



MEMORANDUM

Date: July 19, 2013

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Bond Debt Capital Burden per Capita**

During 2012, much was made by some of the County's debt burden per capita. We were often portrayed as the most in-debt County in Arizona, and the Board of Supervisors was subject to a political campaign by Arizonans For a Brighter Future that implied Pima County could be the next government bankruptcy, after the Cities of Stockton and San Bernardino, California (pension fund liabilities) and Jefferson County, Alabama (mismanagement of sewer infrastructure rehabilitation).

The attached recent news article published in *Bloomberg News* should dispel the accusations made in 2012. Further, our debt needs to be put in perspective based on the Arizona Department of Revenue report filed by the County for June 30, 2012 (the last year for which full data is available for all cities, towns and counties). Our debt was \$1,172,359,145. It is important to understand, however, that of this debt, approximately half, \$574,094,591, was related to the County operating a sewer system; and as I have pointed out previously, Pima County is the only county in Arizona operating a regional wastewater system.

Even adding this utility debt to our aggregate debt, the County's debt burden per capita is \$1,189. This same debt burden could be compared to that of the City of Tucson, which is \$2,098 per capita, or the Town of Marana with a debt burden approaching \$2,700 per capita based on their most recent financial analysis. This recent analysis indicates that after purchasing the Marana Wastewater Reclamation Facility (MWRF) from the County, Marana's debt is approximately \$97 million. Therefore, their per capita debt is 2.25 times that of Pima County.

The Town of Marana's debt burden will likely increase significantly in the near future because the present treatment capacity of the MWRF is expected to require an expansion within the next five to seven years from 700,000 gallons per day (gpd) to at least 2,000,000 gpd. The estimated cost of such an expansion is \$24 million.

When the MWRF was turned over to the Town of Marana, total connections were approximately 1,800. To recover the capital investment on new connections, these

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: **Bond Debt Capital Burden per Capita**
July 19, 2013
Page 2

connections should be in the range of \$14,000 to \$18,000 per unit, compared to the current connection fee for the regional system of \$4,066 per residential unit. When the new expansion cost of \$24 million is factored into the unit cost, the connection fee needed to support this capital investment rises to nearly \$35,000 and does not decrease below \$13,000 for 10 years. If Marana continues to charge the same regional connection fees as the County, financing the capital expansion necessary for the MWRf must be funded by other sources within Marana; either their water utility or their General Fund.

Our debt continues to be well managed as indicated in the Bloomberg article. It is important to remember that most of this debt will be repaid within the next 10 years, and all of it will be repaid within 15 years.

If you have any questions regarding this matter or the analysis, please contact me.

CHH/mjk

Attachment

c: John Bernal, Deputy County Administrator for Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation
Tom Burke, Director, Finance and Risk Management

Bloomberg

Raytheon Targeted as Pima County Plans Record Bond Vote

By Amanda J. Crawford and Brian Chappatta - Jul 8, 2013

Tucson, Arizona, the sixth-poorest U.S. big city, stands to gain protection from federal [defense-spending](#) cuts as its home county plans a record bond package, in part to entice [Raytheon \(RTN\) Co.](#) to expand missile production.

Pima County, bordering [Mexico](#), expects to ask voters to approve the \$650 million debt plan as soon as next year. Some proceeds may target Raytheon, whose 10,500 workers make it the area's largest private employer, and also finance a move of part of the University of Arizona to downtown Tucson. The metro area's 20.4 percent poverty rate is about 5 percentage points above the national average, according to the U.S. Census Bureau.

With about 1 million residents, Pima is planning the debt offer after winning an 11 percent drop in borrowing costs in its latest sale. The county, which collaborates with local jurisdictions to finance capital projects, has also withstood a Tea Party challenge resulting in an audit of its bond programs.

The municipality "is almost like a bond bank, where they decide how to deploy the money by committee and determine what's best for the county," said Michael Hamilton, who oversees about \$331 million of [Arizona](#) muni debt at Nuveen Investments in [Portland, Oregon](#). "It's a good thing, and that's what came out in the auditor's report."

The state's Republican-controlled legislature ordered an audit of Pima's bond programs last year amid allegations of inequitable spending and incomplete work. The auditor general's January [report](#) found that \$735 million in projects since 1998 benefited residents countywide with 93 percent of the work done on time.

Narrowing Spread

Investors rewarded Pima with a yield of 2.55 percent on 10-year notes as part of an \$89 million general-obligation issue in May, data compiled by Bloomberg show. That was about 0.63 percentage point more than [benchmark](#) debt.

In a sale a year earlier, the 10-year segment was priced to yield 0.71 percentage point more than top-rated securities.

The municipality has issued bonds almost annually since 1998 and had about \$456 million in general obligations as of mid-April, according to [Fitch Ratings](#). Only two other counties in the state had any general-obligation debt as of June 2011, totaling \$54 million in principal, according to the auditor.

The county [Bond Advisory Committee](#) is evaluating \$1.2 billion in projects, with about half expected to be put before voters, said Larry Hecker, its chairman.

Defense Connection

The economy of Tucson, Arizona's second-largest city after Phoenix, is closely tied to defense spending. In addition to Raytheon, Davis-Monthan Air Force Base employs 8,566, according to Fitch.

Automatic federal spending cuts, known as sequestration, have focused attention on protecting the base and the county's Raytheon plant, which makes guided missiles, air-to-air missiles and precision-guided munitions.

"There is concern on how the sequester cuts will play out and how the winding down of the wars will affect employment," said [George Hammond](#), an economist at the [University of Arizona](#) in Tucson. "Federal civilian and military activity is a larger share in the Tucson area. The impact on procurement spending on the local economy is a much bigger deal."

Among projects [proposed by the county administrator](#) is a \$30 million plan to buy land and continue noise abatement around the base and \$90 million to relocate a road and build a stretch of highway as a technology corridor near Raytheon.

Missile Highway

The county wants to give the company room to expand or potentially consolidate programs in Tucson from elsewhere if its defense contracts are reduced, administrator Chuck Huckelberry said. In 2010, Raytheon chose [Alabama](#) when it needed to build a new facility.

"We could rub our hands together and worry, but we are more interested in taking the action to protect those two facilities," Huckelberry said of Raytheon and the air base.

Jon Kasle, a spokesman for Waltham, Massachusetts-based Raytheon, declined to comment on the county's plans or possible expansion.

Among the biggest proposals in the bond plan is \$176 million to move part of the University of Arizona, the county's largest employer with 10,681 workers, to downtown Tucson, a few miles from the main campus. The project would relocate two museums and build a 10-story small-business incubator and classroom building.

University Power

The effort mirrors those in other communities that have attempted to leverage universities as economic drivers and populate downtown streets that empty after business hours. In Phoenix, voters approved \$223 million in bonds in 2006 and the city put up 20 acres of land downtown to move some Arizona State University programs from nearby Tempe.

"Being able to attract people to the core has economic-development value beyond just what the programs themselves bring," said Mike Proctor, the University of Arizona's vice president for regional development. "The sense is that if the county, university and others could come together to make a difference down there, that would be a great opportunity."

Metropolitan Tucson's [poverty rate](#) in 2011 was above the nation's 15.9 percent, according to Census data. The level was sixth-highest among metropolitan areas with 500,000 or more people.

Chronic Poverty

A January [report](#) by the University of Arizona's Economic and Business Research Center attributed the high rate in part to chronic poverty on American Indian reservations and low wages in many occupations.

The county's general obligations are graded AA, third highest, by Fitch. The county has a debt ratio at 2.3 percent of fiscal 2013 property values, compared with 5 percent to 7 percent for some issuers, said Steve Murray, a senior director in U.S. public finance at Fitch.

The county also pays off its bonds more quickly than the typical issuer, with amortization of 91 percent in 10 years, compared with the average rate of 50 percent, Murray said.

"We are constantly turning over our debt so we can issue more debt so we can build infrastructure for a growing community," Huckelberry said.

In the biggest offer scheduled by an Arizona issuer in the \$3.7 trillion municipal market, Tucson plans to sell about \$27 million of munis as soon as next week, Bloomberg data show. The securities will be federally taxable and will go toward refinancing.

Benchmark munis maturing in 10 years yield about 2.8 percent after the [interest rate](#) reached 2.96 percent last month, the highest since April 2011, Bloomberg data show.

With similar-maturity Treasuries yielding 2.64 percent, the ratio of the yields, a measure of relative value, is about 106 percent. The average since 2001 is about 92 percent. A higher percentage means local debt is cheaper relative to federal obligations.

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