MEMORANDUM

Date: November 8, 2019

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

From: C.H. Huckelberry
County Administrator

Re: **Certificate of Participation Debt Financing and Credit Ratings**

At the November 5, 2019 Board of Supervisor meeting, discussion occurred with regard to our Pay-as-you-Go (PAYGO) Program as to the importance of retaining of conservative fund balance relative to also retaining high credit ratings. I believe it is imperative that we continue to retain high credit ratings, hence, provide fiscally conservative fund balances and budgets in the future. We are presently rated for Certificates of Participation and General Obligation debt as follows:

Credit Ratings				
	Standard & Poor's		Fitch Ratings	
	Rating	Date	Rating	Date
Certificate of Participations (COPs)	AA-	Sep-19	AA	Sep-19
General Obligation	AA	Sep-19	AAA	Sep-19

An example of the benefits of such a credit rating made to a recent Certificate of Participation (COP) issuance for financing the public highway construction of Valencia Road from Houghton Road to Old Spanish Trail, $16 million of COP were sold to finance this improvement and will be repaid by the owner and developer of Rocking K, over a period no longer than 15 years. This is one of the few exceptions of COPs being issued longer than 3-years. The majority of our COPs are issued with a 3-year term, primarily because of the expenditure limit that requires the County to issue debt even though we have cash on-hand for specific capital improvements. It is likely that in the future we may also issue longer term COPs for larger capital improvements that in any one year may stress the PAYGO program. For example, in the Capital Improvement Program is a new Medical Examiner facility that is estimated to cost $30 million. Rather than tie up almost a year of PAYGO allocation in a single project, it would be prudent to finance the new Medical Examiner's facility over a 10 or 15 year period.

For the most recent example of the sale of $16 million of COPs for Valencia Road, the effective interest rate for this public highway debt financing was 2.01 percent, hence, it is important to continue to retain a high credit rating in order to obtain the lowest possible interest rates on any COP financing, whether short- or long-term, i.e., 15 years, such as the case of Valencia Road.

It is also important to remember that in the case of Valencia Road, the debt service principal and interest payments will be paid through impact fees generated from the development and are guaranteed to be paid by the developer/owner of Rocking K if there is a shortfall in any annual principal and interest payment associated with the project.

CHH/lab

c: Jan Lesher, Chief Deputy County Administrator
Michelle Campagne, Director, Finance and Risk Management