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