

AUDIT, FINANCE & ENTERPRISE COMMITTEE

October 1, 2020

The Audit, Finance & Enterprise Committee of the City of Mesa met via a virtual format streamed into the lower level meeting room of the Council Chambers, 57 East 1st Street, on October 1, 2020, at 9:26 a.m.

COMMITTEE PRESENT

Jennifer Duff, Chairperson*
Mark Freeman*
David Luna*

COMMITTEE ABSENT

None

STAFF PRESENT

Christopher Brady
Dee Ann Mickelsen
Jim Smith

(*Committeemembers participated in the meeting through the use of video conference equipment.)

Chairperson Duff conducted a roll call.

1. Items from citizens present:

There were no items from citizens present.

2-a. Hear a presentation and discuss 2020 bond program including defeasance, new issuances, and refunding.

City Treasurer Ryan Wimmer displayed a PowerPoint presentation to update the Committeemembers on the 2020 bond program. **(See Attachment 1)**

Mr. Wimmer stated the purpose of the bond program is to support the City's Capital Improvement Program (CIP), which is determined each year through the budget process. He indicated the funding source for most CIP projects is bond financing, adding it is important to remember the bond program is part of the City's infrastructure CIP. He explained each year the City's finance team looks at the need to sell bonds, and then issues the bonds to finance the CIP. He advised the City is always looking for savings opportunities by refinancing to a lower interest rate or by defeasing existing debt early. (See Page 2 of Attachment 1)

Mr. Wimmer defined a bond and outlined that municipal bonds are the most common way for cities to finance infrastructure. He provided the City's bond process. (See Page 3 of Attachment 1)

Mr. Wimmer said the principal and interest paid to investors is called debt service and is paid for the life of the bond, which is generally 20 to 25 years. He advised the City's financial forecast included debt service for both existing and anticipated future debt service. (See Page 4 of Attachment 1)

Mr. Wimmer indicated there was a delay in bond issuances due to the pandemic pushing the City's issuance to the November/December timeframe. (See Page 5 of Attachment 1)

Mr. Wimmer presented some project examples that were funded using 2020 General Obligations (GO) bonds, which include Fire Station No. 221 in Eastmark, the Mesa Drive street improvements, as well as the North Center Street Athletic Fields. (See Page 6 of Attachment 1)

Mr. Wimmer provided the numbers for the planned issuance for the 2020 GO bond sale that will cover streets, library, parks and culture, and public safety projects, which total approximately \$22 million. (See Page 7 of Attachment 1)

In response to a question from Chairperson Duff regarding whether the Public Safety line item covers the new buildings, Mr. Wimmer explained the Public Safety line item includes funding for building Fire Station 221, as well as for the purchase of the land for the Northeast Fire Station 222. He mentioned a full list of projects being supported by the bonds will be provided to Council in the coming weeks.

Mr. Wimmer stated GO bonds are secured by the full faith and credit of the City, referring to property tax, and are primarily paid from secondary property tax revenue. He described the issuance process used by the City. (See Page 8 of Attachment 1)

Mr. Wimmer discussed some Utility System bond project examples, adding one of the larger projects is finishing the Greenfield Water Reclamation Plant Expansion. (See Page 9 of Attachment 1)

Mr. Wimmer reviewed the numbers for the Utility System Revenue bond sales. He pointed out the largest number falls under wastewater, and the total planned issuance is approximately \$70 million. He advised the numbers could change over the next couple of weeks as the markets change. (See Page 10 of Attachment 1)

Mr. Wimmer identified that Utility System Revenue bonds are secured by the Utility System Revenue and finance Utility Systems infrastructure, which are paid for primarily from Utility System Revenues. (See Page 11 of Attachment 1)

Mr. Wimmer commented each year the City's finance team looks for opportunities to save on interest costs and defeasance opportunities to pay debt off early. He explained due to the current lower interest rates the City has refinanced existing bonds for cost savings. (See Page 12 of Attachment 1)

Mr. Wimmer provided the conservative estimated savings numbers for the GO Bonds and the Utility Systems Revenue bonds, which total approximately \$17 million. (See Page 13 of Attachment 1)

In response to a question posed by Chairperson Duff, Mr. Wimmer commented he is unclear what portion, if any, of the new development impact fees goes to infrastructure costs; however, the bonds help pay for the infrastructure that supports the development that will be constructed. He stated the new development then pays for the impact that development will have on the system to help recover those costs.

City Manager Christopher Brady expanded by saying that impact fees are regulated by State law and are limited on how much can be collected. He added the City is only able to use funding from impact fees to pay off existing outstanding debt.

City Attorney Jim Smith advised the impact fee statute changed approximately 10 years ago and gave cities two options. He mentioned the option the City of Mesa chose was to use the impact fees to pay for past debt, with the other option being to use the impact fees for future costs where an impact fee analysis would need to be conducted and included many more restrictions. He said as the impact fees are paid off, the fees go away. He commented the impact fee rate has not changed which makes it nearly impossible to recapture the costs with the current rate.

In response to a question from Chairperson Duff, Mr. Brady explained how the impact fee is calculated and the regulations on how the fee can be applied. He stated what is eligible for payment using the impact fee has been limited to outstanding debt since 2011.

In response to a question posed by Committeemember Luna regarding whether taxpayers' rates are also lowered when the City refinances to a lower rate, Mr. Wimmer advised GO bonds only resets the property tax levy after a new bond election.

Mr. Brady stated refinancing to lower interest rates plays a factor in keeping the rate lower, as well as affects commercial development. He reported by managing the debt the City is reducing the cost of the debt.

In response to a question from Committeemember Luna, Mr. Wimmer indicated the tax levy is recalculated each time there is a new bond election.

Mr. Brady remarked the goal is to smooth out the debt service over 15 to 20 years to avoid having peaks and valleys and then calculating the tax levy impacts from there.

In response to a question from Committeemember Luna regarding how many bond elections there have been since 2013, Mr. Wimmer stated there were GO bond elections in 2012, 2013, 2018 and 2020. He elaborated by saying utility elections took place in 2010 and 2014.

Committeemember Luna noted his appreciation that the City looks for opportunities to refinance the bonds for taxpayer savings. He asked whether there is a concern that the City is overburdening taxpayers with bonds?

Mr. Brady advised that the numbers are reviewed every year as the City goes to sell bonds. He explained staff are sensitive to the impact to the average homeowner while trying to keep up with redevelopment within the City to replace water and electric lines, along with new infrastructure as the City continues to grow. He added new growth and commercial development helps spread out the tax burden.

Committeemember Freeman commented refinancing bonds is important to leverage the lower interest rates. He stated the City of Mesa is diligent about paying debt off and building up the City.

In response to a question from Chairperson Duff, Mr. Brady indicated when the capital improvement budget is created, there is anticipation that some of the capital projects that are financed with bonds will add additional expenses to the General Fund when those projects are completed. He confirmed that CIP is for new infrastructure or replacement of older infrastructure and that maintenance is built into the budget.

Mr. Wimmer shared the estimated timeline for the 2020 bond transactions. (See Page 14 of Attachment 1)

In response to a question from Committeemember Freeman regarding the interest rate for the bonds, Mr. Wimmer stated five issuances will be sold which all have a slightly different interest rate based on their maturities and the type of debt, but the estimate is around 2%.

In response to a series of questions from Committeemember Luna, Mr. Wimmer remarked that the term "refunding" used in the bond industry essentially means refinancing. He added the bonds that will be refunded were issued in 2010. He continued by saying the GO bonds being refunded total \$30 million and the utility bonds total \$45 million.

In response to a question posed by Chairperson Duff, Mr. Wimmer explained the Utility Systems Revenue bonds have a debt service coverage ratio that is restricted to 1.75% to ensure the City has enough coverage to make the payments. He stated the City does not have a policy regarding the amount of coverage required but attempts to keep the number as high as possible. He remarked the State Constitution has two restrictions on the amount of GO Bond debt, which combined equals 26% of the taxable value of property in the City.

Chairperson Duff thanked Mr. Wimmer for the presentation.

2-b. Hear a presentation and discuss funding for the ASU @ Mesa City Center project.

City Treasurer Ryan Wimmer displayed a PowerPoint presentation and provided an update on the Arizona State University (ASU) at Mesa City Center project. **(See Attachment 2)**

Mr. Wimmer stated along with the GO and utility bonds being issued, excise tax obligations will be issued to help fund the ASU project. He reported construction is underway and the project will be completed in October of 2021 with classes beginning shortly thereafter. (See Page 2 of Attachment 2)

Mr. Wimmer presented the current funding plan for the project which totals \$73.5 million plus furniture, fixtures, and equipment (FF&E). He explained ASU's commitment is \$10 million, plus the FF&E. He remarked the City will be contributing approximately \$20 million in cash, as well as \$42.8 million will be financed with excise tax revenue obligations. (See Page 3 of Attachment 2)

Mr. Wimmer commented an excise tax is simply a tax on a transaction and are guaranteed by sales tax receipts. He listed previous projects that have been financed with excise taxes. (See Page 4 of Attachment 2)

In response to a question from Chairperson Duff, Mr. Wimmer confirmed there is no outstanding debt on the Highway nor the Stadium project; however, there is some outstanding debt on the Phoenix-Mesa Gateway Airport improvements. He reported the City of Mesa has no excise tax debt outstanding, which is rare for a city and puts Mesa in a good position.

Mr. Wimmer indicated that Council has already approved the issuance of the excise tax obligations. (See Page 5 of Attachment 2)

Mr. Wimmer presented the annual cost estimates for the obligations, comparing the numbers at the time of approval to present day numbers. He added the actual cost will be determined when the bonds are sold in November. (See Page 6 of Attachment 2)

Mr. Brady pointed out the City was able to pull together enough cash contributions for the ASU project to significantly reduce the annual debt service payments and will continue to look for other opportunities to pay the down the debt service.

Mr. Wimmer reviewed the timeline for the excise tax obligations. (See Page 7 of Attachment 2)

In response to a question posed by Committeemember Freeman regarding whether the City is going to pledge the excise tax for the ASU project at \$42.8 million or \$63.5 million, Mr. Brady confirmed the City is obligating \$42.8 million, coming down from the original \$60 million that was identified in 2018 from the cash contributions, and are hoping to have additional land sales to help fund the annual debt service.

Committeemember Luna expressed his support for the ASU project and lowering the cost of the ASU project with proceeds from land sales to save the City money.

Chairperson Duff agreed that seeing the debt significantly lowered is another point of pride for the project and continued by saying the City will continue to chip away at the debt.

Chairperson Duff thanked Mr. Wimmer for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 10:13 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 1st day of October 2020. I further certify that the meeting was duly called and held and that a quorum was present.


DEE ANN MICKELSEN, CITY CLERK



2020 Bond Program

October 1, 2020

Ryan Wimmer, Treasurer

City of Mesa Bond Program

- Capital projects approved in City budget through annual capital improvement program (CIP) update
- Funding source for most CIP projects is bond financing

Annually, City finance team:

- evaluates need to issue (sell) bonds
- **issues bonds** to finance budgeted capital projects
- looks for savings opportunities to **refund (refinance) existing bonds** at lower interest rate over same timeframe
- uses available cash to **defeas** **existing debt** (pay off early)
- retires, or pays off, bonds that mature (come due)

Municipal Bonds

Bond - financial instrument representing loan made by investor to borrower

- Most common method for cities to finance infrastructure
- Infrastructure paid for while in use (intergenerational equity)

How it works

1. City borrows money by selling bonds to investors
2. Bond proceeds used to construct City infrastructure
3. City pays bond principal and interest to investors

Debt Service

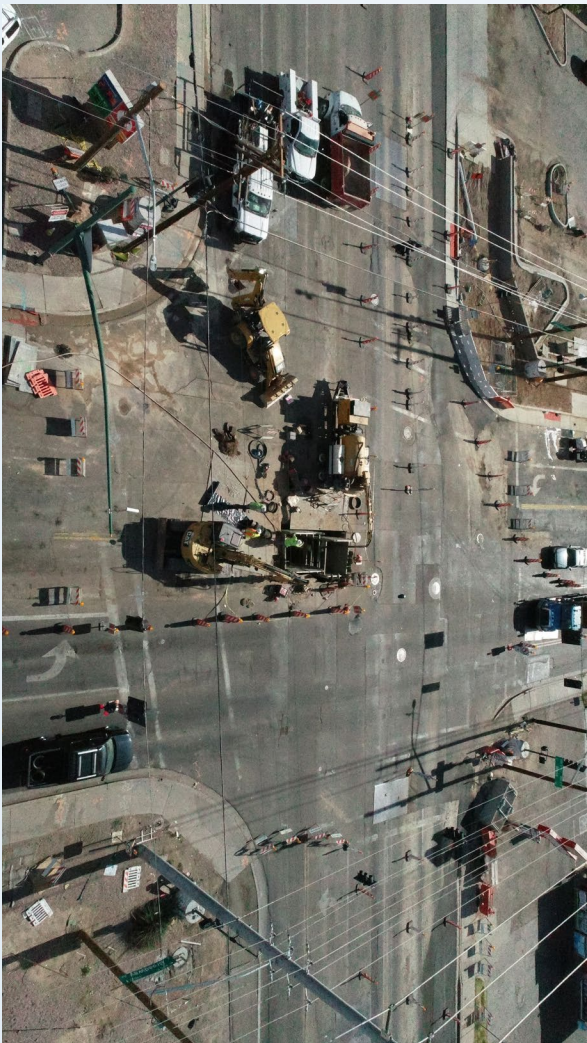
Principal and interest payments on bonds

- City pays debt service for life of bonds (20-25 years)
- Structure of new debt service coordinated with existing debt service to maintain stable payments from year to year
- City's financial forecast includes debt service for both existing and anticipated future debt issuances

2020 Issuance Delay

- City typically issues each year in Spring
- 2020 issuances initially planned for Apr/May
- Pandemic in Feb/Mar resulted in unfavorable market conditions
- 2020 issuances deferred to current timeframe (Nov/Dec)
- 2021 issuances still planned for Apr/May 2021

2020 General Obligation Bond Project Examples



Fire Station 221- Eastmark
Library Improvements
Mesa Drive Street Improvements
North Center Street Athletic Fields
Northeast Public Safety Facility



2020 General Obligation Bond Sale

Planned Issuance: \$22,075,000

| 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 |
| Total | | \$ 198,160,000 | \$ 22,075,000 | \$ 176,085,000 |

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

Issuance Process:

1. City negotiates with underwriter (bank) to purchase entire bond offering
2. Underwriter sells City bonds to investors

2020 Utility Systems Revenue Bond Project Examples



Electric Substation Improvements
Gas System Infrastructure Replacements
Greenfield Water Reclamation Plant Expansion
Water System Main Rehabilitation/Replacement

2020 Utility Systems Revenue Bond Sale

Planned Issuance: \$69,750,000

| Purpose | Authorization Year | Available Authorization | Proposed Sale Series 2020 | Remaining Authorization |
|-------------|--------------------|-------------------------|---------------------------|-------------------------|
| Electric | 2014 | \$ 17,280,000 | \$ 13,105,000 | \$ 4,175,000 |
| Natural Gas | 2014 | \$ 49,735,000 | \$ 16,380,000 | \$ 33,355,000 |
| Wastewater | 2014 | \$ 80,562,788 | \$ 36,170,000 | \$ 44,392,788 |
| Water | 2014 | \$ 53,150,402 | \$ 4,095,000 | \$ 49,055,402 |
| Total | | \$ 200,728,190 | \$ 69,750,000 | \$ 130,978,190 |

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

Issuance Process:

1. City negotiates with underwriter (bank) to purchase entire bond offering
2. Underwriter sells City bonds to investors

Bond Program Savings

City Finance team manages debt

- identify opportunities to reduce financing costs
- maximize financing opportunities

Financing cost savings = more funding available for projects

Annually, City finance team:

- looks for savings opportunities to **refund (refinance) existing bonds** at lower interest rate over same timeframe
- uses available cash to **defease existing debt** (pay off early)

2020 Bond Program Savings

General Obligation Bonds

Refunding

Estimated* Interest Savings: **\$5 million** (present value)

Utility Systems Revenue Bonds

Defeasance *(impact fee cash used to pay \$15M principal early - completed July)*

Actual Interest Savings: **\$2 million** (present value)

Refunding

Estimated* Interest Savings: **\$10 million** (present value)

TOTAL ESTIMATED* INTEREST SAVINGS: **\$5M + \$2M + \$10M = \$17M** (present value)

*Conservative estimate based on current interest rates. Actual savings will be based on market conditions when priced.

Estimated Timeline for 2020 Bond Transactions (may be adjusted due to market conditions)

Oct 19

Council considers authorization of:

- General obligation bond issuance
- General obligation bond refunding
- Utility revenue bond issuance
- Utility revenue bond refunding

Nov 10-19

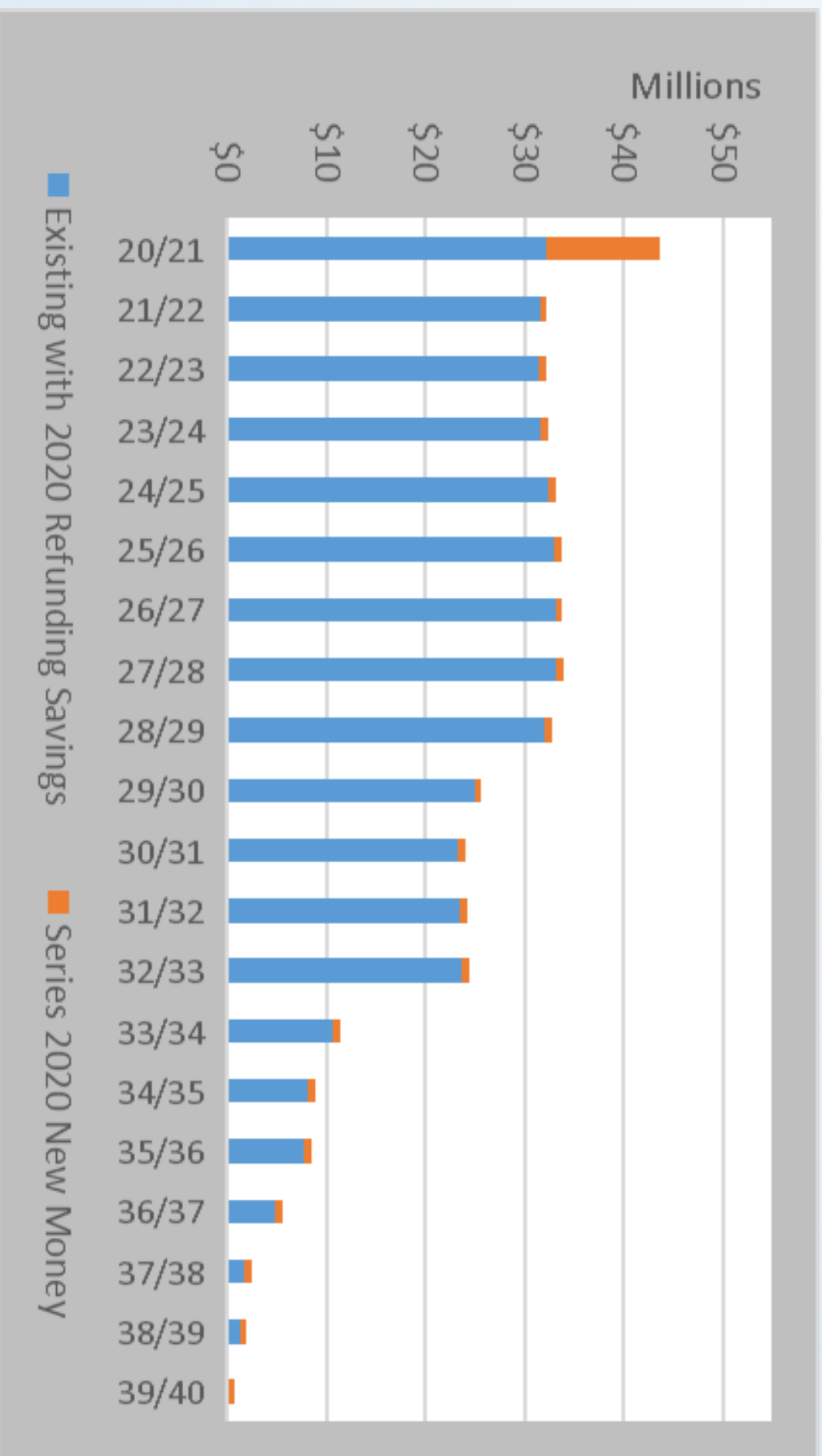
Issuances are priced

Dec 10

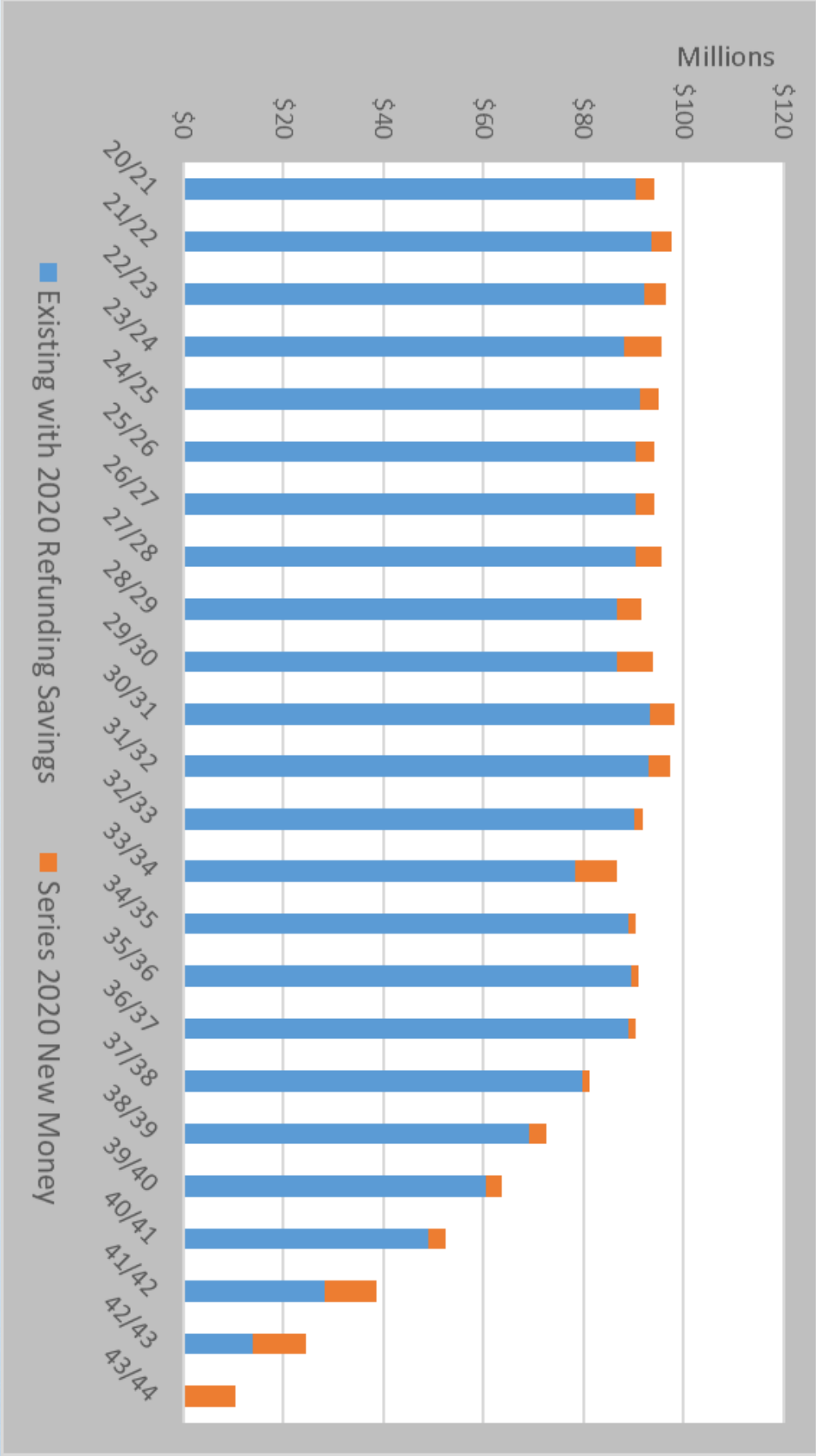
All issuances close and proceeds are received



General Obligation Bond Debt Service



Utility Systems Revenue Debt Service

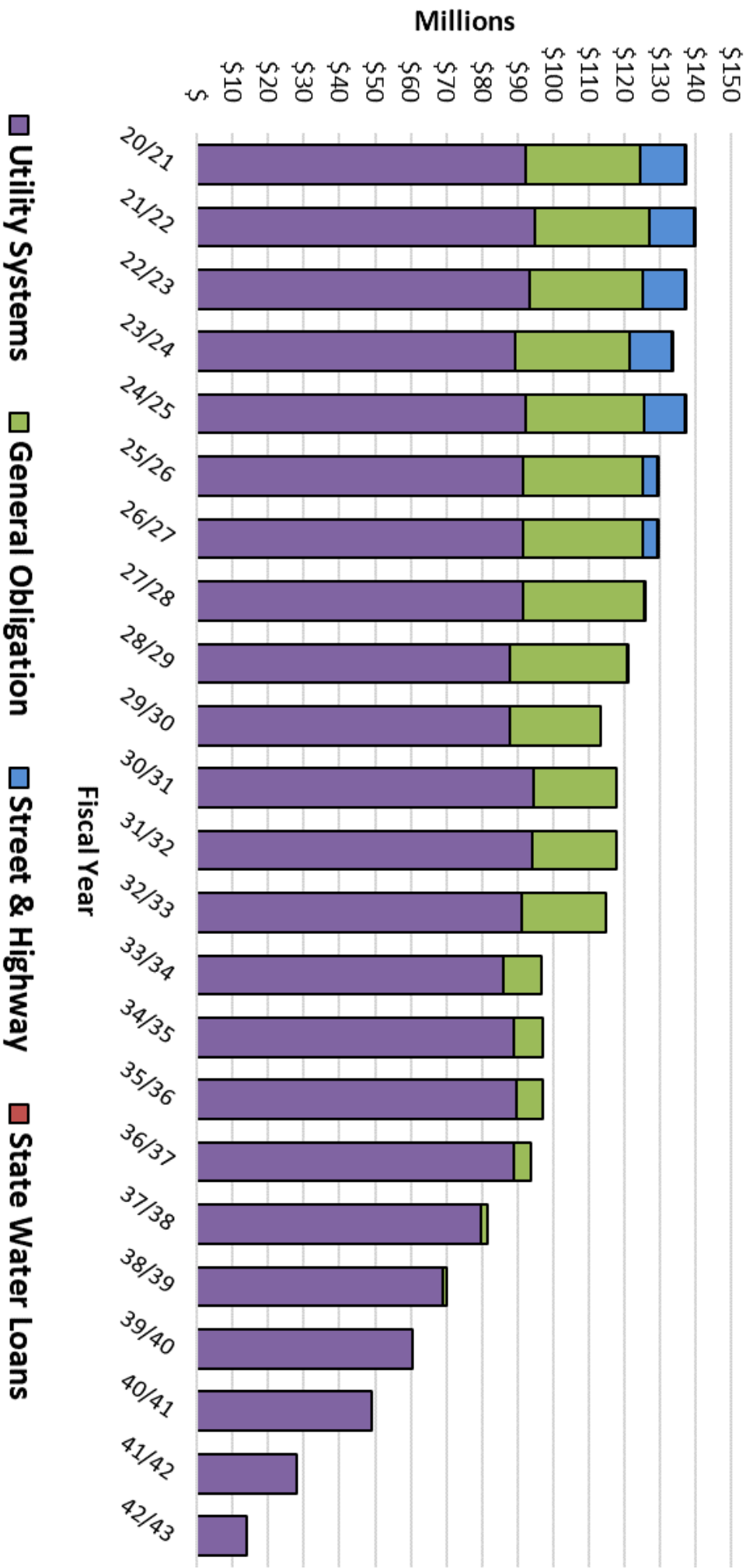


Existing City Debt (as of 8/1/20)

| Debt Type | Principal (\$ millions) |
|-------------------------------|----------------------------|
| Utility Systems Revenue Bonds | \$1,228 |
| General Obligation Bonds | 335 |
| HURF (Street & Highway) Bonds | 59 |
| State Water Loans | 1 |

Outstanding Debt Service

As of: August 1, 2020



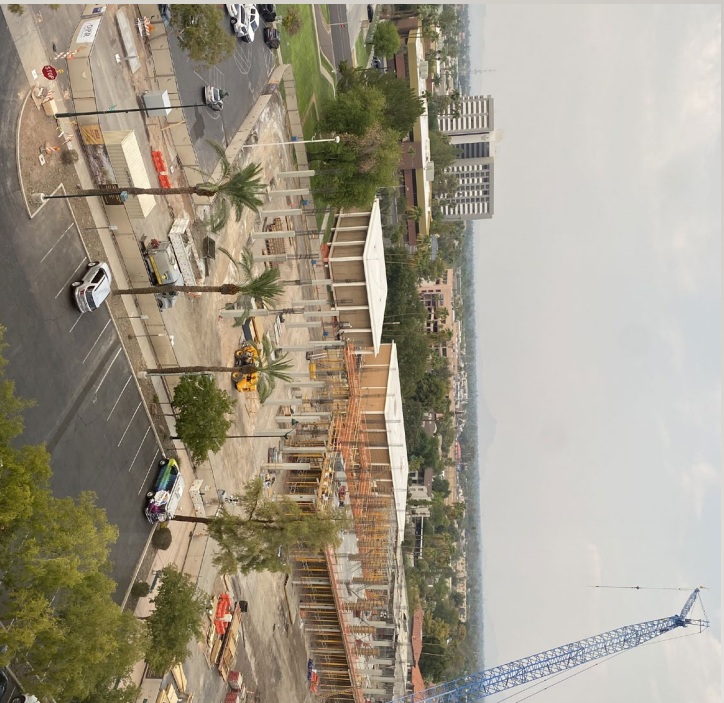
ASU @ MESA CITY CENTER PROJECT FUNDING

RYAN WIMMER, TREASURER

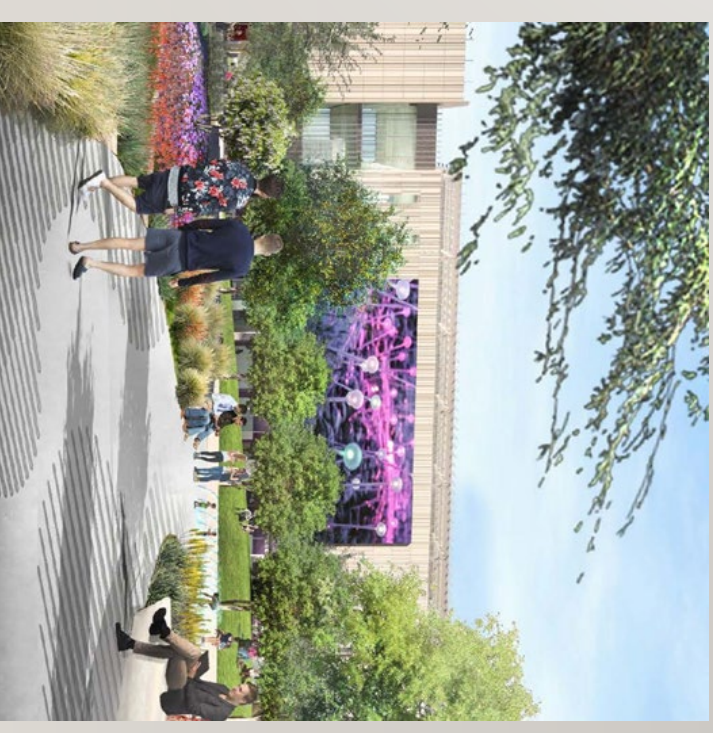
OCTOBER 1, 2020



ASU @ MESA CITY CENTER



- Construction underway
- October 2021: ASU building construction complete
- January 2022: ASU classes begin
- Programs in digital and sensory technology, experiential design, gaming, media arts, film production and entrepreneurial development and support



CURRENT FUNDING PLAN

| | |
|--|----------------------------------|
| Total Project Budget | \$73.5 million + FF&E |
| ASU Commitment | \$10.0 million + FF&E |
| City Funding Sources | |
| Cash Contribution (Land Sales, Economic Investment Fund, Project Construction Sales Tax) | \$20.7 million |
| 2020 Excise Tax Revenue Obligations | <u>\$42.8 million</u> |
| Total City Funding | \$63.5 million |

Note: ASU is responsible for funding any increases to the total project budget

EXCISE TAX OBLIGATIONS

Excise tax – tax on a transaction (e.g., sales tax, gas tax)

Guaranteed by City excise (sales) tax receipts

Previous projects financed or guaranteed

- | | | |
|----|---|---------------|
| 1. | Highway Project Advancement Notes – State Route 24 | \$123 million |
| 2. | Phoenix-Mesa Gateway Airport Authority improvements | \$ 19 million |
| 3. | Stadium projects (Sloan Field/Hohokam Park) | \$ 94 million |

EXCISE TAX OBLIGATIONS - COUNCIL APPROVAL

June 4, 2018 Issuance authorization of not-to-exceed \$65 million
(\$63.5 million project budget)

January 28, 2019 Authorization ratified and confirmed

ANNUAL COST ESTIMATES

| | <u>City Commitment</u> | <u>To Finance</u> | <u>Annual Debt Service*</u> |
|------------------|------------------------|-------------------|-----------------------------|
| Project Approval | \$63.5M | \$60.0M | \$5M |
| Jun 4, 2018 | | | |
| Current | \$63.5M | \$42.8M | \$3M |
| Sep 1, 2020 | | | |

*Estimate – actual costs to be determined by market conditions when bonds are sold

2020 EXCISE TAX OBLIGATIONS - TIMELINE

(MAY BE ADJUSTED DUE TO MARKET CONDITIONS)

Nov 10-19 Issuance priced

Dec 10 Issuance closes and proceeds received

