



MEMORANDUM

Date: September 9, 2015

To: Chairman and Members
Pima County Bond Advisory Committee

From: C.H. Huckelberry
County Administrator 

Re: **Assumptions of Growth in Assessed Value and the Impact on Tax Rates and the Bond Sale Schedule**

On August 26, prior to distribution of the bond implementation plan ordinance (Bond Ordinance), I sent the Board of Supervisors a short memorandum regarding the County's use of the statutorily required assessed value analysis in computing debt service, and the effect that had on the bond sale schedule and debt service tables contained in the Bond Ordinance and the voter information pamphlet. That memo is attached and I encourage you to read it before the Committee's September 11 meeting. Also attached, purely for discussion purposes, is a debt service and tax rate schedule using instead County estimates of taxable net assessed value.

Using the County's estimates of taxable net assessed value, the tax rate would reach the voluntary cap of \$0.815 per \$100 of assessed value for just four years, as opposed to the 13 years shown in the Bond Ordinance. Alternatively, this also shows that we have significantly more capacity starting in year six, and more so in year seven, to sell more bonds more quickly if desired. For each additional penny of the tax rate, we can roughly sell an additional \$6 to \$7 million more annually. Therefore, using the County's estimates of assessed value, if we chose to keep the tax rate at the \$0.815 rate, we could shorten the program from 12 to 10 years, and sell on average an additional \$30 million in bonds per year. The Bond Ordinance includes a bond sale schedule of about \$60 to \$70 million a year. However, this shows that it is likely the County could sell approximately \$90 to \$100 million a year during the second half of the bond program, without exceeding the voluntary tax rate cap, and while completing the program in 10 years instead of 12.

This analysis points out how ultra conservative the tax rate and repayment schedule is that is included in the Bond Ordinance, as well as the state required voter information pamphlet.

CHH/dr

c: The Honorable Chair and Members, Pima County Board of Supervisors
Nicole Fyffe, Executive Assistant to the County Administrator
Diana Durazo, Special Staff Assistant to the County Administrator



MEMORANDUM

Date: August 26, 2015

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

From: C.H. Huckelberry
County Administrator *CHH*

Re: **Growth and Assessed Value Assumption Contained in the Information Packet
Required by Arizona Revised Statute (ARS) 35-454**

Later this week, I will transmit to the Board of Supervisors the completed Bond Implementation Plan for your consideration at a Public Hearing on September 15, 2015.

Contained in the Bond Implementation Plan is a Debt Service schedule that demonstrates the bonds sold and corresponding debt service will not exceed the Board's cap on the Secondary Bond Debt Service property tax rate of \$0.815 per \$100 of assessed value. The schedule of debt issuance, as required in the State-required publicity pamphlet, is largely constrained by the growth in assessed value assumptions required by State law.

"ARS 35-454 A.1(d) states:

"In preparing this information and the information prescribed by subdivision (c) of this paragraph, the projected total annual increase in net assessed value for any future year shall not exceed: (i) For the first five years of the estimated debt retirement schedule, the average of the annual percentage growth for the previous ten years in the net assessed valuation of the political subdivision. (ii) For the remaining years of the estimated debt retirement schedule, twenty percent of the average of the annual percentage growth for the previous ten years in the net assessed valuation of the political subdivision."

This requirement artificially restrains the growth in net assessed value for the first five years. It calculates to be 3.5 percent per year. The balance of the debt service after the first five years calculates at 0.7 percent per year. Our best estimate of actual growth and assessed value is shown in the attached table. The table also includes two different columns for projected taxable assessed value. One is statutorily required pursuant to ARS 35-454; the other is corresponding assessed value based on our estimates of assessed value of growth. Assuming the 0.7 percent growth in assessed value after Fiscal Year 2020/21 is unrealistically low.

In examining actual growth in assessed value over the last 40 years, the average annual growth from Fiscal Year (FY) 1976/77 to FY 2014/15 has been 4.88 percent. If the

The Honorable Chair and Members, Pima County Board of Supervisors
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hyper-assessed value growth period from FY 2005/06 to FY 2009/10 is removed, the average annual growth rate in assessed value would be 4.03 percent (a 35-year average). Hence, it is clear a future growth rate of 0.7 percent per year in assessed value is unrealistic and not based on economic reality.

We have chosen to use the statutorily required assessed value analysis in computing our debt service, which affects the size and timing of bond sales if approved by the voters. This results in a 12-year program with sales ranging from \$60 to \$70 million per year. However, it is likely actual assessed value would be significantly higher, thereby shortening the debt issuance period, as well as the peak time period for which the voluntary cap of \$0.815 will be in place.

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

CHH/mjk

Attachment

- c: Tom Burke, Deputy County Administrator for Administration
- Nicole Fyffe, Executive Assistant to the County Administrator
- Keith Dommer, Director, Finance and Risk Management
- Robert Johnson, Budget Manager, Finance and Risk Management

Comparison of Pima County Estimate of Increases in Assessed Value
vs.

Statutorily Mandated Increases in Estimate of Assessed Value

Fiscal Year	Statutorily Calculated Projected Taxable Assessed Value	Pima County Projected Taxable Assessed Value	Difference County Estimate Over/(Under) Statutory Estimate	Percentage County Estimate Over/(Under) Statutory Estimate	Percent Assessed Value Increase in Statutory Estimate*	Percent Assessed Value Increase in County Estimate
2015-16	7,620,361,635	7,620,361,635	-	-	-	-
2016-17	7,886,822,820	7,838,429,574	(48,393,246)	-0.61%	3.5%	2.9%
2017-18	8,162,601,354	8,169,396,772	6,795,418	0.08%	3.5%	4.2%
2018-19	8,448,023,035	8,437,574,563	(10,448,472)	-0.12%	3.5%	3.3%
2019-20	8,743,425,057	8,702,322,344	(41,102,713)	-0.47%	3.5%	3.1%
2020-21	9,049,156,401	8,963,392,014	(85,764,387)	-0.95%	3.5%	3.0%
2021-22	9,112,437,152	9,232,293,775	119,856,623	1.32%	0.7%	3.0%
2022-23	9,176,160,425	9,509,262,588	333,102,163	3.63%	0.7%	3.0%
2023-24	9,240,329,314	9,794,540,466	554,211,151	6.00%	0.7%	3.0%
2024-25	9,304,946,937	10,088,376,680	783,429,742	8.42%	0.7%	3.0%
2025-26	9,370,016,431	10,391,027,980	1,021,011,549	10.90%	0.7%	3.0%
2026-27	9,435,540,956	10,702,758,819	1,267,217,863	13.43%	0.7%	3.0%
2027-28	9,501,523,694	11,023,841,584	1,522,317,890	16.02%	0.7%	3.0%
2028-29	9,567,967,849	11,354,556,831	1,786,588,982	18.67%	0.7%	3.0%
2029-30	9,634,876,648	11,695,193,536	2,060,316,888	21.38%	0.7%	3.0%
2030-31	9,702,253,341	12,046,049,343	2,343,796,002	24.16%	0.7%	3.0%
2031-32	9,770,101,198	12,407,430,823	2,637,329,624	26.99%	0.7%	3.0%
2032-33	9,838,423,516	12,779,653,747	2,941,230,231	29.90%	0.7%	3.0%
2033-34	9,907,223,612	13,163,043,360	3,255,819,748	32.86%	0.7%	3.0%
2034-35	9,976,504,826	13,557,934,661	3,581,429,834	35.90%	0.7%	3.0%
2035-36	10,046,270,525	13,964,672,701	3,918,402,176	39.00%	0.7%	3.0%
2036-37	10,116,524,094	14,383,612,882	4,267,088,787	42.18%	0.7%	3.0%
2037-38	10,187,268,947	14,815,121,268	4,627,852,321	45.43%	0.7%	3.0%
2038-39	10,258,508,519	15,259,574,906	5,001,066,387	48.75%	0.7%	3.0%
2039-40	10,330,246,269	15,717,362,153	5,387,115,884	52.15%	0.7%	3.0%
2040-41	10,402,485,681	16,188,883,018	5,786,397,336	55.63%	0.7%	3.0%
2041-42	10,475,230,264	16,674,549,508	6,199,319,245	59.18%	0.7%	3.0%
2042-43	10,548,483,549	17,174,785,994	6,626,302,445	62.82%	0.7%	3.0%

* ARS § 35-454(A)(1)(d) mandates the assumption that assessed values will increase for five years at the average rate for the previous ten years, and that it will increase thereafter at the rate of 1/5 of the average rate of increase for the previous ten years. Pima County estimates that a three percent increase annual is more likely to occur.

TABLE 2 USING COUNTY ESTIMATES FOR NAV - for discussion purposes only

All Propositions Combined

		Estimated Debt Retirement Schedule For Current Bonds Outstanding and Anticipated Future Sales ²			Estimated Debt Retirement Schedule For the Proposed Bond Authorization				
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10
Fiscal Year	Projected Taxable Assessed Value ¹	Principal	Interest	Projected Tax Rate per \$100 Taxable Net Assessed Value	Principal	Interest	Projected Tax Rate per \$100 Taxable Net Assessed Value ³	Total Debt Service	Projected Tax Rate per \$100 Taxable Net Assessed Value
2015-16	7,620,361,635	39,315,000	14,235,429	0.7000				53,550,429	0.7000
2016-17	7,838,429,574	43,285,000	13,307,145	0.7220	6,781,819	903,500	0.0980	64,277,464	0.8150
2017-18	8,169,396,772	45,792,500	12,038,068	0.7079	6,174,271	2,521,965	0.1064	66,526,804	0.8143
2018-19	8,437,574,563	44,115,000	10,458,799	0.6468	10,119,754	4,157,321	0.1692	68,850,874	0.8150
2019-20	8,702,322,344	46,092,500	8,944,795	0.6324	10,469,322	5,752,492	0.1864	71,259,109	0.8150
2020-21	8,963,392,014	41,540,000	7,343,158	0.5454	17,458,280	7,407,444	0.2774	73,748,882	0.8150
2021-22	9,232,293,775	42,877,500	5,801,714	0.5273	16,731,184	8,855,104	0.2771	74,265,502	0.8044
2022-23	9,509,262,588	31,125,000	4,121,976	0.3707	29,148,774	10,389,977	0.4158	74,785,728	0.7865
2023-24	9,794,540,466	21,955,000	2,883,755	0.2536	38,747,391	11,722,841	0.5153	75,308,988	0.7689
2024-25	10,088,376,680	14,800,000	2,033,014	0.1669	46,152,074	12,850,664	0.5849	75,835,752	0.7517
2025-26	10,391,027,980	15,397,500	1,427,278	0.1618	45,789,763	13,753,036	0.5730	76,367,578	0.7349
2026-27	10,702,758,819	11,125,000	790,703	0.1113	50,021,665	14,962,185	0.6072	76,899,553	0.7185
2027-28	11,023,841,584	7,152,500	403,076	0.0685	53,889,586	15,992,143	0.6339	77,437,304	0.7025
2028-29	11,354,556,831	2,220,000	142,376	0.0208	60,175,162	15,441,074	0.6660	77,978,613	0.6888
2029-30	11,695,193,536	1,516,000	78,493	0.0136	54,583,974	13,609,296	0.5831	69,787,764	0.5967
2030-31	12,046,049,343	865,000	36,349	0.0075	43,717,694	11,932,953	0.4620	56,551,996	0.4695
2031-32	12,407,430,823	442,500	12,302	0.0037	41,717,694	10,558,693	0.4213	52,731,188	0.4251
2032-33	12,779,653,747				41,595,699	9,240,032	0.3978	50,835,731	0.3978
2033-34	13,163,043,360				39,575,356	7,924,763	0.3609	47,500,119	0.3609
2034-35	13,557,934,661				37,221,689	6,665,660	0.3237	43,887,349	0.3237
2035-36	13,964,672,701				34,555,027	5,471,989	0.2866	40,027,016	0.2866
2036-37	14,383,612,882				32,051,027	4,352,450	0.2531	36,403,477	0.2531
2037-38	14,815,121,268				28,051,032	3,302,523	0.2116	31,353,555	0.2116
2038-39	15,259,574,906				23,717,689	2,380,596	0.1710	26,098,285	0.1710
2039-40	15,717,362,153				19,051,022	1,597,336	0.1314	20,648,358	0.1314
2040-41	16,188,883,018				14,384,355	963,409	0.0948	15,347,764	0.0948
2041-42	16,674,549,508				9,705,855	478,815	0.0611	10,184,670	0.0611
2042-43	17,174,785,994				4,172,842	143,963	0.0251	4,316,805	0.0251
	Total	409,616,000			815,760,000				

1. Taxable net assessed value for fiscal year 2015-16 equal to the total limited net assessed value per the Pima County Assessor's Office. Future year taxable net assessed values are Pima County's estimates which are essentially a three (3) percent growth rate.

2. Includes assumed future sales of \$25,681,000 of bonds authorized from previous General Obligation bond elections but still unissued.

3. The estimated average annual tax rate for the proposed bond authorization is \$0.3294 per \$100 of taxable net assessed value.