



Legislation Details (With Text)

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15 Minutes

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Attachments: 1. 001 CIP and financial plan 2020 v7, 2. 002 Stifle Paradise Valley EXC REV Srs 20 MRrt 3-12-20 DRAFT 3-9, 3. 02 Paradise Valley Excise Tax Series 2020, 4. 03 Resolution 2020-06 Approving Excise Tax Revenue Obligations, 5. 04 First Excise Tax Purchase Agreement, 6. 05 First Excise Tax Trust Agreement, 7. 06 Placement Agent Agreement

Date	Ver.	Action By	Action	Result
3/12/2020	1	Town Council	Received and Filed	

TO: Mayor Bien-Willner and Town Council Members

FROM: Jill Keimach, Town Manager
Douglas Allen, CPA

DATE: March 12, 2020

DEPARTMENT: Finance

AGENDA TITLE:

Update and Discussion of Financing the Capital Improvement Program and Financial Plan

SUMMARY STATEMENT:

PV Town 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;
- ✓ Honor development agreement obligations to front cash for the Five Star perimeter road project and invoice for reimbursement,
- ✓ Hedges the actual timing of reimbursements for the next two years.

Due to current market conditions and negotiations, costs of an Excise Tax Revenue Obligation **Private Placement** is proving to be significantly less than a **Public Sale**.

A **\$8,145,000** Private Placement with up to a 7-year maturity, 4-year call has been negotiated to **1.59%** “all in costs”. Staff locked into this unprecedented rate (1.09% plus costs of issuance) for Council’s consideration. Locking the rate does not obligate the Town; Council action is required.

Pursuant to Council directives, staff has obtained current numbers for an excise tax revenue obligation in the \$8mm range; for both a Private Placement (single bond holder) and a Public Sale (multiple bond holders); with up to a 7-year maturity and callable after 4 years. Council also authorized staff to lock rates if necessary and does not obligate the Town.

STIFEL has provided the Town Manager and CFO updated numbers for excise tax revenue obligations maturing August 1, 2026 with a call option on or after August 1, 2024 for a Private Placement and Public Sale; and has negotiated a Private Placement rate lower than previously anticipated.

Direct “all in costs” for capital for a **Public Sale** is currently **1.98%**, which is **more than** a Private Placement. This does not include indirect costs such as Town staff time, Town liability and continuing disclosures that are all higher in a Public Sale vs a Private Placement. After analysis with STIFEL, the Town Manager and CFO have determined the lower costs for a Private Placement is most advantageous to the Town with the best fit for the Town’s current debt service schedule and capital financing plans.

Staff recommends Council authorize a private placement not to exceed \$8,200,000 with up to a 7-year maturity and callable after 4 years.

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.

While the Town has sufficient cash in reserve, there is not sufficient capacity under the Town’s Annual Expenditure Limitation (“AEL”) to complete these activities in a single year. Consequently, the Town has been steadily navigating a multi-year plan to meet these goals.

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 for both the Town and Five Star share of the perimeter road costs 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.

The Annual Expenditure Limitation and 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.

Town Council 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.

Issuing debt obligations:

- 1) Ensures the Town is compliant with the required Expenditure Limitation, in;
 - a. Honoring development agreement obligations to front cash for Capital Projects and 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. 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;
 - b. Maintaining the Town's existing level of government services;

- c. Maintaining the Town's emergency cash reserves; and
- d. Rebuilding the Town's AEL carry over capacity to limit future debt issuance for AEL purposes.

ATTACHMENT(S):

01 PowerPoint

02 Stifle Analysis (Available by Tuesday March 10th)