



MEMORANDUM

Date: August 15, 2016

To: Chair and Members
Pima County Bond Advisory Committee

From: C.H. Huckelberry
County Administrator

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

Re: **Pima County's Long-term Debt Profile**

At the Bond Advisory Committee's last meeting, there was a request for an update regarding Pima County's debt profile, including categories of debt, debt repayment schedules and related information.

Attached is a summary of Pima County's long-term debt, including our four types of debt; General Obligation Bonds, Street and Highway User Revenue Bonds, Sewer Revenue Debt and Certificates of Participation. The schedule demonstrates the current outstanding debt and the repayment schedule.

It should be noted that our General Obligation Bond debt is related to voter approval. In addition, the Highway User Revenue Bonds are also voter approved. Sewer Revenue debt is a debt incurred due to Federal regulatory water quality standards. Certificates of Participation (COPs) vary widely in purpose, and as detailed in my August 9 memorandum to the Committee, a significant component of COPs are repaid quickly, in less than three years. However, some COPs carry a typical County 15-year debt profile.

As can be seen in the Combined Debt Outstanding Principal chart, Pima County's debt will be reduced from \$1.27 billion in Fiscal Year (FY) 2014/15 to \$1.02 billion by the end of the current fiscal year. This is a two-year \$253 million reduction in aggregate debt.

In addition, the repayment schedules indicate this debt of \$1.02 billion will be reduced to less than \$500 million within five years and fully repaid in 10 years.

Pima County's General Obligation Bond debt at the end of FY 2014/15 totaled \$384 million; by the end of the current fiscal year, this debt will be reduced to \$300 million. Hence, \$84 million of this debt has been repaid in the last two years. The debt will be further reduced by half in the next four years and will be nonexistent in 10 years.

You can also review the summary sheets for Highway User Revenue Bonds, COPs and Sewer Revenue Debt.

Chair and Members, Pima County Bond Advisory Committee
Re: **Pima County's Long-term Debt Profile**
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In addition to this report, a second set of graphs is attached that more closely match the format provided to the Committee in the past. The differences are that the second set of graphs provide a historical perspective dating back to 1997, show debt issuances (sales) and debt payments, and also include future debt that is planned to be issued, including:

1. Sell the remaining voter-authorized General Obligation debt of \$25.7 million in 2017;
2. Selling \$10 million of voter-authorizes Highway User Revenue Bonds in 2017; and
3. Selling future Sewer Revenue obligations of \$45 million in 2017, \$45 million in 2018, \$30 million in 2019, and \$30 million in 2020.

This item will be on the Committee's meeting agenda for discussion and questions.

CHH/dr

Attachments

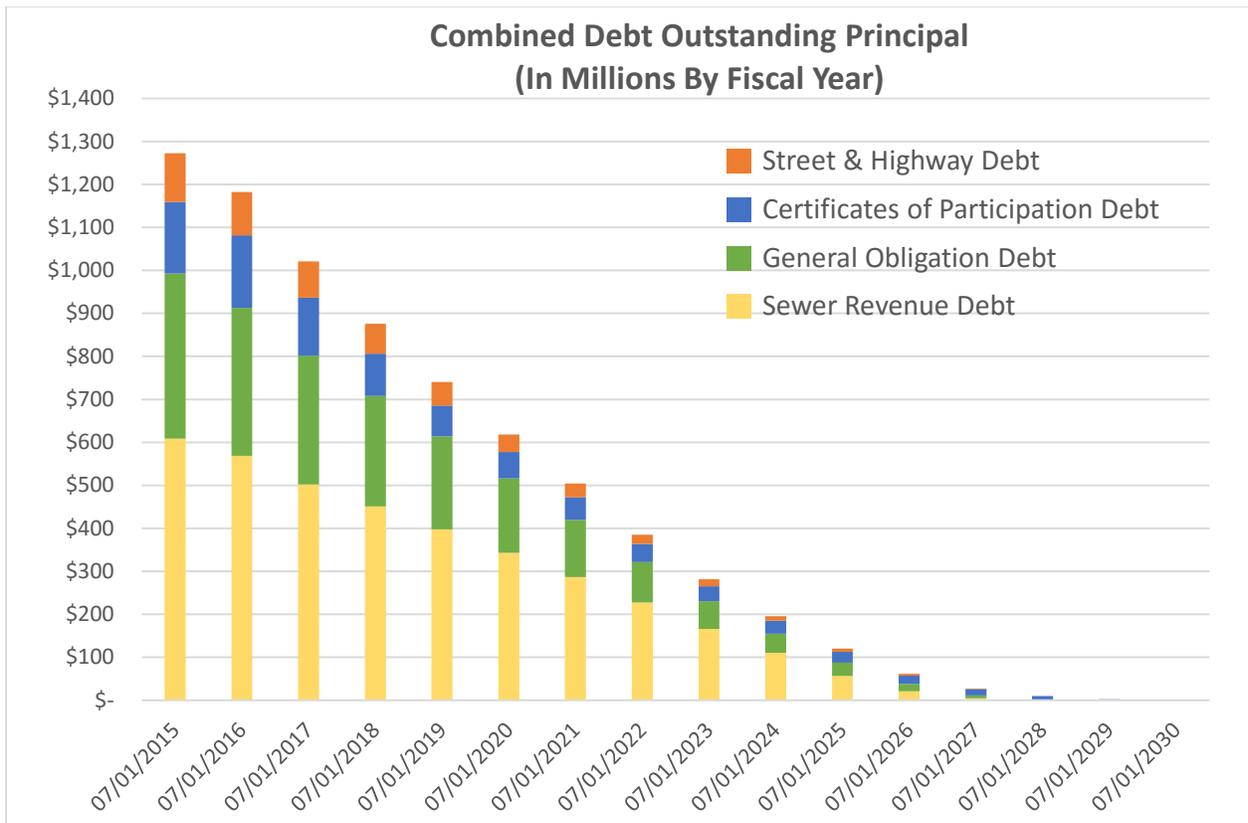
- c: Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management
Nicole Fyffe, Executive Assistant to the County Administrator
Diana Durazo, Special Staff Assistant to the County Administrator

Pima County's Long Term Debt

Pima County's long term debt is comprised of four debt types which are described in more detail on the following pages:

- General Obligation Bonds
- Street and Highway Revenue Bonds (sometimes known as Transportation bonds)
- Sewer Revenue Debt
- Certificates of Participation

All of Pima County's long term debt is rated AA- or better by at least one major credit rating agency. This rating indicates Pima County has a very strong ability to meet its financial commitments. Unlike many other governments, Pima County limits its long term debt repayment to 15 years. This short repayment schedule, stable financial performance with good financial policies, and strong budget controls all contribute to Pima County's excellent credit rating.



At the end of fiscal year 2014-15, Pima County's long term debt totaled \$1.27 billion. Last year, at the end of fiscal year 2015-16, the debt had decreased by \$91 million to \$1.18 billion. At the end of the current year, fiscal year 2016-17, the current debt will decrease another \$162 million to \$1.02 billion. The debt will be reduced in half within five years and, within ten years, Pima County's existing debt will decrease to \$62 million dollars.

Pima County – Summary of Existing Debt

August 2016

General Obligation Bonds – General Obligation Bonds are a common type of state and local government debt where repayment is secured by the government’s pledge to use legally available resources to repay the bonds. This includes an annual property tax levied by Pima County when approved by the voters.

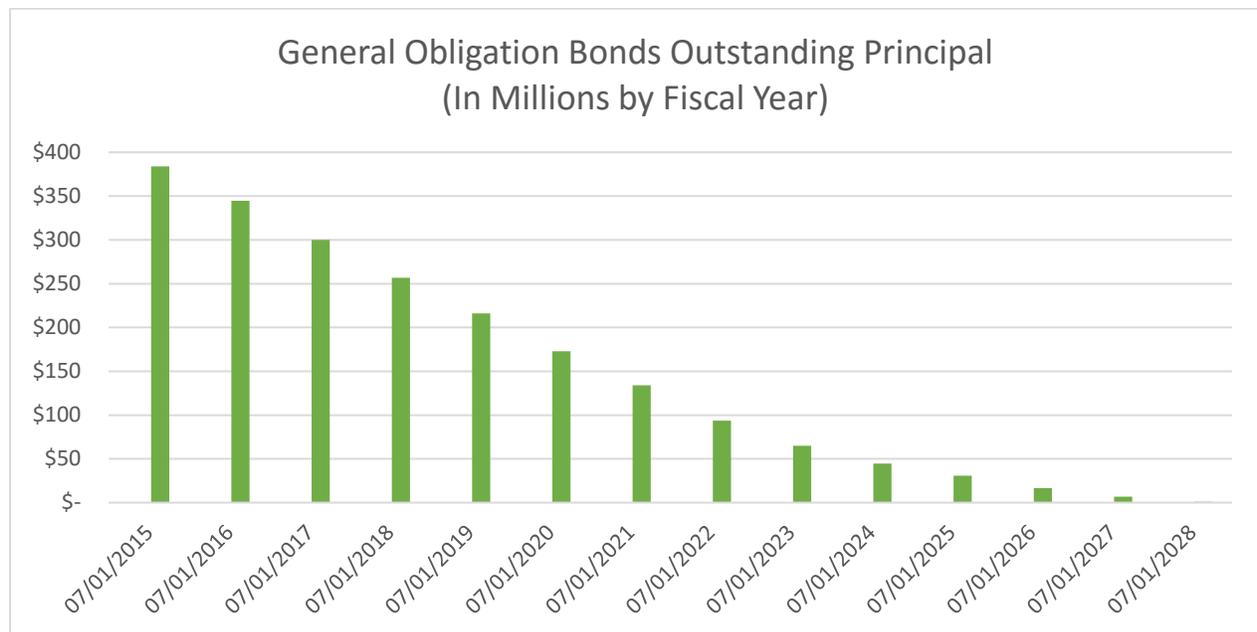
General Obligation Bonds are used by Pima County to fund capital improvement projects such as libraries, parks, and other public facilities and, when conditions permit, to refinance higher interest bonds with lower interest bonds without extending the original maturity dates.

For example, General Obligation Bonds have been used to fund the Abrams Building, Regional Public Safety Communications System, and the Wilmot Branch Library Improvements.

The Abrams Building was constructed to house the Health Department and other health providers.

The County Wireless Integrated Network (PCWIN) Regional Public Safety Communications System was built to provide voice communications between multiple public safety organizations to improve service delivery and coordination. PCWIN provides communication services to police, fire agencies, hospitals, and Pima County’s non-public safety departments.

The Wilmot Branch Library Improvements were constructed to provide the branch with expanded space and technological infrastructure to enhance the Pima County Public Library System’s mission of supporting education, literacy, and lifelong learning throughout Pima County.



At the end of fiscal year 2014-15, Pima County’s General Obligation Bonds totaled \$384 million. Last year, at the end of fiscal year 2015-16, the debt had decreased by \$39 million to \$345 million. At the end of the current year, fiscal year 2016-17, the current debt will decrease another \$45 million to \$300 million.¹ The debt will be reduced in half within four years and, within ten years, Pima County’s existing general obligation debt will decrease to \$17 million dollars.

¹ In July 2016, Pima County refunded \$125 million of general obligation debt by issuing \$122 million of lower interest rate debt. This refinancing reduced the County’s debt by \$3 million and saved the County \$4 million of future interest costs. In addition to the \$3 million reduction from the refinancing, the County will repay an additional \$42 million during the year.

Pima County – Summary of Existing Debt

August 2016

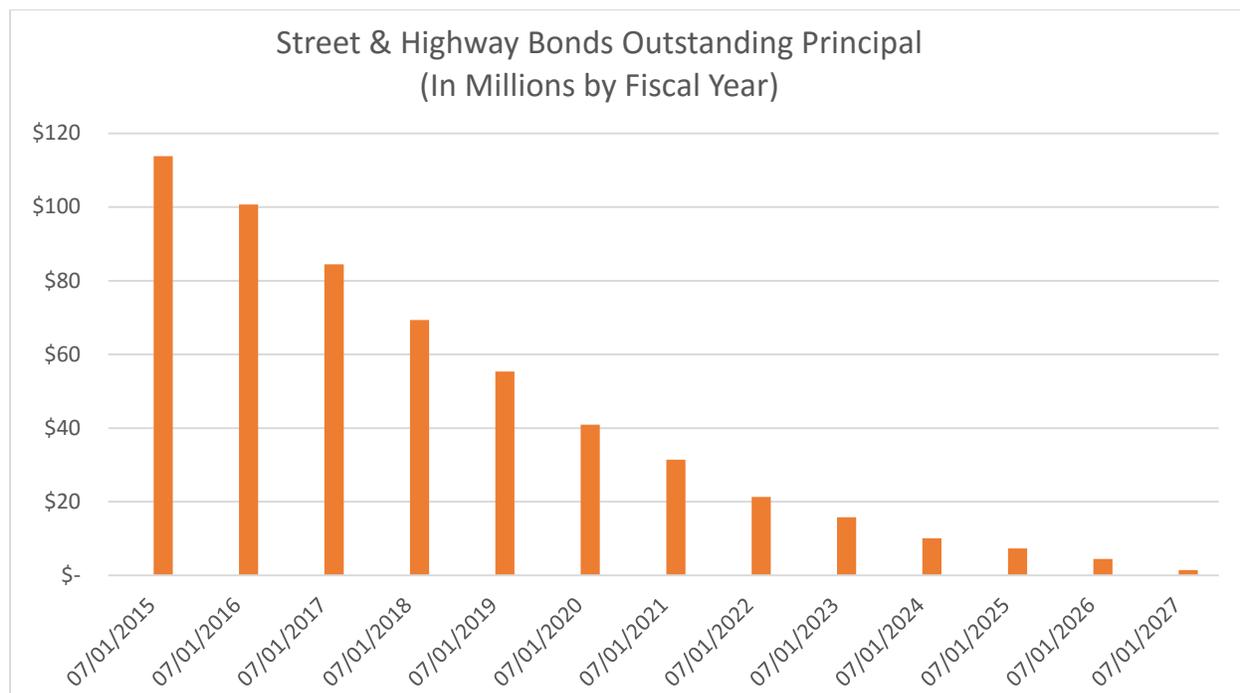
Street and Highway Revenue Bonds – Revenue bonds are a common type of state and local government debt where repayment is secured by a specific revenue stream rather than the government's pledge to use all legally available resources to repay the bonds. A portion of Pima County's future highway user revenues are pledged to repay Pima County's Street and Highway Revenue Bonds.

Street and Highway Revenue Bonds are used by Pima County to finance road and traffic safety improvements throughout the County and, when conditions permit, to refinance higher interest bonds with lower interest bonds without extending the original maturity dates.

The Street and Highway Revenue Bonds have funded the Craycroft Road: River to Sunrise, Valencia Road: Alvernon Way to Wilmot, and numerous other projects.

The Craycroft Road improvement increased the roadway from two lanes to four lanes. The roadway was made safer and the project included paved shoulders, bicycle travel accommodations, and continuous ADA pedestrian pathways.

The Valencia Road project renovated Valencia Road between Alvernon Way and Wilmot Road to improve safety, reduce congestion, improve operations, and increase mobility.



At the end of fiscal year 2014-15, Pima County's Street and Highway Revenue Bonds totaled \$114 million. Last year, at the end of fiscal year 2015-16, the debt had decreased by \$13 million to \$101 million. At the end of the current year, fiscal year 2016-17, the current debt will decrease another \$17 million to \$84 million.² The debt will be reduced in half within four years and, within ten years, Pima County's existing street and highway debt will decrease to \$4 million dollars.

² In July 2016, Pima County refunded \$30 million of street and highway revenue bonds by issuing \$28 million of lower interest rate debt. This refinancing reduced the County's debt by \$2 million and saved the County \$120,000 of future interest costs. In addition to the \$2 million reduction from the refinancing, the County will repay an additional \$15 million during the year.

Pima County – Summary of Existing Debt

August 2016

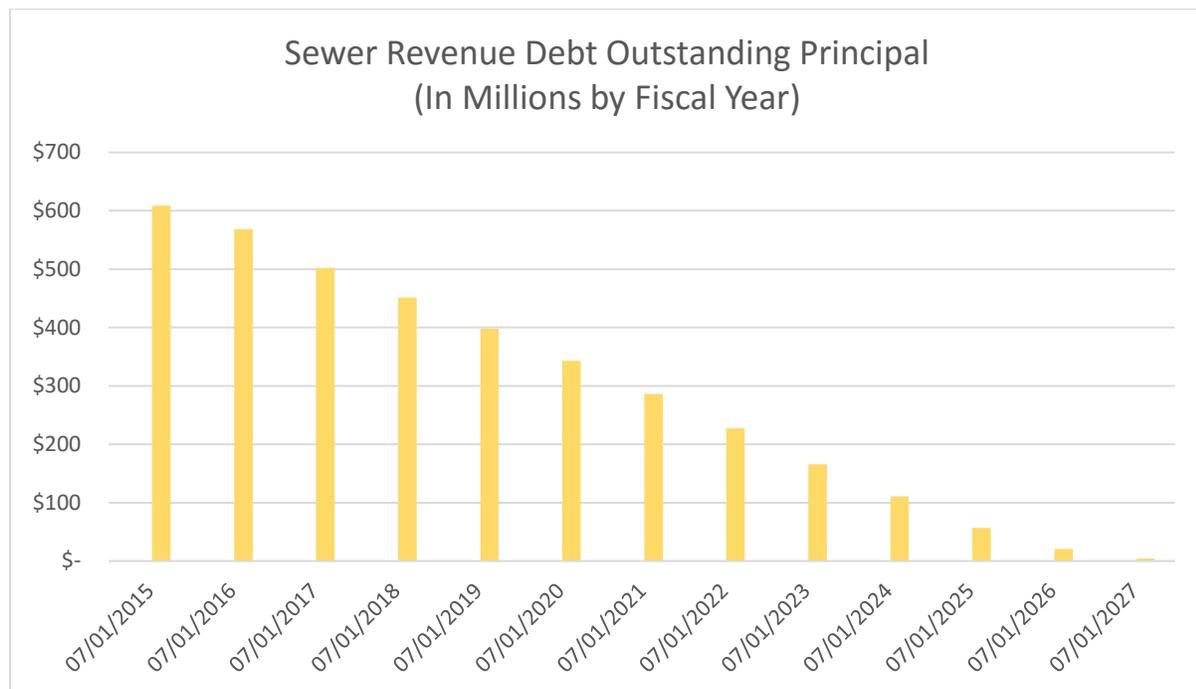
Sewer Revenue Debt³ – Revenue debt is a common type of state and local government debt where repayment is secured by a specific revenue stream rather than the government’s pledge to use all legally available resources to repay the debt. The revenue Pima County generates from operating its sewer system is pledged to repay Pima County’s Sewer Revenue Debt.

Sewer Revenue Debt is used by Pima County to fund enhancements and improvements to the County’s wastewater reclamation, conveyance, and treatment facilities.

Examples of these enhancements and improvements include the Tres Rios and the Agua Nueva Water Reclamation Facilities.

The Tres Rios Water Reclamation Facility Upgrade Project increased the capacity of the plant from 37.5-mgd to 50-mgd while dramatically improving effluent quality. The upgrade project also introduced an enhanced chlorination process to meet strict new disinfection requirements.

The new Agua Nueva Water Reclamation Facility replaced the Roger Road facility, which had been in operation since the 1950’s. This project dramatically improved reclaimed water quality and allowed increased use of the reclaimed water.



At the end of fiscal year 2014-15, Pima County’s Sewer Revenue Debt totaled \$609 million. Last year, at the end of fiscal year 2015-16, the debt had decreased by \$41 million to \$568 million. At the end of the current year, fiscal year 2016-17, the current debt will decrease another \$66 million to \$502 million.⁴ The debt will be reduced in half within five years and, within ten years, Pima County’s existing sewer revenue debt will decrease to \$21 million dollars.

³ Sewer revenue debt is comprised of sewer revenue bonds, sewer revenue obligations, and loans from Arizona’s Water Infrastructure Finance Authority.

⁴ In July 2016, Pima County refunded \$229 million of sewer revenue debt by issuing \$212 million of lower interest rate debt. This refinancing reduced the County’s debt by \$17 million and saved the County \$650,000 of future interest costs. In addition to the \$17 million reduction from the refinancing, the County will repay an additional \$49 million during the year.

Pima County – Summary of Existing Debt

August 2016

Certificates of Participation – Certificates of Participation are a financing method where real property is transferred to a third party in exchange for an initial cash payment. The real property is then leased back from the third party and lease payments are made to the third party to repay the initial cash outlay plus interest. When the lease term ends and all amounts have been repaid, the real property reverts back to the County.

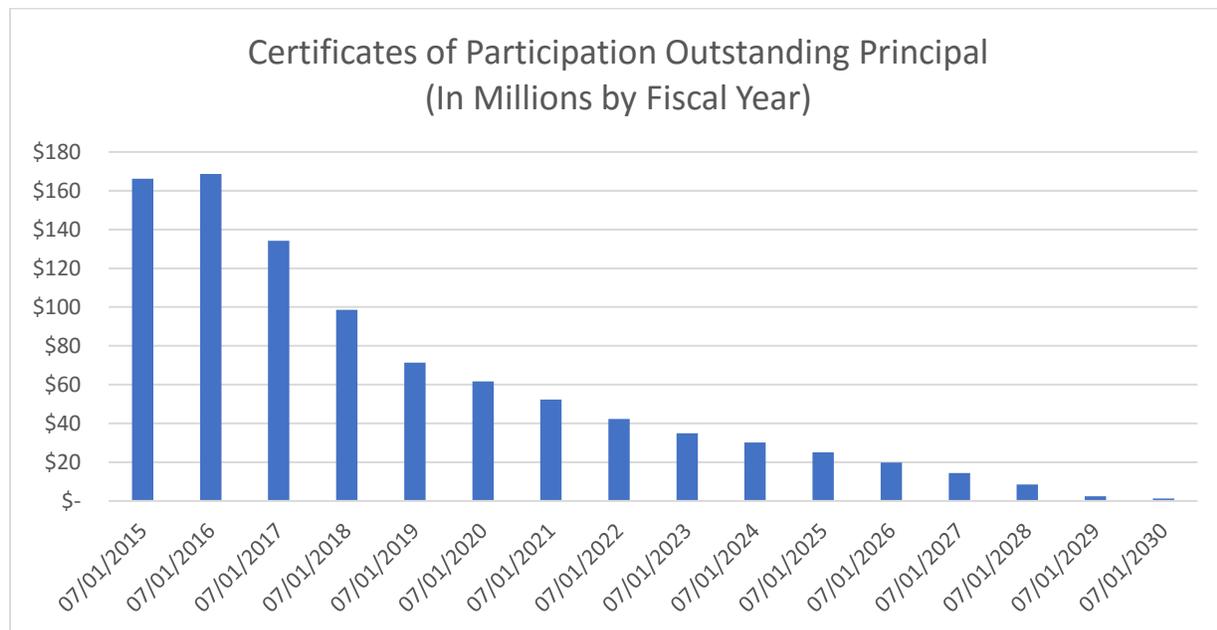
The County uses Certificates of Participation to fund capital improvements and, when conditions permit, to refinance higher interest certificates with lower interest certificates without extending the original maturity dates.

Certificates of Participation projects include the construction of the Public Service Center, Fleet Services Facility, and various significant improvements to the County's wastewater systems.

The Public Service Center, partially funded by Certificates of Participation, was built to house the County's Justice Court and various elected officials including the County Treasurer, Recorder, and Assessor.

The Fleet Services Facility was constructed to replace outdated 50 year old facilities. Site improvements help site traffic move better, enhance site drainage, and make more effective use the site.

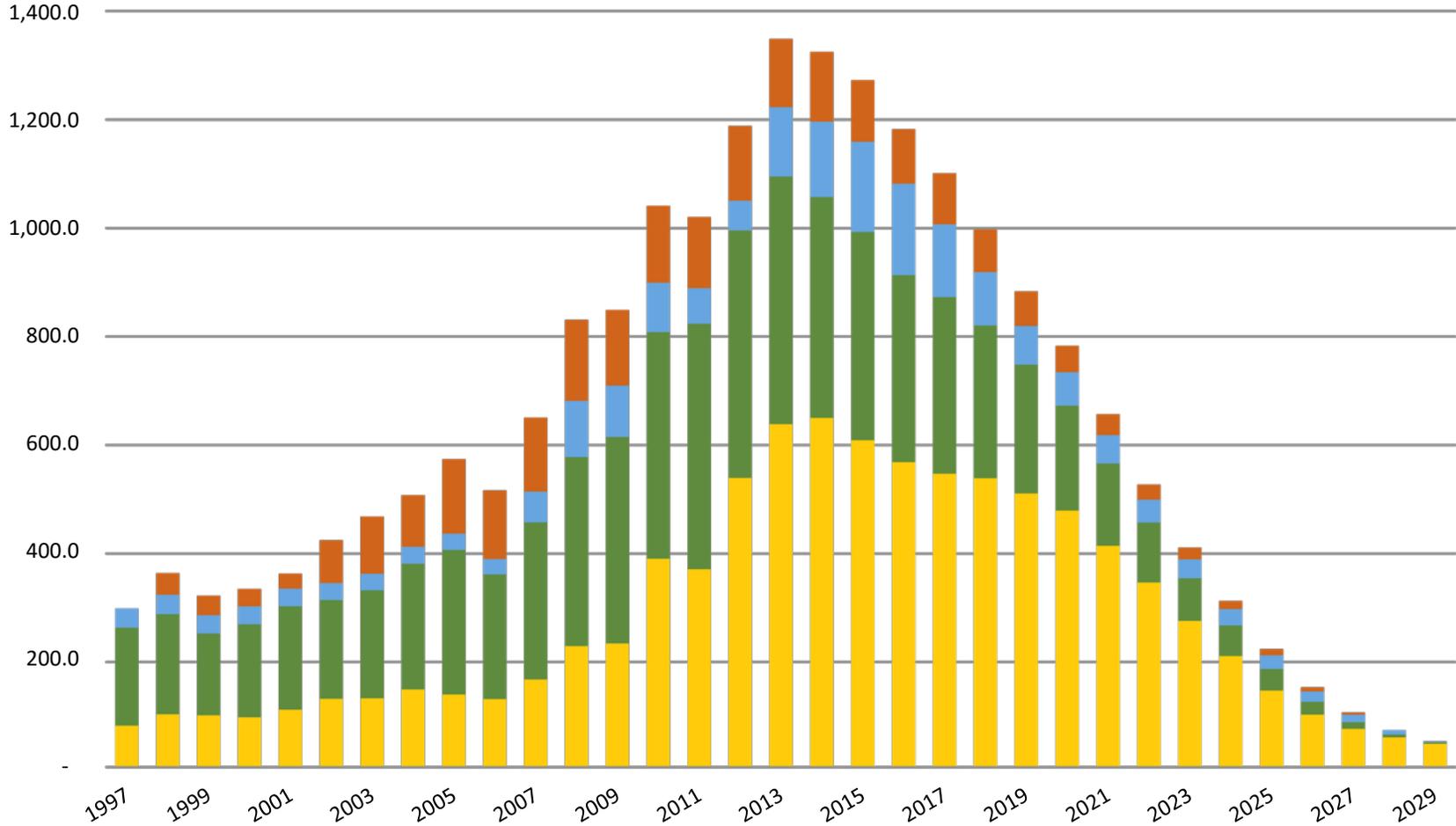
Certificates of Participation are repaid from funds provided by the benefiting County component. For example, the Certificates of Participation that are issued for significant improvements to the County's wastewater systems are repaid by revenues generated by operating the County's wastewater systems.



At the end of fiscal year 2014-15, Pima County's Certificates of Participation totaled \$166 million. Last year, at the end of fiscal year 2015-16, the debt had increased by \$2 million to \$168 million.⁵ At the end of the current year, fiscal year 2016-17, the current debt will decrease \$34 million to \$134 million. The debt will be reduced in half within three years and, within ten years, Pima County's existing certifications of participation will decrease to \$20 million dollars.

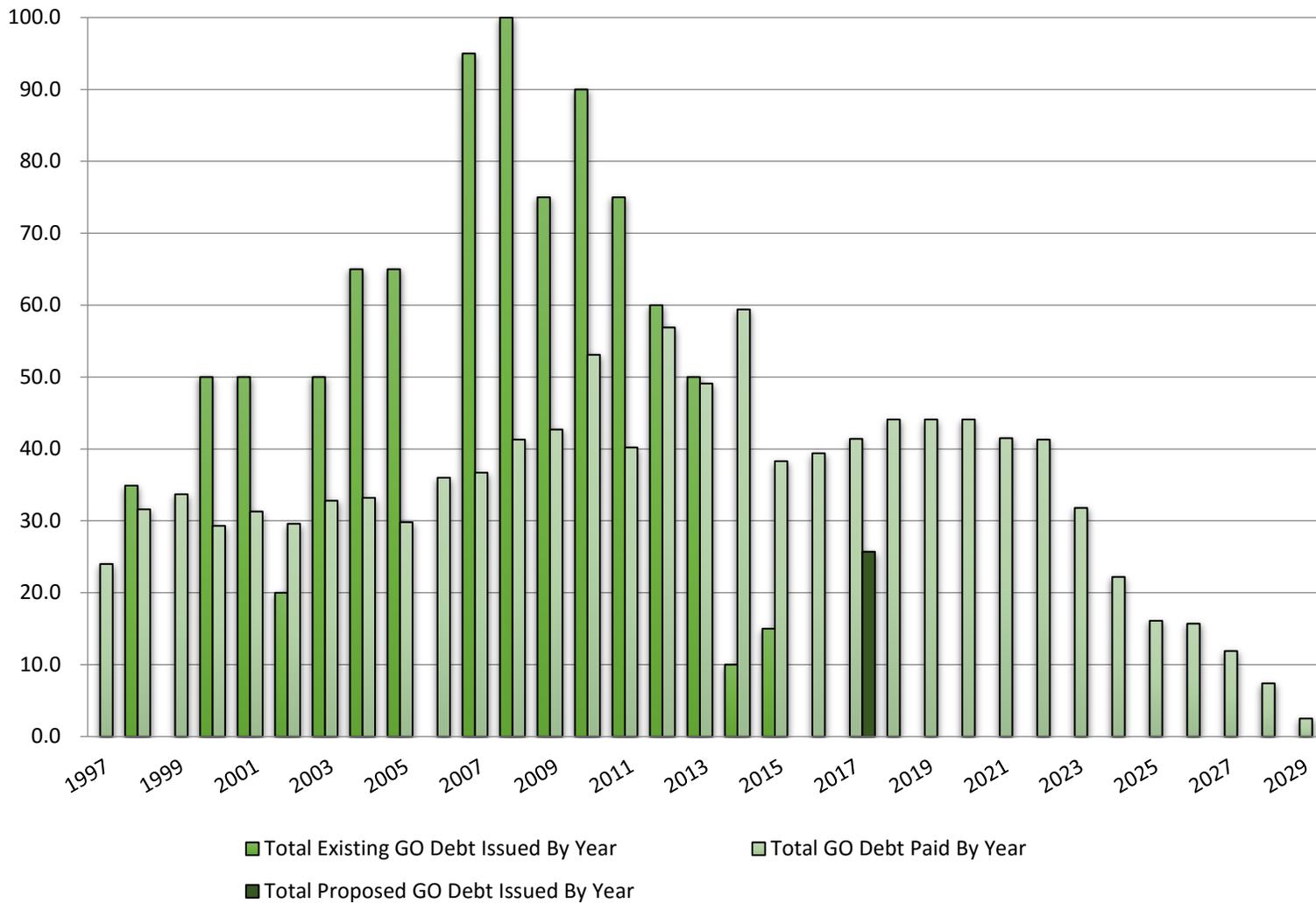
⁵ In April 2016, Pima County refunded \$10 million of certificates of participation by issuing \$9 million of lower interest rate debt. This refinancing reduced the County's debt by \$1 million dollars and saved the County \$400,000 of future interest costs. In addition to the \$1 million reduction from the refinancing, the County issued \$34 million of new certifications and repaid an additional \$31 million during the year.

**Pima County Debt Outstanding
1997 to 2029
(In Millions by Fiscal Year)**

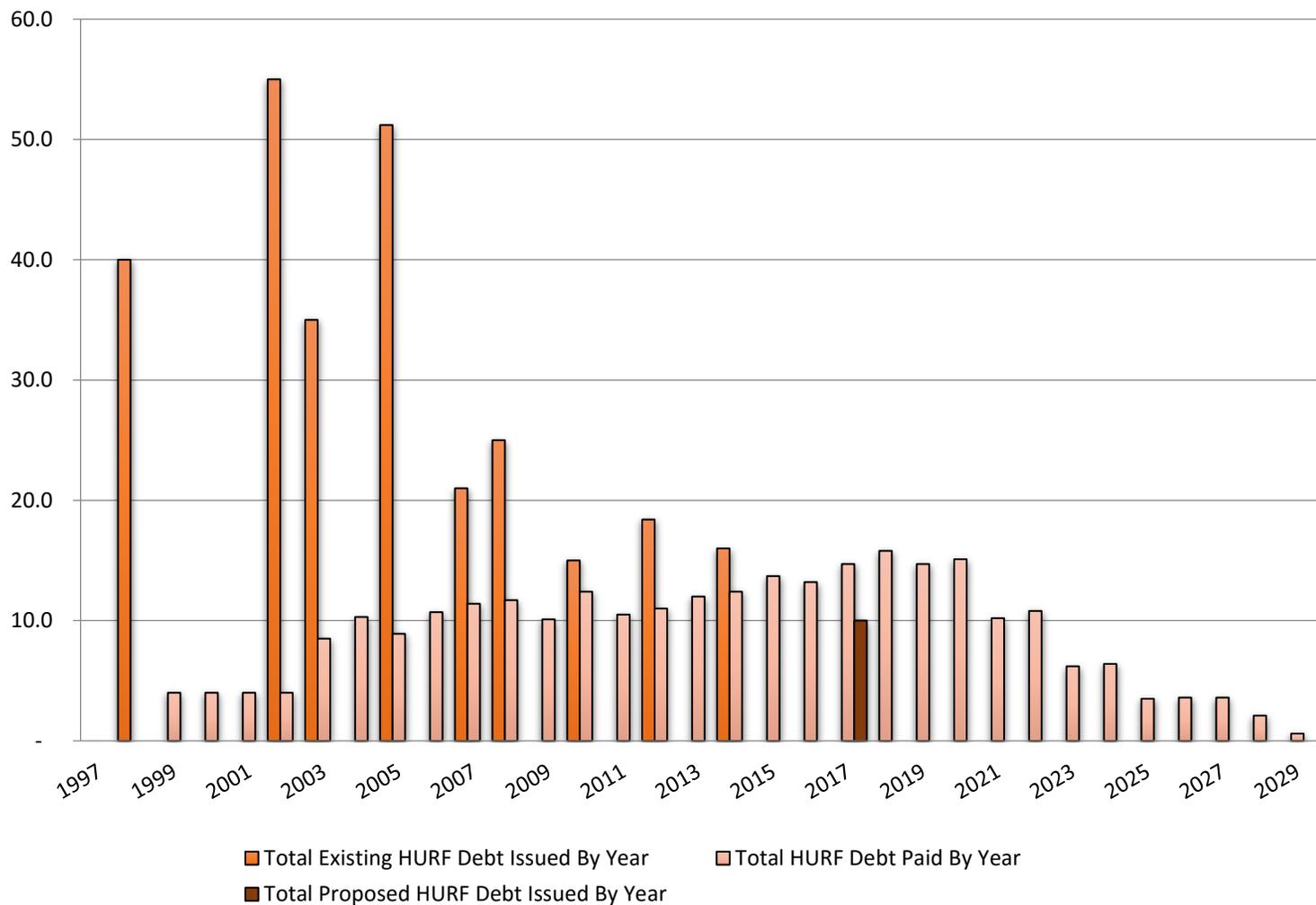


■ Total Sewer Debt Outstanding ■ Total GO Debt Outstanding
■ Total COPS Debt Outstanding ■ Total HURF Outstanding

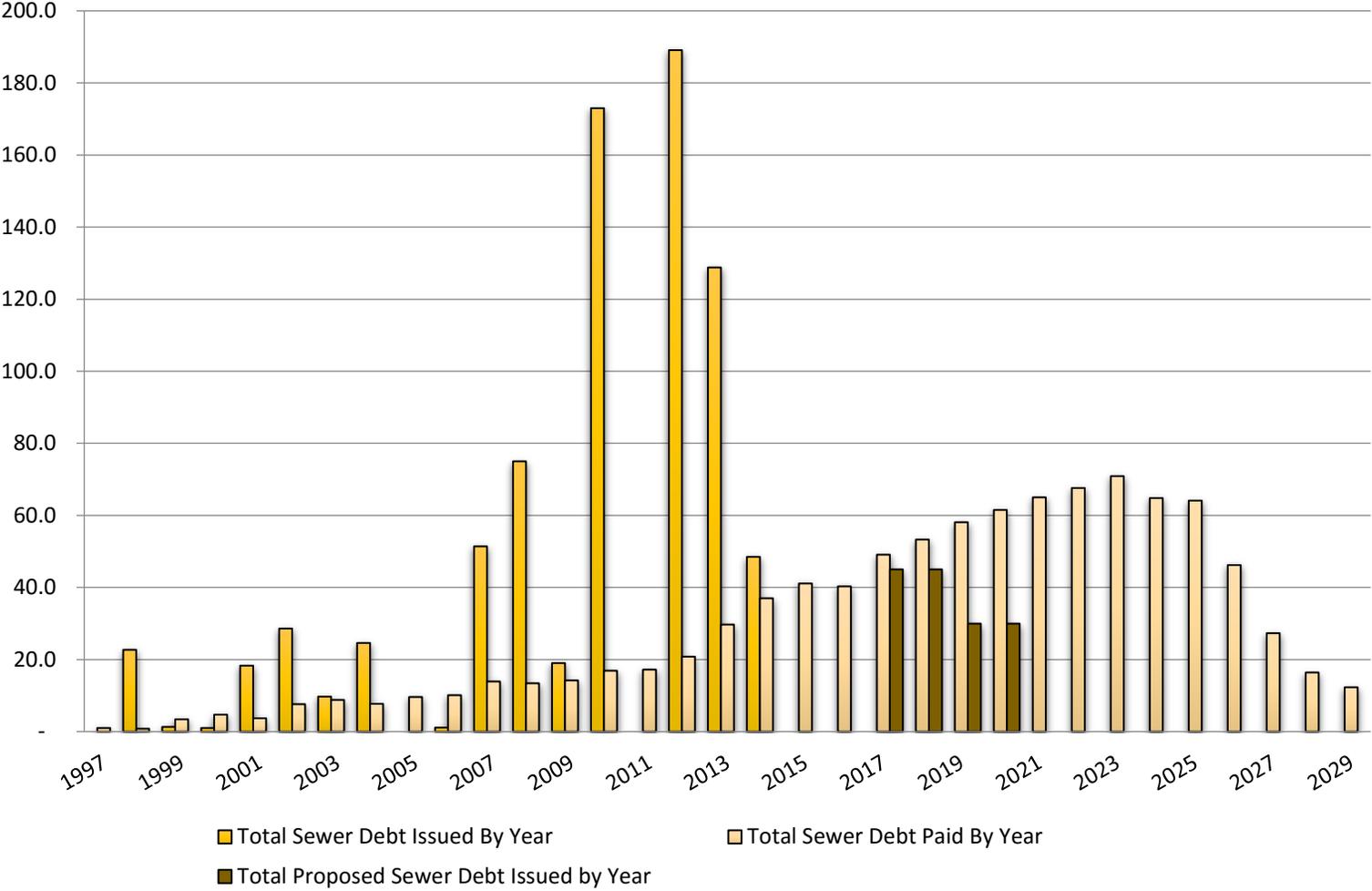
**Pima County General Obligation Debt
1997 to 2029
(In Millions by Fiscal Year)**



**Pima County Street and Highway Debt
1997 to 2029
(In Millions by Fiscal Year)**



**Pima County Sewer Debt
1997 to 2029
(In Millions by Fiscal Year)**



**Pima County Certificates of Participation Debt
1997 to 2029
(In Millions by Fiscal Year)**

