations:

- 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.

**ATTACHMENT(S):**

01 PowerPoint

02 Stifle document - Available by Tuesday February 11<sup>th</sup>