



City Council Report

Date: August 19, 2019
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Ryan Wimmer, Treasurer
Subject: Defeasance of Series 2013 Excise Tax Revenue Obligations

Purpose

The purpose of this item is to defease (pre-pay) excise tax revenue obligations issued by the City in 2013. The defeasance would result in substantial interest cost savings and remove the debt from the City's financial statements. The following City debt would be defeased:

- Excise Tax Revenue Obligation, Series 2013
Principal Amount Outstanding: \$49,025,000

Background

In April 2013, the City issued \$94 million of excise tax revenue obligations ("obligations") to finance the construction and renovation of spring training baseball stadium facilities. When issuance of the obligations was authorized in 2013, revenue from the sale of Pinal County land owned by the City for its now-obsolete water rights was identified as the intended funding source to repay the obligations.

The obligations were structured such that only interest payments were due until 2028, with principal repayment due over the five years from 2028 to 2032, in order to give the City time to sell the land. Roughly half of the obligations (\$45 million) were callable (eligible to be paid off early) in July 2017 and were redeemed shortly thereafter utilizing proceeds from the sale of a portion of Pinal County land.

In June 2019, the City received proceeds from the final sale of Pinal County land. The land sale revenue is the proposed source of funding to defease the remaining obligations. The remaining \$49 million of principal is callable in July 2022.

Discussion

The obligations would be defeased by purchasing interest-bearing U.S. government securities and placing them in escrow in an irrevocable trust. The securities would be

structured to mature at exactly the dates and amounts needed to pay interest due and to redeem the obligations when they become callable on July 1, 2022.

Since the remainder of the debt service on the obligations would be funded in an irrevocable trust, the defeasance would allow the debt to be removed from the City's financial statements.

Fiscal Impact

The defeasance transaction would save the City \$22.2 million in nominal interest costs. Pre-funding the payments on the obligations would have a negligible financial impact to the City. However, the early redemption (call) of the obligations in 2022 would allow the City to save ten years of interest payments that would otherwise be due in years 2023 to 2032.

Alternatives

The Council could choose not to move forward with the defeasance. In that case, the City would invest the Pinal County land sale revenue along with other City funds and pay the debt service on the obligations when due or callable. The financial impact would be negligible if the City were still to redeem the bonds when callable in July 2022. However, the City would continue to carry the obligations as debt on the City's financial statements.