



City Council Report

Date: April 16, 2018
To: City Council
Through: Michael Kennington, Chief Financial Officer
Candace Cannistraro, Budget Director
From: Ryan Wimmer, Deputy Budget Director
Subject: Series 2018 General Obligation Bond Sale

Purpose and Recommendation

The purpose of this item is for the Mesa City Council to order the sale of voter-authorized bonds in an amount sufficient to finance planned capital projects. It is recommended that the City Council order the sale of not to exceed \$16,120,000 of General Obligation (G.O.) bonds through a negotiated process. The City is scheduled to price the bonds on or around May 15, 2018.

Background

In Citywide elections, Mesa residents have authorized the City to utilize bonds to finance capital projects. The City typically issues new bonds once each year to fund projected bond spending on capital projects. The City plans to use the proceeds from the sales of Series 2018 bonds to pay for the purchase, design, and/or construction of portions of or all of certain capital projects during calendar year 2018, although some of the bond proceeds may be spent sooner or later (depending on the timing of project spending).

The G.O. bonds in the Series 2018 sale represent portions of bond authorizations approved by the City electorate in bond elections held in 2012 and 2013.

Table 1 below shows those City General Obligation bond authorizations that are currently in use (some older bond authorizations remain, but are not being utilized). The table includes the purpose and amounts of the proposed Series 2018 bonds as well as the authorized issuance amounts that would be remaining after the sale.

Table 1: General Obligation Bonds – Authorizations Currently in Use

Purpose	Authorization Year(s)	Available Authorization	Proposed Sale Series 2018	Remaining Authorization
Parks	2012	\$ 16,500,000	\$ 11,585,000	\$ 4,915,000
Streets	2013	\$ 34,485,000	\$ 4,535,000	\$ 29,950,000
G.O. Bond Total		\$ 50,985,000	\$ 16,120,000	\$ 34,865,000

A full list of the City's remaining bond authorization (both currently-used authorization and remaining authorization from prior years) can be found in [Attachment C - Remaining Bond Authorization by Election Year](#).

Discussion

Attachment A – 2018 General Obligation Bond Sale Project List is a listing of projects that are planned to be funded with the proceeds of the Series 2018 bond issue. The amount included in the sale is anticipated to be sufficient to fund anticipated project spending through December 31, 2018.

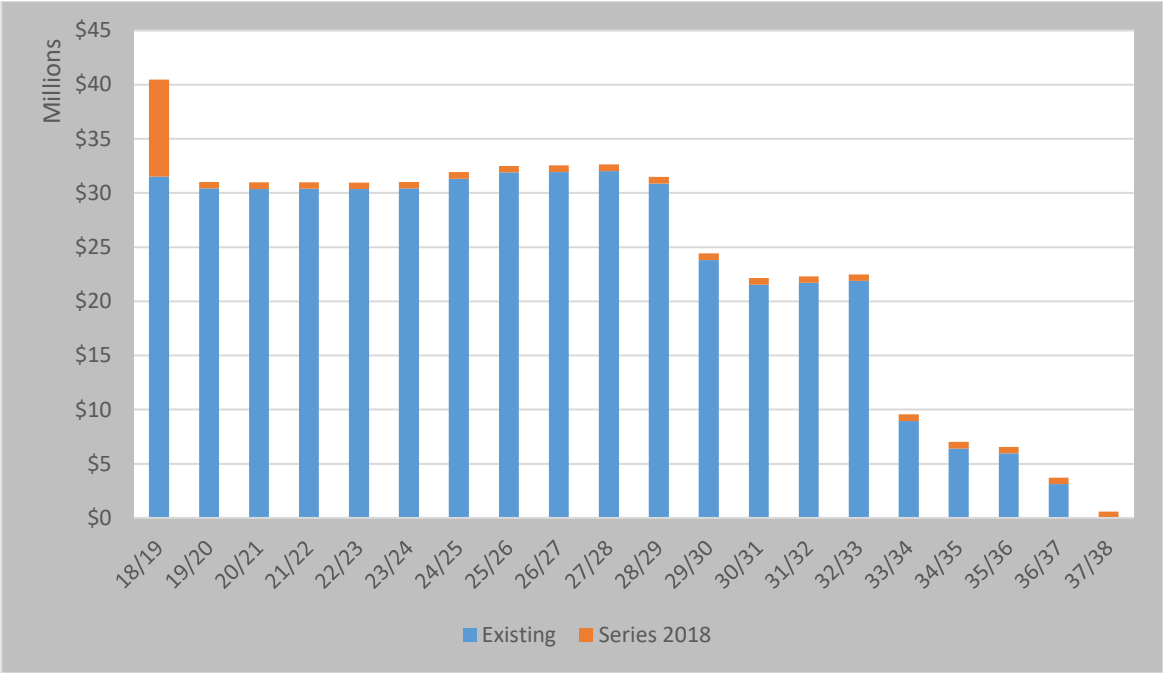
The City issues voter-authorized general obligation bonds annually in amounts sufficient to fund project spending in the calendar year of the issuance. Since bond proceeds are typically received in May or June, new proceeds are intended to reimburse the City's project spending up to that point in the calendar year (IRS rules¹ allow for use of bond proceeds to reimburse project spending for at least 18 months after the spending occurs) and to fund project spending through the remainder of the calendar year. This approach minimizes interest cost while maintaining flexibility in the timing of future bond issues.

The 2018 General Obligation bond debt structure includes a relatively large amount of principal in Year 1 (FY18/19) to utilize unspent revenue from prior years as well as capacity within the existing property tax levy. For planning purposes, the City uses conservative assumptions for interest rates on debt, property tax collection rates, fee revenues, etc. In addition, after the proposed 2018 G.O. bond issuance, there would still be nearly \$35 million in current bond authorization remaining to be issued in future years. These conservative assumptions and remaining bond authorization have resulted in available revenue and property tax levy capacity to repay a significant amount of principal in Year 1.

¹ [Code of Federal Regulations 26-1.150.2](#)

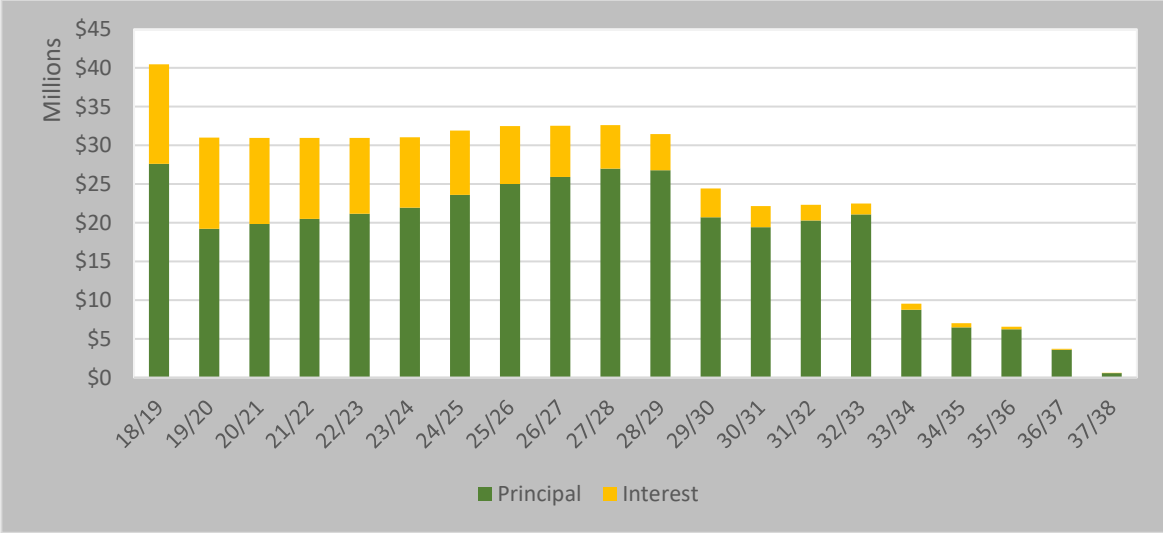
Existing General Obligation debt combined with the proposed Series 2018 issuance is shown in Chart 1 below.

Chart 1: General Obligation Debt by Fiscal Year – Existing and Series 2018



Total General Obligation bond principal and interest payments, including the proposed Series 2018 issuance, are shown in Chart 2 below.

Chart 2: General Obligation Debt by Fiscal Year – Principal and Interest



Alternatives

The Council may choose to not proceed with the sale of the proposed bond issues at this time. The City could cancel new bond-funded projects that are still in the planning stage and/or utilize available reserves to pay for a portion of the contracts on projects that are already in progress. These alternatives are not recommended as they would quickly exhaust City reserves and prevent completion of capital projects that are in various stages of planning and construction.

Fiscal Impact

Attachment B – Estimated General Obligation Debt Service shows estimated debt service for the proposed Series 2018 bond issue and the impact on total debt service amounts. Debt service for the new issuance is structured such that, when combined with the City's current outstanding debt, a stable overall debt structure is achieved.

Attachment C – Remaining Bond Authorization by Election Year provides remaining bond authorization amounts (prior to the Series 2018 bond issuance) by purpose and year of voter authorization.

Attachment D – Series 2018 Issuances – Authorization by Election Year provides a summary of Series 2018 bond issuance amounts by purpose and authorization year.

The debt service from the Series 2018 general obligation bond issue is included in the City's expenditure forecast. The new debt service is fully funded within the City's current secondary property tax levy. No increase in the levy is necessary.

Coordination

The Office of Management and Budget, the City Manager's Office, the Engineering Department, and other City departments that manage capital projects coordinated regarding the amount of the proposed bond sale and the projects on which the bonds are planned to be spent.