



City Council Report

Date: April 1, 2019
To: City Council
Through: Chris Brady, City Manager
Michael Kennington, Chief Financial Officer
From: Ryan Wimmer, Deputy Director - Office of Management and Budget
Subject: Series 2019 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 \$33,065,000 (not to exceed \$33,100,000) of General Obligation (G.O.) bonds through a negotiated process. The City is scheduled to price the bonds on or around April 29, 2019.

Background

In Citywide elections, Mesa residents have authorized the City to use 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 2019 G.O. bonds to pay for the purchase, design, and/or construction of part or all of certain capital projects during calendar year 2019, 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 2019 sale represent portions of bond authorizations approved by the City electorate in bond elections held in 2012, 2013, and 2018.

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 2019 bonds as well as the authorized 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 2019	Remaining Authorization
Parks	2012	\$ 4,915,000	\$ 4,915,000	\$ 0
Parks and Culture	2018	\$ 111,000,000	\$ 8,060,000	\$ 102,940,000
Streets	2013	\$ 30,310,000	\$ 10,045,000	\$ 20,265,000
Public Safety	2018	\$ 85,000,000	\$ 10,045,000	\$ 74,955,000
G.O. Bond Total		\$ 231,225,000	\$ 33,065,000	\$ 198,160,000

Attachment B – Series 2019 Issuances – Authorization by Election Year provides a summary of the proposed Series 2019 bond issuance amounts by purpose and authorization year.

Attachment C – Remaining Bond Authorization by Election Year provides remaining bond authorization amounts (after the proposed Series 2019 bond issuance) by purpose and year of voter authorization.

Discussion

Projects

Attachment A – 2019 General Obligation Bond Sale Project List lists the projects that are planned to be funded by the proceeds of the Series 2019 bond issue. The amount included in the sale is anticipated to be enough to fund anticipated project spending through December 31, 2019.

Financing Timeframe

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.

Secondary Property Tax

Secondary property tax is limited in use to the repayment of general obligation debt. The City's practice is to fully adjust the secondary property tax levy in the year following a successful bond election in order to fund all of the authorized bonds once issued. The structure of the issuance assumes that the City will adjust the FY 2019-20 secondary property tax levy to fund the additional parks and culture and public safety bonds authorized by voters in 2018.

Structure

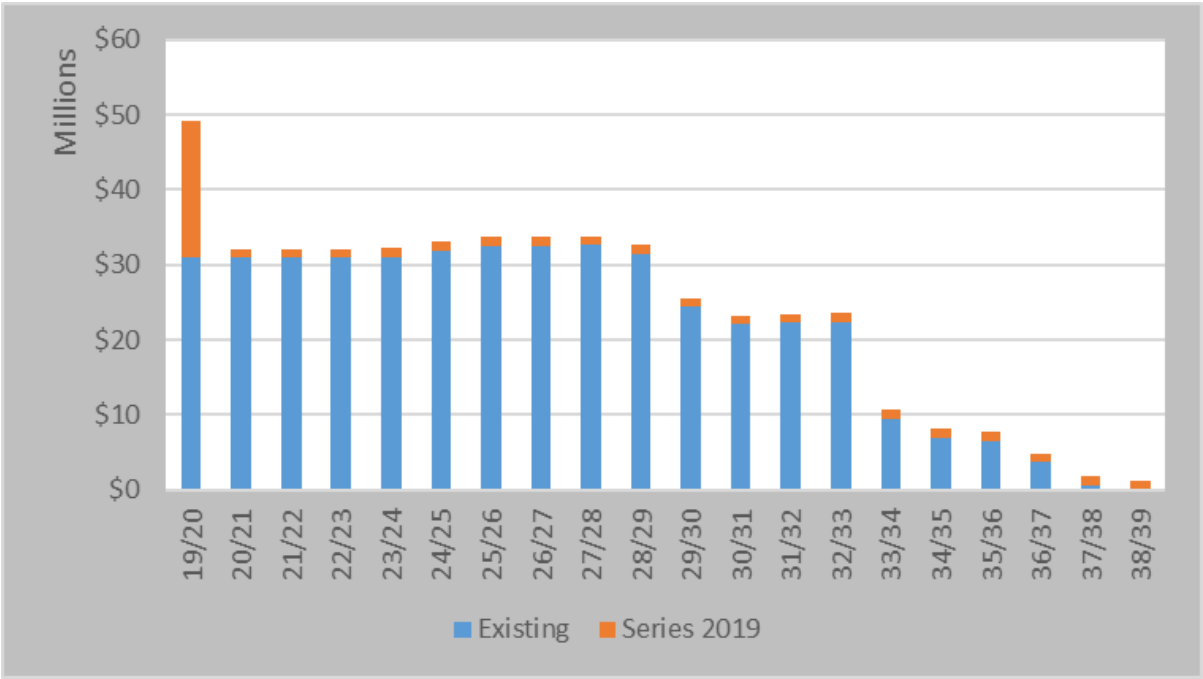
The 2019 General Obligation bond debt structure includes a relatively large amount of principal in Year 1 (FY19/20) to utilize anticipated debt service fund balance. For planning purposes, the City uses conservative assumptions for interest rates on debt, property tax collection rates, fee revenues, etc. In addition, after the proposed 2019

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

G.O. bond issuance, there would still be nearly \$198 million in current bond authorization remaining to be issued in future years. These conservative assumptions and capacity in the secondary tax levy for remaining bond authorization allow for the payment of a significant amount of principal in Year 1.

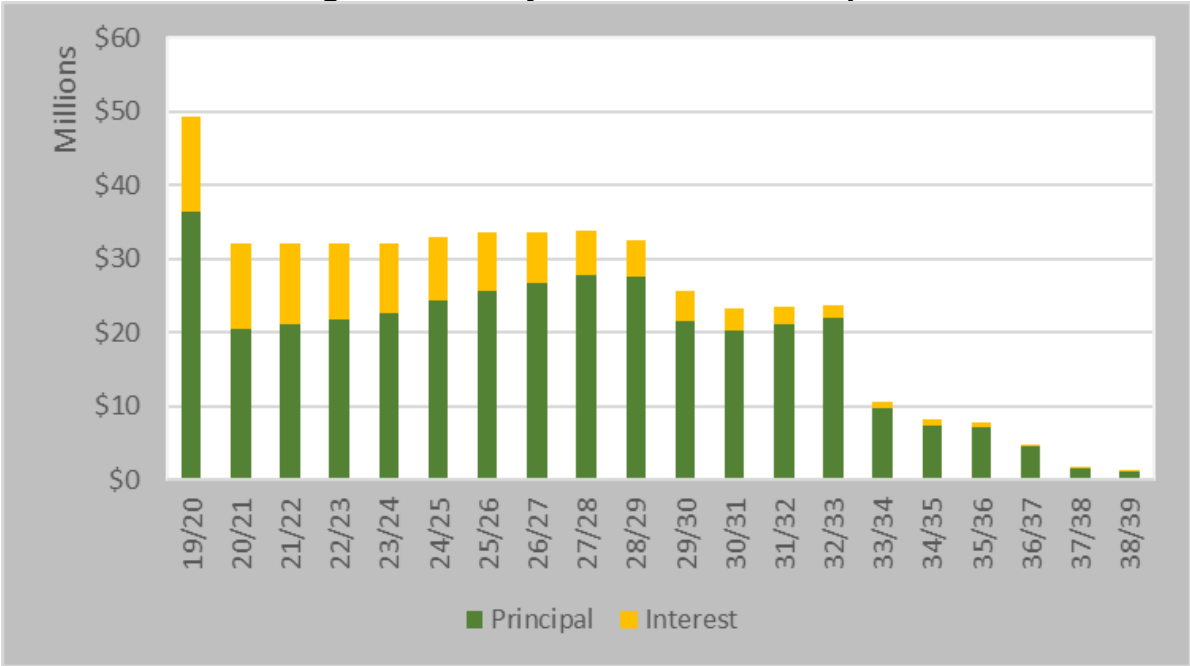
Existing General Obligation debt combined with the proposed Series 2019 issuance is shown in Chart 1 below.

Chart 1: General Obligation Debt by Fiscal Year – Existing and Series 2019



Total General Obligation bond principal and interest payments, including the proposed Series 2019 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

Debt service from the Series 2019 general obligation bonds is paid for primarily by secondary property tax revenue. In addition, revenue from development impact fees and a court construction fee are used to fund general obligation bond debt service. Small transfers from the General Fund and the Enterprise Fund are also made to fund specific portions of the debt service.

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.

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 and the projects on which the bonds are planned to be spent.