MEMORANDUM

Date: June 2, 2015

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

From: C.H. Huckelberry
County Administrator

Re: **May 27, 2015 Request for Clarification from the Marana Chamber of Commerce President Regarding Bond Costs**

I; Mr. Tom Dunn, Marana's representative on the Bond Advisory Committee (BAC); and Mr. Joe Boogaart, Supervisor Ally Miller's appointment to the BAC, answered questions at the May 27 Marana Regional and Community Update. After the meeting, Mr. Stolmaker requested clarification regarding whether our bond program, if approved by the voters, would cost over $2 billion.

The simple answer is no. The over $2 billion is an estimate provided by Mr. Boogaart. The table below shows the differences in the County's estimates of cost versus those of Mr. Boogaart.

Description	**County Estimate (millions)**	**Boogaart Estimate (millions)**
Capital Investment	$815.8	$ 815.8
Interest	203.0	575.0
Operation and Maintenance	315.0	689.0
Total	**$1,333.8**	**$2079.8**

While I do not disagree that operating and maintenance costs could be included in this cost, it is certainly nothing the taxpayers pay back as a result of bond investment approval. They are normal and required expenses that do not significantly impact the County budget.

Our budget expenditures will increase for a variety of reasons, such as a) the increased State cost transfers we experienced this year; b) normal consumer price inflation; c) excessive or intensive use of a particular facility or program (which I view as positive); and d) population growth, which mean growth in the tax base. All of these factors require increased cost to operate and maintain the capital facilities enjoyed and utilized by the public. In my view, increased operating and maintenance costs for the construction of new capital facilities to provide public services is a routine and expected cost.

CHH/mjk
Attachment

c: Tom Burke, Deputy County Administrator for Administration
Nicole Fyffe, Executive Assistant to the County Administrator
Diana Durazo, Special Staff Assistant to the County Administrator

COUNTY ADMINISTRATOR'S OFFICE

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C.H. HUCKELBERRY
County Administrator

May 28, 2015

Ed Stolmaker, President and CEO
Marana Chamber of Commerce
13881 N. Casa Grande Highway
Marana, Arizona 85653

Re: **Your Request of Our View of Bond Advisory Committee Member Joe Boogaart's Estimate of the Total Cost of the Bond Program, Including Interest and Operating and Maintenance Costs**

Dear Mr. Stolmaker:

We have not evaluated Mr. Boogaart's analysis of bond costs; however, we have prepared our own estimates that will be provided in the Voter Publicity Pamphlet, as well as the Bond Implementation Plan Ordinance that will be approved by the Board of Supervisors prior to early voting.

It is sometimes difficult for an individual to understand the General Obligation bond financing tool. Bonding is similar to the home equity loan concept. A homeowner takes out a home equity loan, and the loan proceeds are used to make improvements to the home. The homeowner repays the loan over time at a specified and agreed upon interest rate. Bonds represent an investment in the community, with the loaned money from the bondholder repaid over time at an agreed upon interest rate.

Mr. Boogaart assumes all seven bond propositions are approved, bringing the total issuance of the bond debt over a 12-year period when fully issued to $815,760,000. Any number or combination of propositions could pass or fail. Assuming all pass, the next question is what is the overall interest paid during the debt retirement period that is no more than 15 years and begins at the time of each individual issuance of debt? On average, our debt will be issued at approximately $65 million over a 12-year period; some years more and some years less, depending on the cash flow requirements of project implementation.

Mr. Boogaart indicates the interest to be paid would equal $575 million. I have no way of verifying his calculations. Our calculations are that the total bond interest to be paid would be $203 million, averaging $7.5 million a year, with interest rates starting at 2.78 percent and increasing to 3.45 percent. These are reasonable assumptions and interest rates based on our past history of very low interest rates with no significant pressure to increase particularly for municipal bond borrowing. Over the last five years of issuance, the average interest rate has been 2.78 percent. Our last issuance of refunded Highway User Revenue Fund bonds, which carries a short retirement period, carried an interest rate of 1.64 percent. As you can see, interest rates are low and expected to remain low, making our estimates of the interest to be paid reasonable. These interest rates and an analysis will be contained in the Voter Publicity Pamphlet sent to every household in Pima County prior to the election.

Regarding operating and maintenance costs, yes, these are real costs that local governments and nonprofit agencies that operate the public facilities built by the bonds will pay. As a local government these are typical costs for providing public services. This is no different than a homeowner having to reroof or repaint his home every five to 10 years. Mr. Boogaart estimates these operating and maintenance costs to be $689 million over, I believe, a 25-year period. Our view of the operating and maintenance expenses divided by jurisdiction is far less.

It is important to remember one-third of the projects will not have any operating and maintenance expenses paid by local governments or the County. They will be paid by a nonprofit operating entity. For example, the new facilities built for the Arizona-Sonora Desert Museum, costing nearly $9 million in capital bond funding, will be operated and maintained by the nonprofit operating entity of the Desert Museum, not the County. For all jurisdictions, this annual operating and maintenance expense or increase once all the bond projects have been completed is estimated at $12.6 million.

For Pima County, it is estimated our projects will cost $6.1 million annually to maintain. This is not a significant additional expense over our typical operating budget, as it represents less than one-half of one percent of an increase when all projects have been completed. A 25-year operating and maintenance time would yield a total cost to all the taxing agencies of $315 million for operating and maintenance. However, it should be noted these costs are variable and depend on a number of factors, including usage of a particular facility or project.

The reason the County is putting so much emphasis on operations and maintenance is because of our desire to ensure these capital investments are maintained in good working order well into the future. One of the main buildings that make up the Banner University

Medical Center South was the original Kino Hospital built in 1978 with 1974 bond funds. It is still in operation today. The two County Administration buildings downtown, and the adjacent Superior Court building, were built in the 1960s and 1970s, with bonds funds. All three are operational today and will be for decades in the future; hence the need to recognize operating and maintenance costs. Therefore, in total, our estimate is $815.76 million in principle if all bonds are approved; $203 million in interest payments and $315 million in operating and maintenance expenses for 25 years - not $2 billion.

I hope this information is helpful and satisfies your request.

Sincerely,

C.H. Huckelberry
County Administrator

CHH/anc

c: Nicole Fyffe, Executive Assistant to the County Administrator