# MEMORANDUM

Date: July 6, 2017

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **Pima County's Debt Position**

Pima County's investment debt is often discussed. With the adoption last month of the County's Fiscal Year (FY) 2017/18 Budget and the County's planned tax levy next month, it is appropriate to provide updated information about the County's investment debt.

Pima County issues four types of investment debt: General Obligation Bonds, Street and Highway User Revenue Bonds, Sewer Revenue Debt, and Certificates of Participation. All four types of investment debt are used to finance infrastructure for the use and enjoyment of our citizens.

Pima County's investment debt is not traditional long-term bonded debt. Rather, it is relatively short-term debt and always limited to 15-year repayment schedules. Specific information about each type of investment debt found in Attachment 1, July 28, 2016 memo regarding Pima County's Long-term Debt Profile and Attachment 2, August 9, 2016 memo regarding Certificates of Participation.

Pima County's investment debt peaked in FY 2012/13 at $1.349 billion. Because Pima County limits its investment debt to 15-year repayment schedules, at the end of FY 2017/18 Pima County's current investment debt will be reduced to $929 million - a reduction of 31 percent in just five years. The County's current investment debt will be entirely paid-off during FY 2029/30.

In the attached graphs, Attachment 3 shows Pima County's steadily declining investment debt balances from the $1.349 billion peak in FY 2012/13, to a balance of $929 million at the end of the current fiscal year. Attachment 4 shows the corresponding balances for each of the four types of Pima County's investment debt.

CHH/lab

Attachments

c: Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management

# ATTACHMENT 1

# MEMORANDUM

Date: July 28, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **Pima County's Long-term Debt Profile**

The Bond Advisory Committee (BAC) will meet on September 9, 2016. At their last meeting, the BAC requested an update regarding Pima County's debt profile, including categories of debt, debt repayment schedules and related information.

Attached is a summary of Pima County's long-term debt, including our four types of debt; General Obligation Bonds, Street and Highway User Revenue Bonds, Sewer Revenue Debt and Certificates of Participation. The schedule demonstrates the current outstanding debt and the repayment schedule.

It should be noted that our General Obligation Bond debt is related to voter approval. In addition, the Street and Highway User Revenue Bonds are also voter approved. Sewer Revenue debt is a debt incurred due to Federal regulatory water quality standards. Certificates of Participation (COPs) vary widely in purpose, and a significant component of COPs are repaid quickly, in less than three years. However, some COPs carry a typical County 15-year debt profile.

As can be seen in the Combined Debt Outstanding Principal chart, Pima County's debt will be reduced from $1.27 billion in Fiscal Year (FY) 2014/15 to $1.02 billion by the end of the current fiscal year. This is a two-year $253 million reduction in aggregate debt.

In addition, the repayment schedules indicate this debt of $1.02 billion will be reduced to less than $500 million within five years and fully repaid in 10 years.

Pima County's General Obligation Bond debt at the end of FY 2014/15 totaled $384 million; by the end of the current fiscal year, this debt will be reduced to $300 million. Hence, $84 million of this debt has been repaid in the last two years. The debt will be further reduced by half in the next four years and will be nonexistent in 10 years.

You can also review the summary sheets for Street and Highway User Revenue Bonds, COPs and Sewer Revenue Debt.

If you have any questions regarding this information, please contact me.

CHH/anc

Attachment

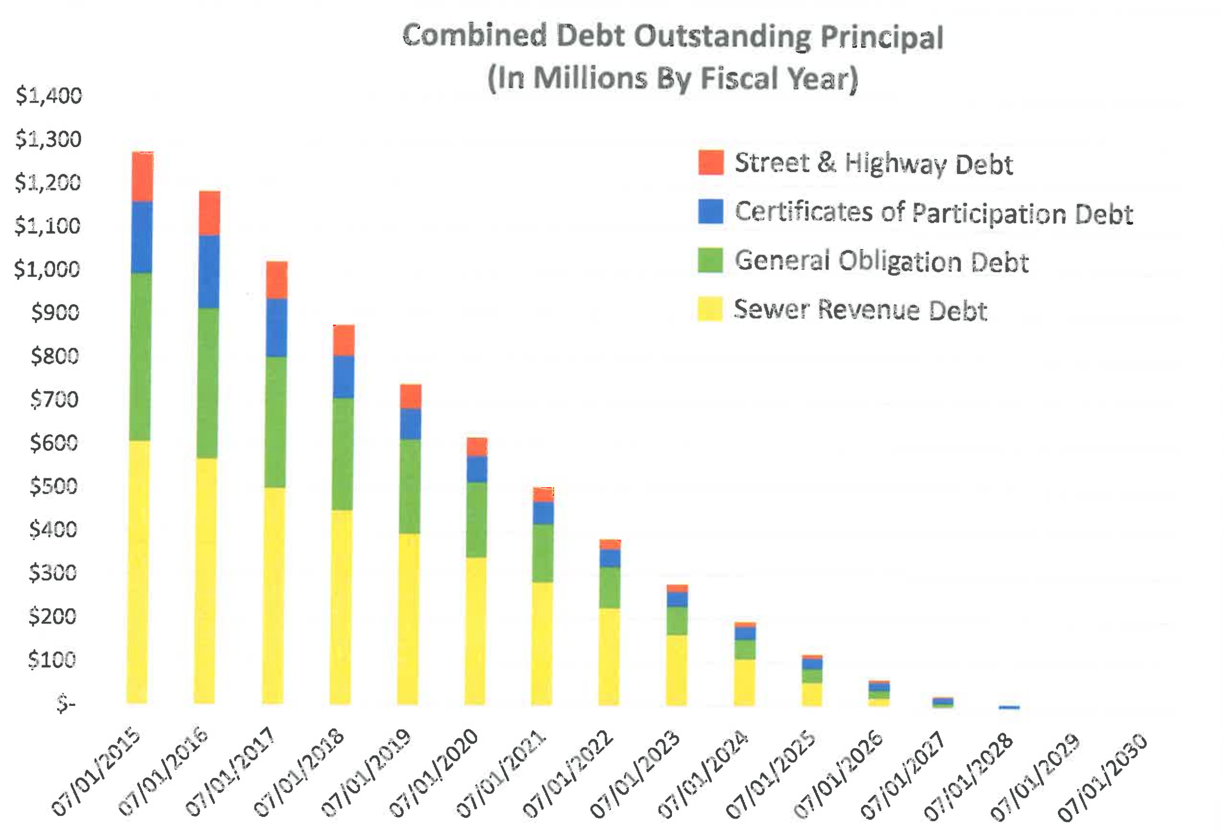
c: Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

# Pima County's Long Term Debt

Pima County's long term debt is comprised of four debt types which are described in more detail on the following pages:

- General Obligation Bonds
- Street and Highway Revenue Bonds (sometimes known as Transportation bonds)
- Sewer Revenue Debt
- Certificates of Participation

All of Pima County's long term debt is rated AA- or better by at least one major credit rating agency. This rating indicates Pima County has a very strong ability to meet its financial commitments. Unlike many other governments, Pima County limits its long term debt repayment to 15 years. This short repayment schedule, stable financial performance with good financial policies, and strong budget controls all contribute to Pima County's excellent credit rating.




At the end of fiscal year 2014-15, Pima County's long term debt totaled $1.27 billion. Last year, at the end of fiscal year 2015-16, the debt had decreased by $91 million to $1.18 billion. At the end of the current year, fiscal year 2016-17, the current debt will decrease another $162 million to $1.02 billion. The debt will be reduced in half within five years and, within ten years, Pima County's existing debt will decrease to $62 million dollars.

**General Obligation Bonds** – General Obligation Bonds are a common type of state and local government debt where repayment is secured by the government's pledge to use legally available resources to repay the bonds. This includes an annual property tax levied by Pima County when approved by the voters.

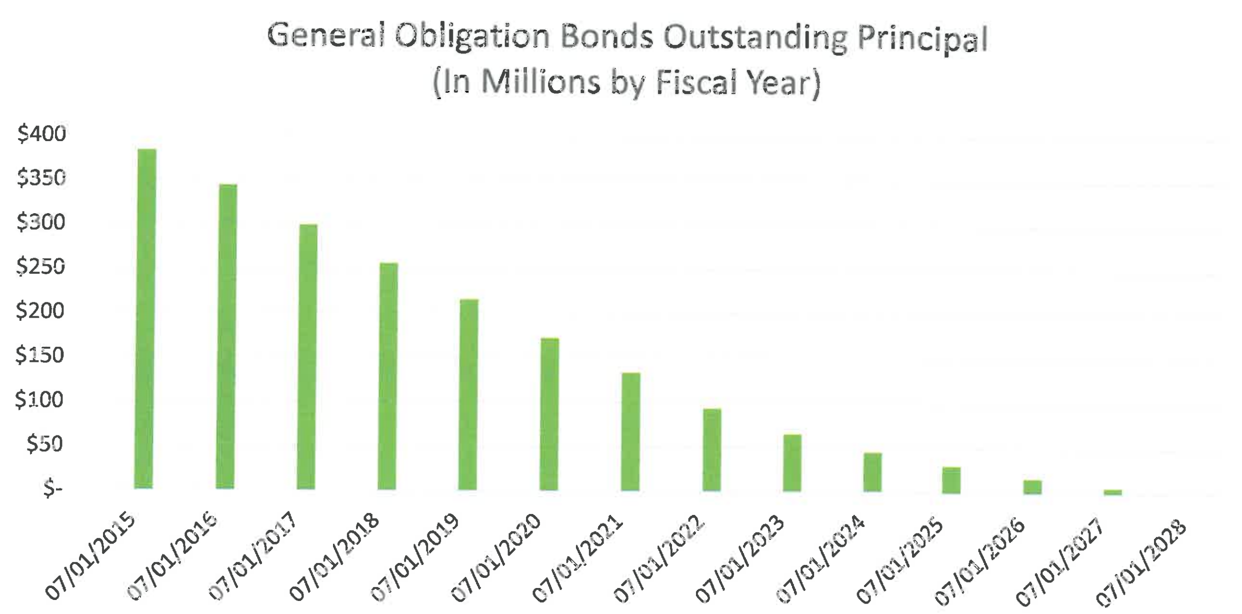
General Obligation Bonds are used by Pima County to fund capital improvement projects such as libraries, parks, and other public facilities and, when conditions permit, to refinance higher interest bonds with lower interest bonds without extending the original maturity dates.

For example, General Obligation Bonds have been used to fund the Abrams Building, Regional Public Safety Communications System, and the Wilmot Branch Library Improvements.

The Abrams Building was constructed to house the Health Department and other health providers.

The County Wireless Integrated Network (PCWIN) Regional Public Safety Communications System was built to provide voice communications between multiple public safety organizations to improve service delivery and coordination. PCWIN provides communication services to police, fire agencies, hospitals, and Pima County's non-public safety departments.

The Wilmot Branch Library Improvements were constructed to provide the branch with expanded space and technological infrastructure to enhance the Pima County Public Library System's mission of supporting education, literacy, and lifelong learning throughout Pima County.




At the end of fiscal year 2014-15, Pima County's General Obligation Bonds totaled $384 million. Last year, at the end of fiscal year 2015-16, the debt had decreased by $39 million to $345 million. At the end of the current year, fiscal year 2016-17, the current debt will decrease another $45 million to $300 million.[1] The debt will be reduced in half within four years and, within ten years, Pima County's existing general obligation debt will decrease to $17 million dollars.

[1] In July 2016, Pima County refunded $125 million of general obligation debt by issuing $122 million of lower interest rate debt. This refinancing reduced the County's debt by $3 million and saved the County $4 million of future interest costs. In addition to the $3 million reduction from the refinancing, the County will repay an additional $42 million during the year.

**Street and Highway Revenue Bonds** – Revenue bonds are a common type of state and local government debt where repayment is secured by a specific revenue stream rather than the government's pledge to use all legally available resources to repay the bonds. A portion of Pima County's future highway user revenues are pledged to repay Pima County's Street and Highway Revenue Bonds.

Street and Highway Revenue Bonds are used by Pima County to finance road and traffic safety improvements throughout the County and, when conditions permit, to refinance higher interest bonds with lower interest bonds without extending the original maturity dates.

The Street and Highway Revenue Bonds have funded the Craycroft Road: River to Sunrise, Valencia Road: Alvernon Way to Wilmot, and numerous other projects.

The Craycroft Road improvement increased the roadway from two lanes to four lanes. The roadway was made safer and the project included paved shoulders, bicycle travel accommodations, and continuous ADA pedestrian pathways.

The Valencia Road project renovated Valencia Road between Alvernon Way and Wilmot Road to improve safety, reduce congestion, improve operations, and increase mobility.


At the end of fiscal year 2014-15, Pima County's Street and Highway Revenue Bonds totaled $114 million. Last year, at the end of fiscal year 2015-16, the debt had decreased by $13 million to $101 million. At the end of the current year, fiscal year 2016-17, the current debt will decrease another $17 million to $84 million.[2] The debt will be reduced in half within four years and, within ten years, Pima County's existing street and highway debt will decrease to $4 million dollars.

[2] In July 2016, Pima County refunded $30 million of street and highway revenue bonds by issuing $28 million of lower interest rate debt. This refinancing reduced the County's debt by $2 million and saved the County $120,000 of future interest costs. In addition to the $2 million reduction from the refinancing, the County will repay an additional $15 million during the year.

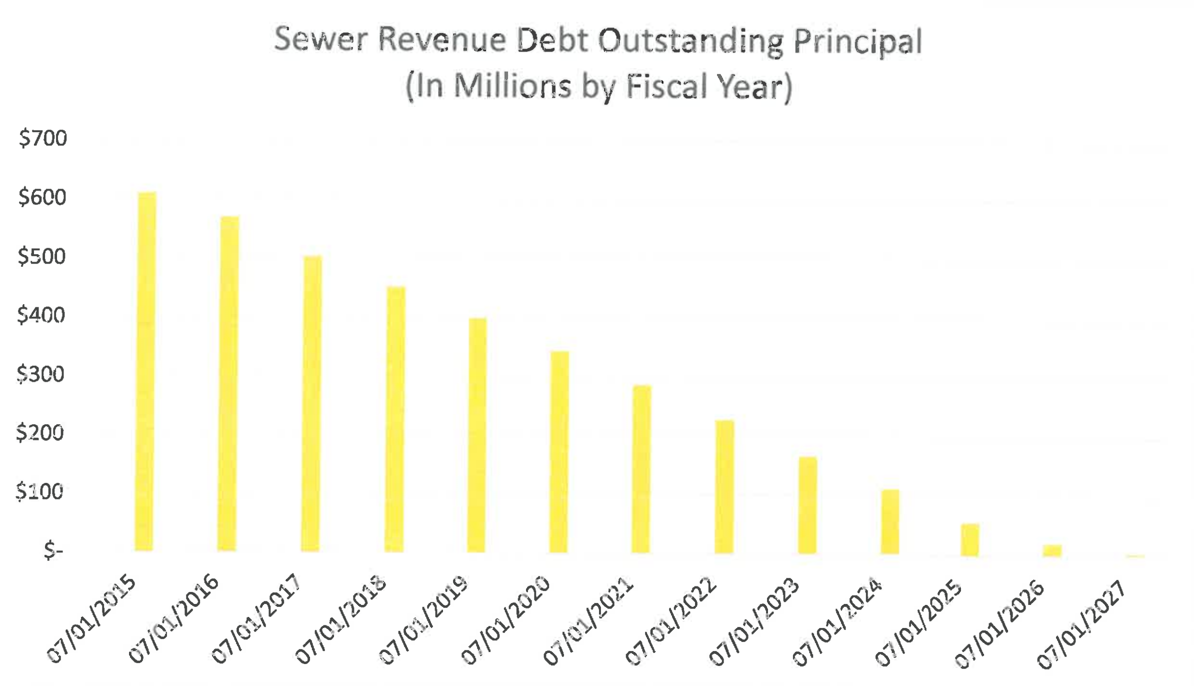
**Sewer Revenue Debt**[3] – Revenue debt is a common type of state and local government debt where repayment is secured by a specific revenue stream rather than the government's pledge to use all legally available resources to repay the debt. The revenue Pima County generates from operating its sewer system is pledged to repay Pima County's Sewer Revenue Debt.

Sewer Revenue Debt is used by Pima County to fund enhancements and improvements to the County's wastewater reclamation, conveyance, and treatment facilities.

Examples of these enhancements and improvements include the Tres Rios and the Agua Nueva Water Reclamation Facilities.

The Tres Rios Water Reclamation Facility Upgrade Project increased the capacity of the plant from 37.5-mgd to 50-mgd while dramatically improving effluent quality. The upgrade project also introduced an enhanced chlorination process to meet strict new disinfection requirements.

The new Agua Nueva Water Reclamation Facility replaced the Roger Road facility, which had been in operation since the 1950's. This project dramatically improved reclaimed water quality and allowed increased use of the reclaimed water.




At the end of fiscal year 2014-15, Pima County's Sewer Revenue Debt totaled $609 million. Last year, at the end of fiscal year 2015-16, the debt had decreased by $41 million to $568 million. At the end of the current year, fiscal year 2016-17, the current debt will decrease another $66 million to $502 million. [4] The debt will be reduced in half within five years and, within ten years, Pima County's existing sewer revenue debt will decrease to $21 million dollars.

[3] Sewer revenue debt is comprised of sewer revenue bonds, sewer revenue obligations, and loans from Arizona's Water Infrastructure Finance Authority.

[4] In July 2016, Pima County refunded $229 million of sewer revenue debt by issuing $212 million of lower interest rate debt. This refinancing reduced the County's debt by $17 million and saved the County $650,000 of future interest costs. In addition to the $17 million reduction from the refinancing, the County will repay an additional $49 million during the year.

**Certificates of Participation** – Certificates of Participation are a financing method where real property is transferred to a third party in exchange for an initial cash payment. The real property is then leased back from the third party and lease payments are made to the third party to repay the initial cash outlay plus interest. When the lease term ends and all amounts have been repaid, the real property reverts back to the County.

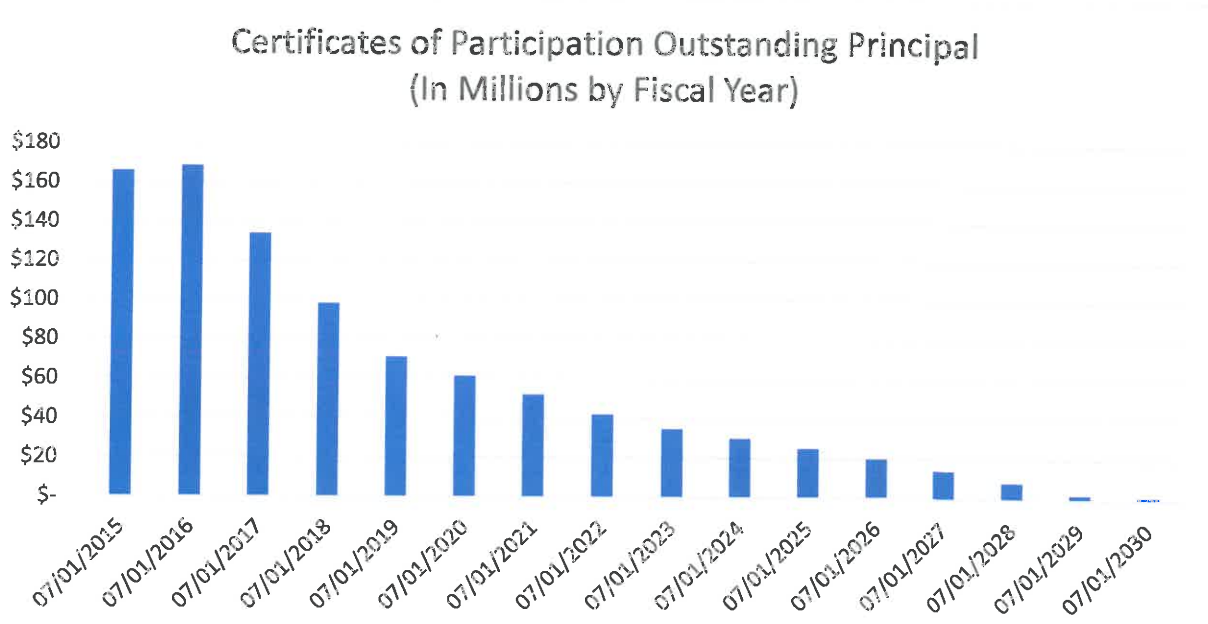
The County uses Certificates of Participation to fund capital improvements and, when conditions permit, to refinance higher interest certificates with lower interest certificates without extending the original maturity dates.

Certificates of Participation projects include the construction of the Public Service Center, Fleet Services Facility, and various significant improvements to the County's wastewater systems.

The Public Service Center, partially funded by Certificates of Participation, was built to house the County's Justice Court and various elected officials including the County Treasurer, Recorder, and Assessor.

The Fleet Services Facility was constructed to replace outdated 50 year old facilities. Site improvements help site traffic move better, enhance site drainage, and make more effective use the site.

Certificates of Participation are repaid from funds provided by the benefiting County component. For example, the Certificates of Participation that are issued for significant improvements to the County's wastewater systems are repaid by revenues generated by operating the County's wastewater systems.




At the end of fiscal year 2014-15, Pima County's Certificates of Participation totaled $166 million. Last year, at the end of fiscal year 2015-16, the debt had increased by $2 million to $168 million. [5] At the end of the current year, fiscal year 2016-17, the current debt will decrease $34 million to $134 million. The debt will be reduced in half within three years and, within ten years, Pima County's existing certifications of participation will decrease to $20 million dollars.

[5] In April 2016, Pima County refunded $10 million of certificates of participation by issuing $9 million of lower interest rate debt. This refinancing reduced the County's debt by $1 million dollars and saved the County $400,000 of future interest costs. In addition to the $1 million reduction from the refinancing, the County issued $34 million of new certifications and repaid an additional $31 million during the year.

# ATTACHMENT 2

# MEMORANDUM

Date: August 9, 2016

To: Chair and Members
Bond Advisory Committee

From: C.H. Huckelberry
County Administrator

Re: **Certificates of Participation and Debt Encumbrance by Pima County**

As has been previously stated, there are generally four types of debt into which Pima County enters.

First is General Obligation debt; second is Highway User Revenue Fund debt. In both of these cases, debt is only entered into after voter approval by an election. Sewer Obligation debt is a debt incurred by a revenue-based utility that can issue debt based on the strength of its revenue base and revenue production.

Sewer Obligation debt is the primary method used to finance reconstruction of our major wastewater treatment facilities at Ina and Roger Roads, now named Agua Nueva and Tres Ríos.

The last type of debt is Certificates of Participation (COPs), where the governing body of a jurisdiction enters into borrowing by pledging other collateral to guarantee debt payment of the Certificate. In the County, we have entered into two general classes of COPs - those that have a short debt life (generally limited to no more than three years) and those that have a normal 15-year debt repayment cycle. Short-term debt instruments of COPs are used to comply with State constitutional expenditure limitations. Both the Regional Wastewater Reclamation Department and the Transportation Department generate significant cash accumulations based on the payment of sewer connection fees and transportation impact fees. These revenues, if simply spent, count against or are considered part of the County's constitutional expenditure limit even though they are revenues generated from other than taxes. The primary purpose of creating a constitutional expenditure limit was to limit tax growth. Present accounting rules allow for debt to not be counted against the jurisdictions expenditure limit, and the definition of a debt instrument is one that requires three years or longer to repay. Hence, the County has used COPs to make significant expenditures for wastewater and transportation improvements without those expenditures being counted against the County's expenditure limitation. This has been, and will likely continue to be, the primary reason the County issues COPs.

Other COPs, particularly those that carry a 15-year term, are typically related to the purchase of a major capital asset. For example, the $38 million Stadium financing that will be repaid in 2017; the County's purchase of the Bank of America Building that will be repaid in five years; and those COPs issued to complete the Public Service Center, formally the Joint City/County Courts Facility.

COPs have carried an interest rate slightly higher than General Obligation bond debt. The average net interest cost for COPs issued for the last three years has been 2.59 percent. The table below describes the COPs debt issuances and interest rates over the last three years.

| **COPS Issue** | **Issue Amount** | **Net Interest Cost (%)** |
|---|---|---|
| 2014: Public Service Center improvements | $ 52,160,000 | 3.66 |
| 2015: Wastewater improvements | 57,025,000 | 1.35 |
| 2016: Wastewater improvements and World View | 43,935,000 | 2.76 |
| **Total Issue/Average Net Cost** | $153,120,000 | 2.59 |

CHH/anc

c: The Honorable Chair and Members, Pima County Board of Supervisors
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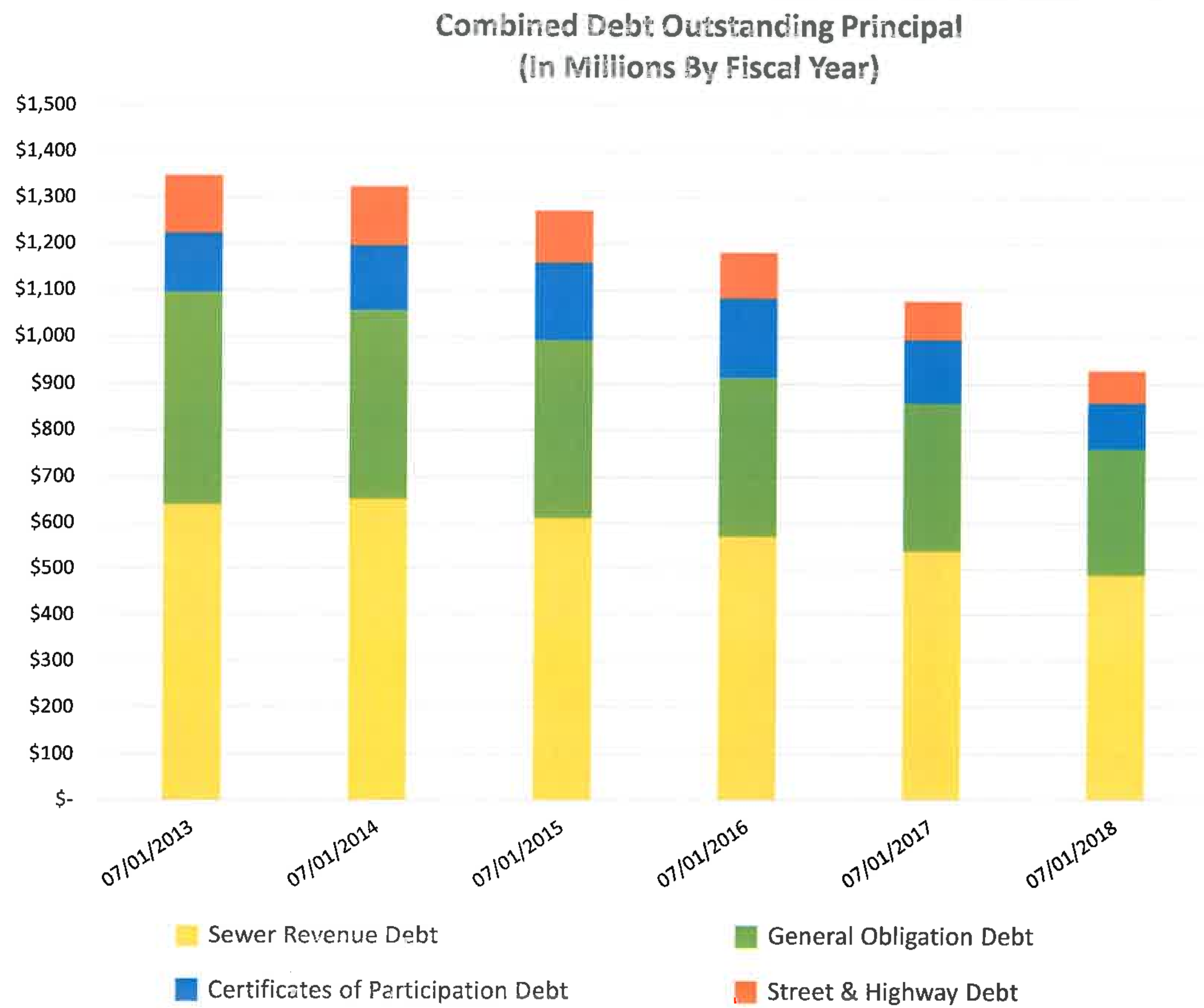
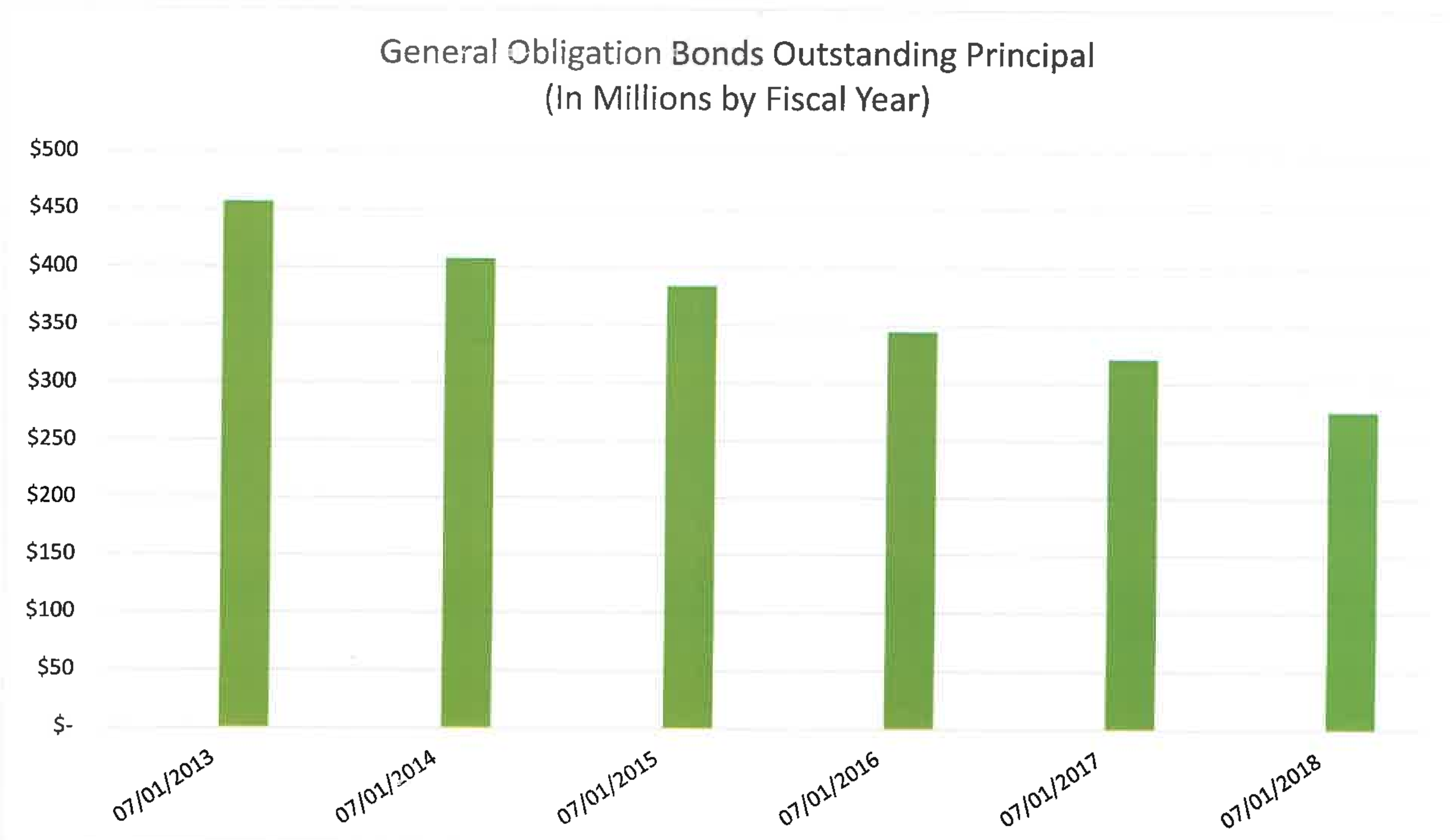
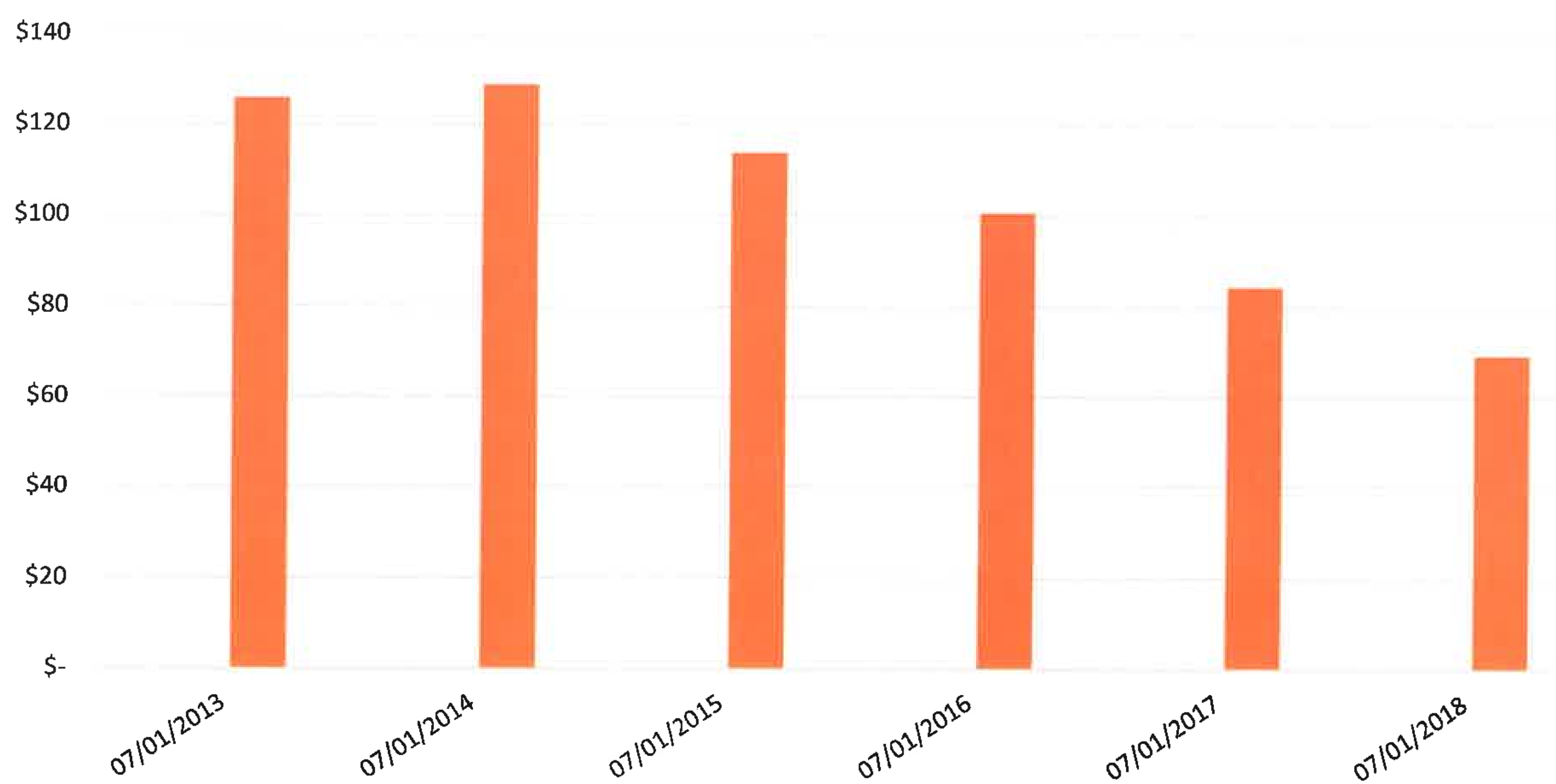
# ATTACHMENT 3

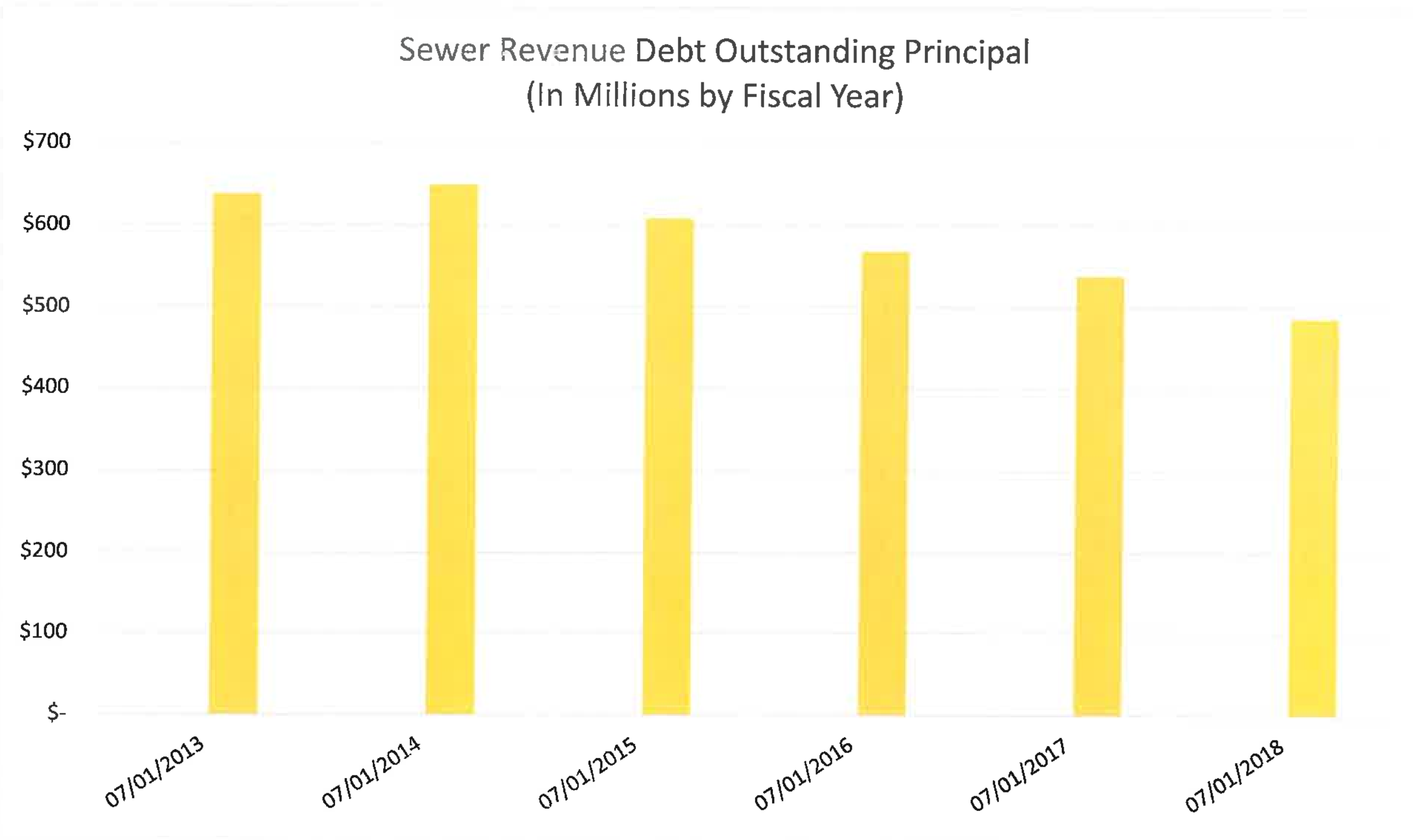

Combined Debt Outstanding Principal
(In Millions By Fiscal Year)
$1,500
$1,400
$1,300
$1,200
$1,100
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$-
07/01/2013
07/01/2014
07/01/2015
07/01/2016
07/01/2017
07/01/2018
Sewer Revenue Debt
General Obligation Debt
Certificates of Participation Debt
Street & Highway Debt

# ATTACHMENT 4

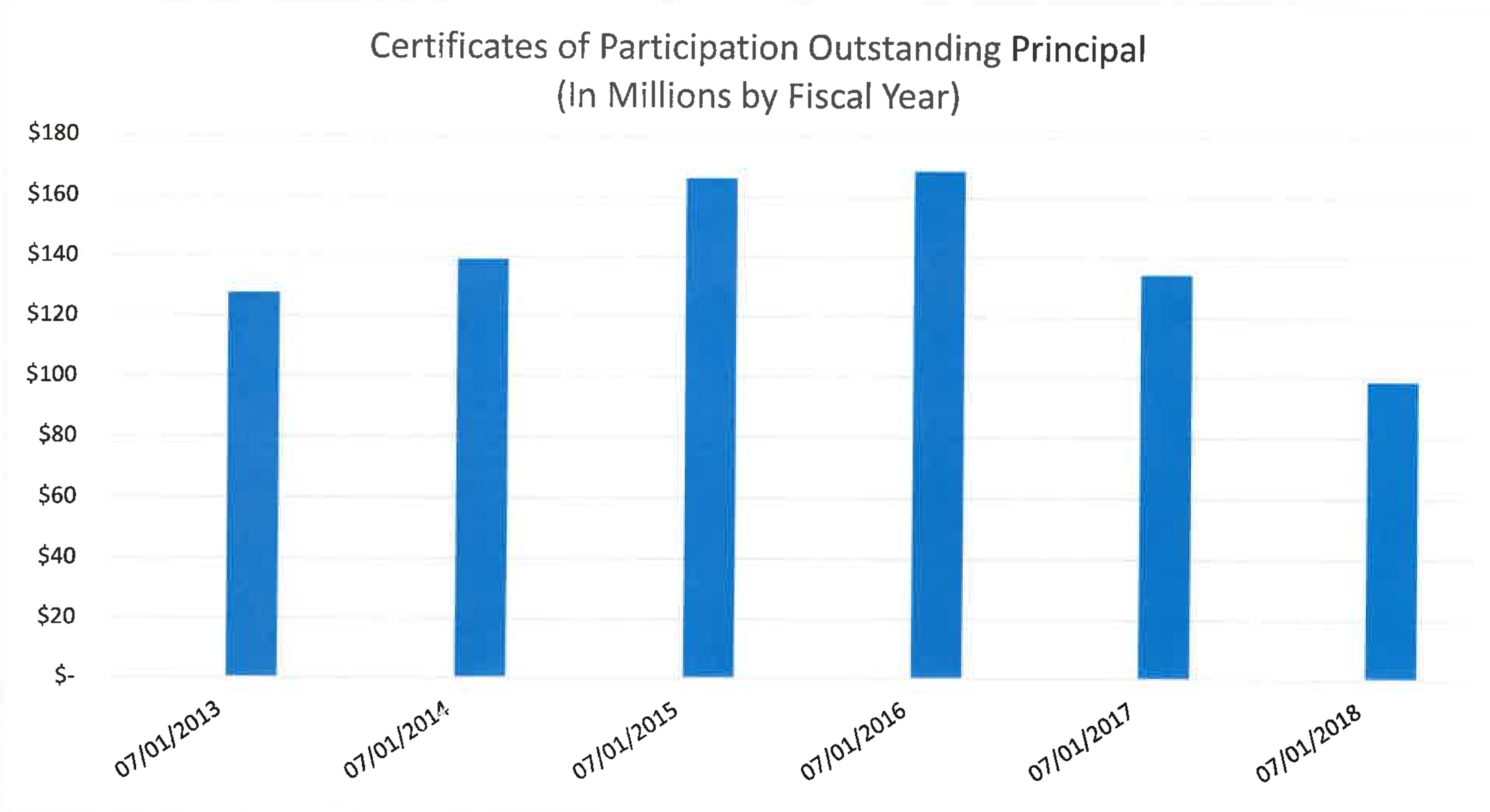

General Obligation Bonds Outstanding Principal
(In Millions by Fiscal Year)
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$-
07/01/2013
07/01/2014
07/01/2015
07/01/2016
07/01/2017
07/01/2018

## Street & Highway Bonds Outstanding Principal
(In Millions by Fiscal Year)





Sewer Revenue Debt Outstanding Principal
(In Millions by Fiscal Year)
$700
$600
$500
$400
$300
$200
$100
$-
07/01/2013
07/01/2014
07/01/2015
07/01/2016
07/01/2017
07/01/2018


Certificates of Participation Outstanding Principal
(In Millions by Fiscal Year)
$180
$160
$140
$120
$100
$80
$60
$40
$20
$-
07/01/2013
07/01/2014
07/01/2015
07/01/2016
07/01/2017
07/01/2018