Town of Paradise Valley

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Paradise Valley, AZ 85253

Legislation Text

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

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

DATE: **February 27, 2020**

DEPARTMENT: Finance

AGENDA TITLE:
Update and Discussion of the Capital Improvement Program and Financial Plan

SUMMARY STATEMENT:
Staff will have a brief presentation followed by Council discussion regarding the current status on the Town's capital improvement and development agreement financing plans for the fiscal years 2019/20 and 2020/21 including Council's requests and directives.

On February 13th, Town 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, 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.

In response to the Council questions, Stifel provided the attached chart in the PowerPoint that shows both non-callable and a 4 year par call debt service for both a public and private sale. Stifel assumed using the bond proceeds over two years during the construction and financial close out of the perimeter road project and that if the Council had excess cash and desired to pay off bond debt, it would first choose to pay off the 2016 bonds. If the Council choose to have a 3 year callable bond, the additional cost to the Town would approximate 10-15 basis points higher for the three year call.

As for locking the rate for the private placement, Banker #1 could do that once the full structure and Town commitment is known. In the Town's interest, however, the DOW dropped another 250 points in response to the unfortunate coronavirus outbreak.

The 2020 Budget and 2019 audit identify adequate revenues and cash for the Town to:

- ✓ Pay the <u>entire</u> 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. In conformance with the Five Star Development Agreement, the Town must pay the construction costs for the perimeter road construction and then invoice Five Star for reimbursement of its share of the costs.

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; and

2) Frees AEL capacity that allows the Town flexibility for:

   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;

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.

f. 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;

ATTACHMENT(S):
01 PowerPoint
02 Stifle Analysis