



City Council Report

Date: October 19, 2020
To: City Council
Through: Chris Brady, City Manager
Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Ryan Wimmer, Treasurer
Subject: General Obligation Bond Sale - Series 2020

Purpose and Recommendation

The purpose of this item is to authorize the sale of general obligation bonds to finance planned City capital projects. It is recommended that the City Council authorize the sale of not-to-exceed \$22,075,000 of General Obligation (G.O.) bonds through a negotiated process.

Background

In Citywide elections, Mesa residents have authorized the City to use general obligation bonds to finance capital projects. The City plans to use the proceeds from the sales of Series 2020 G.O. bonds to pay for the purchase, design, and/or construction of capital projects during calendar year 2020, 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 2020 sale represent portions of bond authorizations approved by the City electorate in bond elections held in 2013 and 2018.

Table 1 below shows those City G.O. 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 2020 bonds as well as the authorized amounts that would remain after the sale.

Table 1: General Obligation Bonds – Authorizations Currently in Use

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2020	Remaining Authorization
Streets	2013	\$ 20,265,000	\$ 10,035,000	\$ 10,230,000
Library	2018	\$ 19,700,000	\$ 1,005,000	\$ 18,695,000
Parks and Culture	2018	\$ 83,240,000	\$ 3,010,000	\$ 80,230,000
Public Safety	2018	\$ 74,955,000	\$ 8,025,000	\$ 66,930,000
<i>Total</i>		\$ 198,160,000	\$ 22,075,000	\$ 176,085,000

Attachment A – Authorization Designation by Purpose and Election provides a summary of the proposed Series 2020 bond issuance amounts by purpose and authorization year.

Attachment B – Remaining Bond Authorization Summary by Election provides remaining bond authorization amounts (after the proposed Series 2020 bond issuance) by purpose and year of voter authorization.

Discussion

Projects

Attachment C – Series 2020 General Obligation Bond Sale Project List lists the projects that are planned to be financed by the proceeds of the Series 2020 bond issue. The amount included in the sale is anticipated to be enough to fund anticipated project spending through December 31, 2020.

Financing Timeframe

The City typically issues voter-authorized general obligation bonds annually in amounts sufficient to fund project spending in the calendar year of the issuance. 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 costs while maintaining flexibility in the timing of future bond issues.

The 2020 bond issuances were delayed from the usual Spring timeframe due to unfavorable market conditions related to the global coronavirus pandemic. It is anticipated that bonds will again be issued in the Spring of 2021.

The City is scheduled to price the bonds sometime during November 10-19, 2020 and close on the bonds (receive the proceeds) December 10, 2020.

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 the authorized bonds once issued.

Structure

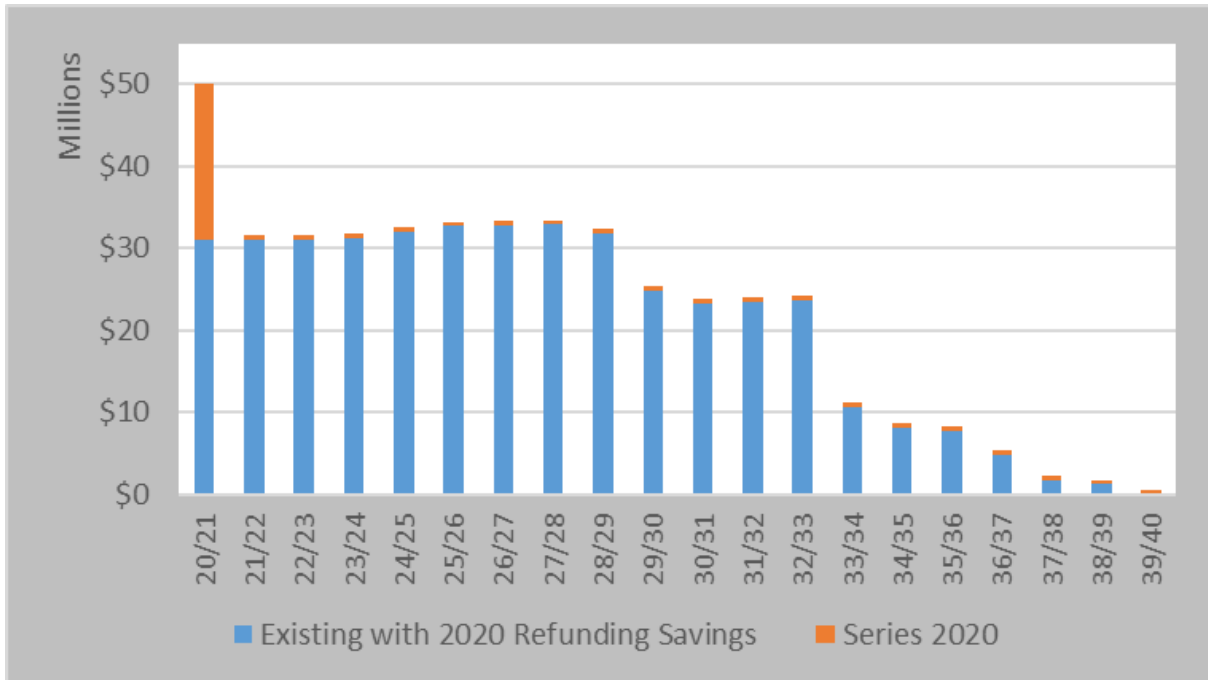
The 2020 debt service structure includes a relatively large amount of principal in Year 1 (FY20/21) to utilize anticipated fund balance. This is because the FY 2020-21

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

secondary property tax levy is sufficient to fund the Parks and Culture and Public Safety bonds authorized by voters in 2013 and 2018 after all the bonds have been issued. Also, the City uses conservative planning assumptions for interest rates on debt, property tax collection rates, fee revenues, etc. These conservative assumptions and capacity in the secondary tax levy for bonds that have been authorized but not yet issued allow for the significant payment of principal in Year 1.

Existing G.O. debt service combined with estimated 2020 refunding savings is shown with the proposed Series 2020 issuance in Chart 1 below.

Chart 1: General Obligation Debt Service by Fiscal Year



Alternatives

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

Fiscal Impact

Debt service from the Series 2020 G.O. bonds is funded by secondary property tax revenue and has no direct impact on the City's General Fund. However, there may be operational costs or savings associated with the capital projects that may affect other City funds, including the General Fund.

Coordination

The Finance Department, Office of Management and Budget, City Attorney's Office, City Manager's Office, Engineering Department, and other City departments that manage capital projects coordinated on the proposed bond issuances.