



2021 Capital Financing

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Need for Capital Financing

Infrastructure

- Support new development
- Update aging infrastructure

Quality of Life

- Provide public safety facilities, parks, libraries, streets, utilities

Process

- Funding source for Capital Improvement Program (CIP) projects

Equity

- Infrastructure paid for while in use (intergenerational equity)

Municipal Financing Process

1. City borrows money by selling bonds to investors
2. Proceeds are used to construct City infrastructure
3. City pays back principal with interest for the life of the bonds



Debt Service

Principal and interest payments made to investors

- City typically issues debt with payments due for 20-25 years
- New debt service coordinated with existing debt service to maintain stable payments from year to year
- City's financial forecast includes debt service for existing and future bond issuances

City's Annual Financing Process

City financing team evaluates needs and opportunities:

- **Issue (sell) new bonds** to finance active capital projects
- Reduce interest costs by **refunding (refinancing) existing bonds** at lower interest rates over same timeframe (\$59 million savings in past five years)
- Use available cash balances to defease (pay off early) existing debt (ex: Excise Tax Obligations – Spring Training facilities)
- Retire (pay off) bonds from past issuances that mature (come due)

General Obligation – Active Project Examples



Fire Station 221- Eastmark
Library Improvements
Street Improvements
North Center Street Athletic Fields



Utility Systems – Active Project Examples



Mesa Drive Electric Improvements
Gas System New Mains
Sewer Line Rehabilitation/Repair/Replacement
Water System Main Rehabilitation/Replacement

2014 Utility Bond Program

Timeline

Early 2014	List of project needs compiled
Summer 2014	Council review/approval
Fall 2014	Information package listing projects published
Nov 2014	Voter approval (\$580 million)

Challenges

- Project list outdated as priorities change
 - pressure to complete projects on list, some projects not completed
- Difficult to adjust to meet immediate opportunities that arise
 - examples: downtown Mesa revitalization, growth in southeast Mesa, water re-use pipeline to Gila River Indian Community (GRIC)
- Some authorization spent faster than others
 - examples: Electric, Streets
- Utility infrastructure needs to be maintained/expanded regardless of bond program status

Other Cities - Recent Utility Financing Methods

	Utility Revenue Bonds	General Obligation Bonds	Subordinate Utility Revenue Bonds	Utility Revenue Obligations	Excise Tax Obligations
Mesa	X				
Avondale				X	
Chandler					X
Gilbert				X	
Glendale				X	
Goodyear			X		
Phoenix				X	
Scottsdale					X
Surprise				X	
Tempe		X			
Tucson				X	

Mesa – Prior Obligations Issuances

Mesa has issued Obligations (backed by sales tax revenue) for Council priorities:

- State Route 24 (2009, 2010, 2011)
- Spring Training Stadiums (2013)
- ASU at Mesa City Center(2020)



Utility Obligations Recommendation

Financing method to meet changing capital needs

- Projects and debt issuances would continue to come to Council each year for consideration
- No impact to amount of debt issued for obligations versus bonds
- Debt still backed by and paid for by utility revenue

Utility Obligations Recommendation

Advantages

- Flexibility to respond – ability to more easily adjust project priorities
- Transparency – project decisions made and communicated each year
- Accountability – ability to complete planned projects

Recommendation

- Issue small amount of obligations in 2021 and evaluate
- Continue to use remaining authorization to issue bonds

2021 Utility Revenue Obligations

Project Examples

Electric

- City Center Improvements
- Downtown Improvements
- EcoMesa
- Smart Energy - Microgrid
- Substation Improvements

Natural Gas

- Queen Creek Gate Station & High-Pressure Extension

Water

- Central Mesa Re-use Pipeline
- East Mesa Interconnect Pipes
- Signal Butte Water Treatment Plant Expansion

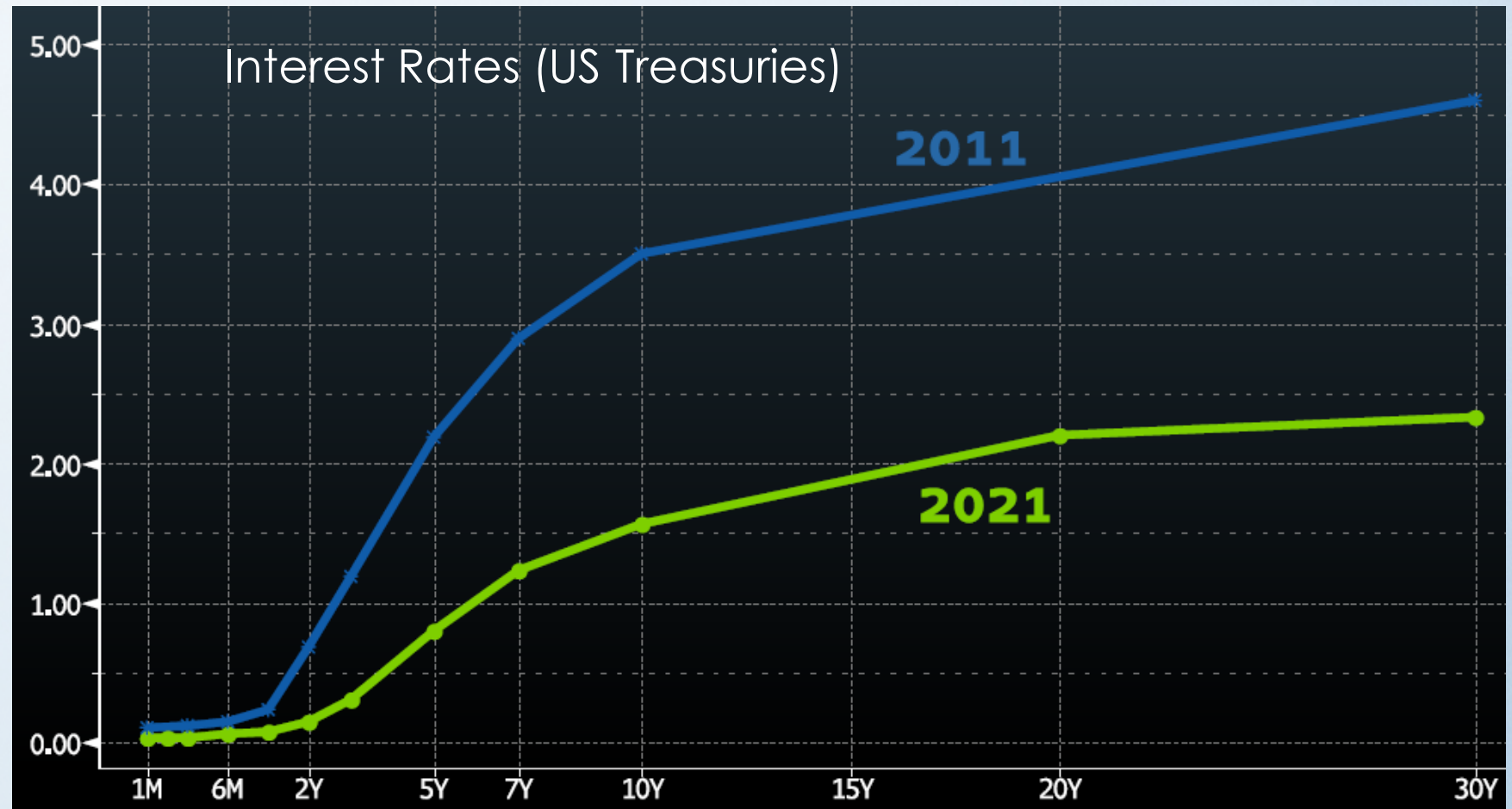
Wastewater

- Broadway Road Sewer Relocation (Union Pacific RR Tracks)
- Northwest Water Reclamation Plant Improvements
 - Aeration Basin Upgrade
 - New Headworks & Grit Removal System

Financing Cost Savings

City Finance team manages debt

- maximizes financing opportunities
- identifies opportunities to reduce financing costs



2021 Financing Cost Savings

Refunding of bonds issued in 2011

- General Obligation Bonds
Estimated* Interest Savings: **\$3 million** (present value)
- Utility Systems Revenue Bonds
Estimated* Interest Savings: **\$18 million** (present value)

TOTAL ESTIMATED* INTEREST SAVINGS: **\$3M + \$18M = \$21M** (present value)

*Estimate based on current interest rates. Actual savings will be determined by market conditions when priced.

Proposed 2021 Issuances

Library – Parks and Culture – Public Safety – Streets

General Obligation Bonds

New \$20 million

Refunding \$15 million

Electric – Natural Gas – Wastewater – Water

Utility Systems Revenue Bonds

New \$35 million

Refunding \$44 million

Utility Systems Revenue Obligations

New \$15 million

Timeline for 2021 Financing Transactions

(may be adjusted due to market conditions)

April 19	Council considers authorization of resolutions
May 3-6	Bonds are priced
May 17-20	Obligations are priced
May 27	Bonds close and proceeds are received
June 17	Obligations close and proceeds are received



General Obligation (GO) Bonds

- Secured by full faith and credit of City (property tax)
- Paid for primarily from secondary property tax revenue
- Projects submitted to voters most recently in 2018 and 2020

Proposed 2021 Sale: \$20,070,000

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2021	Remaining Authorization
Streets	2013	\$ 9,985,000	\$ 9,985,000	\$ 0
Streets	2020	\$ 100,000,000	\$ 1,050,000	\$ 98,950,000
Library	2018	\$ 18,670,000	\$ 2,010,000	\$ 16,660,000
Parks and Culture	2018	\$ 80,160,000	\$ 2,010,000	\$ 78,150,000
Public Safety	2018	\$ 66,735,000	\$ 5,015,000	\$ 61,720,000
<i>Total</i>		\$ 275,550,000	\$ 20,070,000	\$ 255,480,000

Utility Systems Revenue Bonds

- To finance utility systems infrastructure
- Secured by utility systems revenue
- Paid for primarily from utility systems revenue
- Projects submitted to voters most recently in 2014

Proposed 2021 Sale: \$35,270,000

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2021	Remaining Authorization
Electric	2014	\$ 3,935,000	\$ 3,935,000	\$ 0
Natural Gas	2014	\$ 33,045,000	\$ 3,195,000	\$ 29,850,000
Wastewater	2014	\$ 43,697,788	\$ 13,680,000	\$ 30,017,788
Water	2014	\$ 48,980,402	\$ 14,460,000	\$ 34,520,402
<i>Total</i>		\$ 129,658,190	\$ 35,270,000	\$ 94,388,190

Utility Systems Revenue Obligations

- To finance utility systems infrastructure
- Secured by utility systems revenue
- Paid for primarily from utility systems revenue
- Provides flexibility in meeting utility infrastructure needs

Proposed 2021 Sale: \$14,720,000

Purpose	Proposed Sale Series 2021
Electric	\$ 5,065,000
Natural Gas	\$ 880,000
Wastewater	\$ 1,760,000
Water	\$ 7,015,000
Total	\$ 14,720,000

Bond Program Savings

2021 Bond Refundings (\$ millions)

2011 General Obligation Bonds (\$17.7M)

Refunded Principal	Nominal Savings \$*	Net Present Value Savings \$*	Net Present Value Savings % of par*
\$14.5	\$3.2	\$3.0	17%

2011 Utility Systems Revenue Bonds (\$54.0M)

Refunded Principal	Nominal Savings \$*	Net Present Value Savings \$*	Net Present Value Savings % of par*
\$44.4	\$21.1	\$18.0	33%

*Estimate based on current interest rates. Actual rates will be based on market conditions when priced.