



Legislation Text

File #: 19-424, **Version:** 1

TO: Mayor Bien-Willner and Town Council Members

FROM: Jill Keimach, Town Manager
Douglas Allen, CPA

DATE: November 21, 2019

DEPARTMENT: Finance

AGENDA TITLE:

Approve Resolution 2019-21 Declaring Intent to be Reimbursed in Connection with Certain Capital Expenditures in and for the Town

RECOMMENDATION:

Approve Resolution 2019-21 Declaring Intent to be Reimbursed in Connection with Certain Capital Expenditures in and for the Town

SUMMARY STATEMENT:

As discussed in the Council work sessions on October 24 and November 21, this declaration allows for the Town to be reimburse for Capital Improvement spending made within 60 days before and after the date of this resolution if the Town issues obligations for its Capital Improvement Plan.

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 PSPR 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 2%.

The 2020 Budget and 2019 draft financial statements identify that there is enough revenue and cash for the Town to pay the entire PSPRS Unfunded Liability, all the Capital Improvement Plan ("CIP") and continuing status quo Town operations, while maintaining sufficient reserves in the event of a sudden stress on the Town's economy. But there is not adequate Annual Expenditure Limitation capacity to do so. An added concern with the Annual Expenditure Limitation capacity for FY2020 and FY2021 is the timeliness and willingness of developer reimbursements for Capital Expenditures.

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 Presentation

02 "Why Bond in Good Economic Times" - Communication from Town staff

03 Resolution 2019-21 Declaring Intent to be Reimbursed in Connection with Certain Capital Expenditures in and for the Town