



MEMORANDUM

Date: June 22, 2018

To: Chairman and Members
Pima County Bond Advisory Committee

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Possible Regional Road Repair Bond Election, November 6, 2018**

I wrote to you last on June 14, 2018 regarding the possibility of the sales tax for road repair failing to get the required unanimous support of the Board of Supervisors, and the last possible funding option available to the Board, which is placing a proposition on November's ballot for general obligation bonds for regional road repair. On June 19, 2018, the effort to levy a sales tax to fund road repair failed as two Supervisors voted against it. As part of the discussion that followed, the Board directed staff to prepare the necessary materials to instead send to the voters a \$430 million general obligation bond proposition to fund regional road repair this November, and bring that item back to the Board on July 3. They also directed staff to schedule a meeting of the Bond Advisory Committee to consider the bond election request.

Pima County maintains 1,891 miles of paved roads in unincorporated areas, of which about 70 percent are rated in poor or failing condition. Over the past several months, the Pima County Department of Transportation developed a model and draft plan to repair all of the County-maintained paved roads within 10 years, including regular maintenance. The \$860 million bond option would have been equivalent to what the half-cent sales tax would have generated, to be shared with cities and towns. The County's share of this, plus annual state-shared Highway User Revenue Funds (HURF) and Transportation Vehicle License Tax (VLT) revenues, plus expected cost savings due to reorganization of the Department of Transportation, would have been enough to fully fund this 10 year plan. About a third of the state-shared transportation revenues currently fund debt service on 1997 bonds authorized by voters to address traffic congestion, and as those are paid off more of those state-shared transportation revenues will be allocated to funding the road repair plan.

The Board, however, chose the \$430 million bond option, which is fine, and would be distributed as shown in Table 1.

Table 1
Distribution of \$430 million in Bond Revenues

Jurisdiction	Taxable Net Assessed Valuation ¹	% of Overall County Tax Base	July, 1 2016 Census Population	% Population	% of Tax Base + % of Population Divided by Two	Distribution Per Jurisdiction
Marana	\$645,311,769	7.74%	43,474	4.28%	6.01%	\$25,849,926
Oro Valley	\$535,042,025	6.42%	43,781	4.31%	5.37%	\$23,069,657
Sahuarita	\$233,877,438	2.81%	28,794	2.83%	2.82%	\$12,118,133
South Tucson	\$22,169,911	0.27%	5,645	0.56%	0.41%	\$1,775,945
Tucson	\$3,414,161,333	40.97%	530,706	52.22%	46.59%	\$200,352,448
Unincorporated Pima	\$3,483,330,430	41.80%	363,806	35.80%	38.80%	\$166,833,891
Total	\$8,333,892,906	100.00%	1,016,206	100.00%	100.00%	\$430,000,000

¹Sources: Pima County Assessor 2018 Levy Limit Worksheet for Overall Pima County, South Tucson, and Tucson valuation. Pima County Clerk of the Board of Supervisors, 2018 Abstract of Pima County Clerk of the Board of Supervisors, 2018 Abstract of Values By Legislative Class of Property for Marana, Oro Valley, and Sahuarita valuation.

²Less bond issuance and other financial admin costs

As you can see, the City of Tucson would receive the highest share, at \$200 million and the County's share would be \$167 million. At \$167 million, the County's 10 year plan is approximately 70 percent funded (including annual state-shared transportation revenues), but it is the cash flow on an annual basis that will determine whether the County can stay on track to achieve full repair and presentation of all of the paved roadways with 10 years as delays implementing the plan cause more roads to fall into disrepair. If the bonds were to be allocated over the first five years, the first five years of the plan would be fully funded and the County could pursue additional funding to fully fund the last five years. However, the current proposal is to allocate these bonds over nine years, to keep repayment schedules as short as possible. If finance conditions continue to improve and the contracting community can prove the capacity to deliver at higher volumes, the debt could be sold faster and the funds allocated more quickly. It is also important to note that after these 10 years, the annual state-shared transportation revenues are anticipated to be sufficient to adequately maintain the County's roads for subsequent years.

The City of Tucson maintains a similar number of road miles to the County and similarly 70 percent of its roads are rated in poor or failing condition. Therefore, this \$200 million in general obligation bond funding, along with the cities temporary five-year sales tax, of which \$100 million is dedicated to road repair, will be a significant increase in road repair funding for the City. The suburban municipalities of Marana, Sahuarita and Oro Valley have newer roads than City and County and generally have more of a need for funding for road capacity expansion. These bond funds would be restricted to road repair but would allow these municipalities to reallocate the state-shared transportation revenues they currently spend on road repair to other transportation needs like roads expansion projects.

Advantage of Moving this Forward Now

I assume that many of you will find this request sudden. However, much of the public process that the Bond Advisory Committee typically goes through when planning for a future bond election, including vetting of projects, verifying cost estimates, and determining need, already took place over the past year as part of the Sales Tax Advisory Committee (STAC) and Transportation Advisory Committee (TAC) deliberations and public meetings, as well as numerous Board meetings focused on this topic. City, town and Pima Association of Government's transportation staff have been working together with the County for the past year delivering the County's one-year 25 cent property tax road repair program. I have also been keeping city and town managers apprised of the progress in pursuing a sales tax. Other stakeholders, beyond the general public that have attended or been involved with Board, STAC and TAC, include the Southern Arizona Leadership Council, Tucson Association of Realtors, the various chambers of commerce, and community councils.

The critical need for road repair funding has been clearly verified. The Department of Transportation's road repair model and draft plan shows that there is a path forward to fully address this crisis such that annual state-shared revenues are adequate for ongoing maintenance after this. Bonds could be issued with very short repayment periods, 3.4 years on average, such that the life of the road repair treatments exceed the debt repayment periods. The public has weighed in, as have stakeholders. The only question now is how to fund it in light of all of the other options we have pursued unsuccessfully.

The fact that there is a general election on November 6, 2018, means this is essentially a free opportunity to add an item to the ballot asking voters if they would support the issuance of general obligation bonds to fund regional road repair. Per county code, a detailed bond implementation plan ordinance would be prepared prior to early voting, that includes details about oversight of the program and regular audits, as well as coordination with the municipalities and PAG or the Regional Transportation Authority.

Chair and Members, Pima County Bond Advisory Committee
Re: **Possible Regional Road Repair Bond Election, November 6, 2018**
June 22, 2018
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Additional Information

Attachments to this memorandum include:

1. Two charts showing the capacity of the County to issue additional general obligation bonds while not increasing the secondary property tax rate above current \$0.69 per \$100 of taxable net assessed value.
2. A summary of the proposed bond sales, interest rate assumptions, length of repayment for each bond sale, and the average tax rate necessary to fully repay the proposed new debt.
3. A debt service table, which shows the debt retirement schedule for the existing general obligation bond debt and the proposed new debt.
4. A draft resolution for the Board of Supervisors to call the election, and the notice that would be published in the paper that includes the proposed ballot proposition, and the required call for arguments to be submitted for and against the proposition.

Your meeting materials will also include my June 14, 2018 memorandum to the Board, which details the general obligation bond option, and includes a letter from TAC and the final report from STAC.

At the meeting we will go over this information. Deputy County Administrator Carmine DeBonis and Department of Transportation staff will be available. Before then, if you think of any questions or need additional information, please contact me or my staff so we can get it to you as soon as possible.

CHH/dr

Attachments

- c: The Honorable Chairman and Members, Pima County Board of Supervisors
Jan Leshar, Chief Deputy County Administrator
Carmine DeBonis, Deputy County Administrator for Public Works
Tom Burke, Deputy County Administrator for Administration
Michelle Campagne, Interim Director, Finance and Risk Management
Ana Olivares, Director, Transportation Department
Yves Khawam, Deputy Director, Transportation Department
Nicole Fyffe, Executive Assistant to the County Administrator
Diana Durazo, Special Staff Assistant to the County Administrator

ATTACHMENT 1

Pima County General Obligation Bond Debt Service Secondary Property Rate Since FY86/87

Since 1986, voters have authorized Pima County to sell \$1 billion in general obligation bonds to fund capital improvements across the region. The County sold the remainder of these bonds in early 2017. For FY2018/19, the County's outstanding general obligation bond debt will total \$276 million. Without additional voter-authorization, this debt will be reduced by 75 percent in 5 years and completely paid off in 11 years. The tax rate necessary to generate the property tax revenue to repay these bonds has varied from as high as \$1.10 to as low as \$0.60 and has remained steady at \$0.69 since 2014.

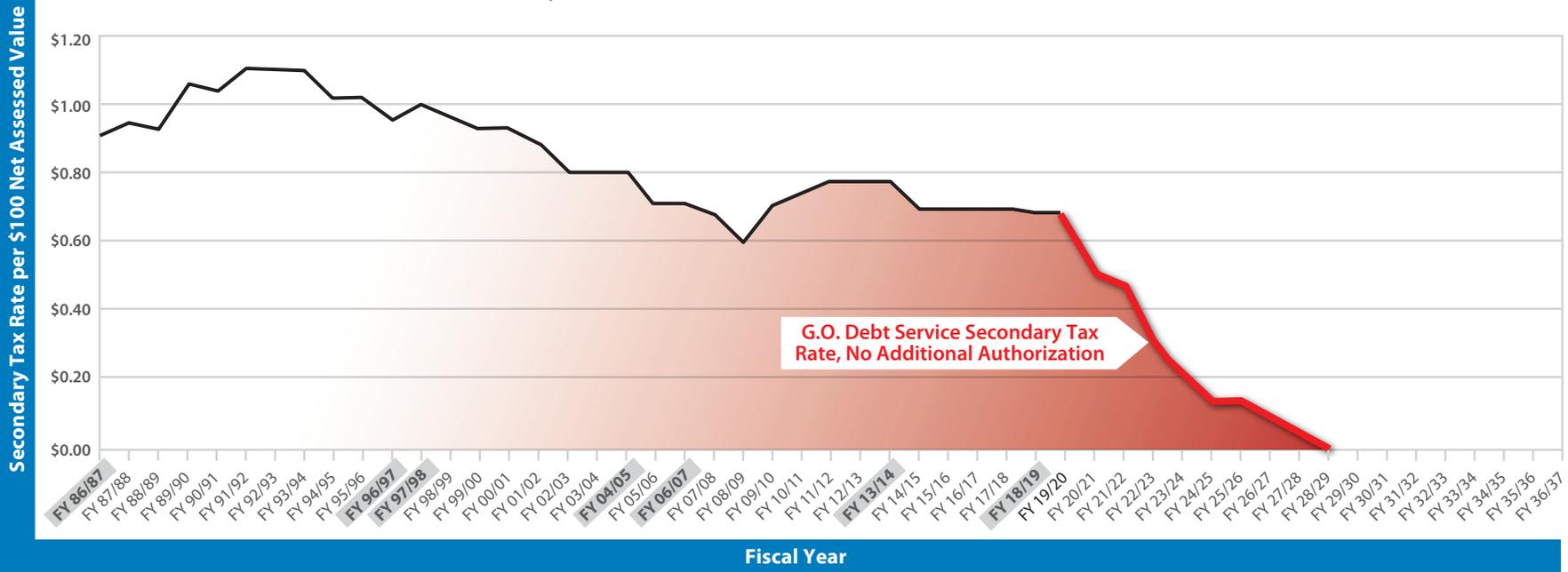


FIGURE 1

Road repair possible without increasing the County's bond tax rate

The County's secondary property tax to pay off voter-approved bonds has held steady since **FY2014**. If voters approve a bond for road repair in **FY2019** for **\$860 Million** it will remain steady until the bonds are paid off in **FY2036**. If voters approve a bond for **\$430 Million**, it will remain steady until the bonds are paid off in **FY2030**.

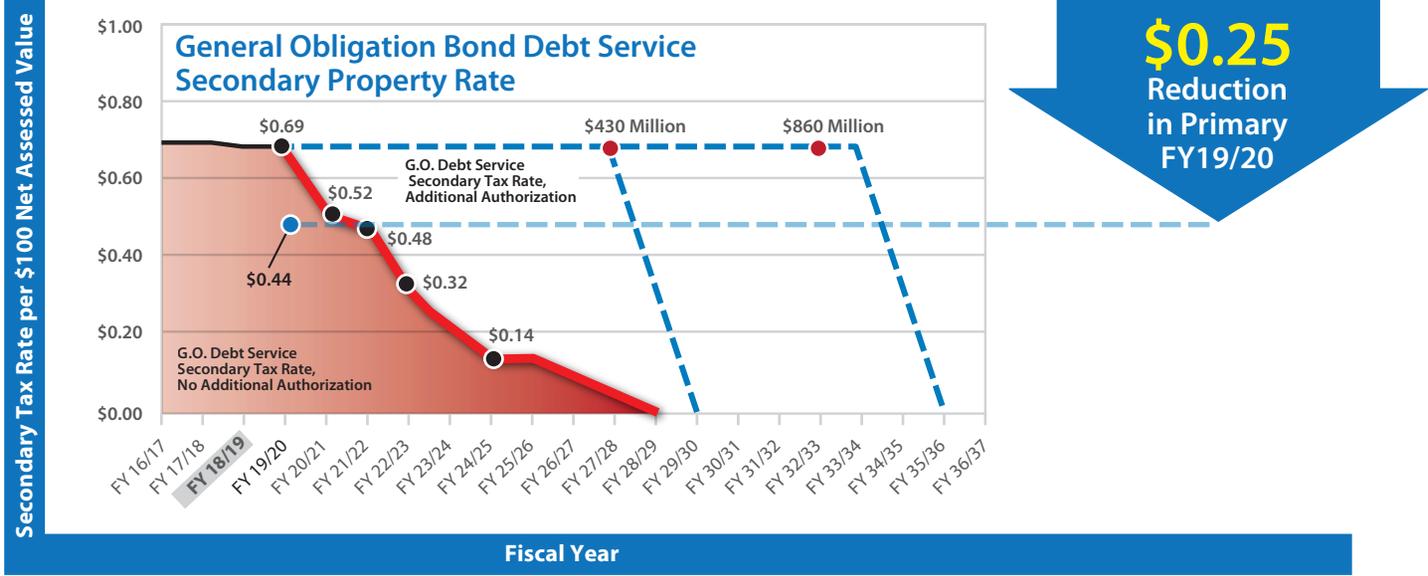


FIGURE 2

ATTACHMENT 2

GO Debt Analysis

Net Assessed Value (NAV)

Utilized NAV Assumptions from Finance and Risk Management

Debt Issuances

	<u>\$860M</u>	<u>\$430M</u>
2018-19		
2019-20	100,000,000	50,000,000
2020-21	80,000,000	50,000,000
2021-22	80,000,000	50,000,000
2022-23	80,000,000	50,000,000
2023-24	85,000,000	50,000,000
2024-25	90,000,000	50,000,000
2025-26	95,000,000	50,000,000
2026-27	95,000,000	50,000,000
2027-28	100,000,000	30,000,000
2028-29	55,000,000	
2029-30		
2030-31		
2031-32		
2032-33		
Total	860,000,000	430,000,000

# of Debt Issuances	10	9
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Interest Rate Assumptions Used

	3.50%	3.0%
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Average Payback

	8.9	3.4
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Average Tax Rate

	0.5369	0.4260
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ATTACHMENT 3

ATTACHMENT 4

DRAFT RESOLUTION NO. 2018 - _____

RESOLUTION ORDERING AND CALLING A SPECIAL BOND ELECTION FOR REGIONAL ROAD REPAIR TO BE HELD IN AND FOR PIMA COUNTY, ARIZONA ON NOVEMBER 6, 2018.

The Board of Supervisors of Pima County, Arizona (the “Board”), finds that:

- A. Approximately 70 percent of the 1,891 miles of paved County-maintained roadways in unincorporated Pima County are in poor or failed condition.
- B. The County’s Department of Transportation has developed a plan intended to improve the condition of every paved road in unincorporated Pima County within 10 years, while also ensuring repaired roads continue to be maintained.
- C. The Arizona Legislature has not raised the gas tax in over 27 years, and the amount of Highway User Revenue Funds and Transportation Vehicle License Tax revenues that Pima County receives from the State are inadequate to fund this road repair plan within 10 years while also funding other necessary transportation expenses.
- D. The County has pursued every option available to the County for raising new sources of revenue to fully fund the road repair plan within 10 years, all of which have been unsuccessful.
- E. It is in the best interests of Pima County, Arizona (the “County”) to issue and sell up to \$430,000,000 principal amount of general obligation bonds of the County in order to provide additional funding for road repair within unincorporated Pima County and to provide funds for the repair of streets and roads within its incorporated municipalities that, in cooperation with the municipalities’ governing bodies, are established or deemed to be County highways.
- F. The Arizona Constitution requires the Board to submit Propositions relating to the issuance and sale of County general obligation bonds to the qualified electors of the County.
- G. As of the date of this resolution, the County has \$275,990,000 aggregate principal amount of outstanding general obligation bonds authorized by previous bond elections.
- H. As of the date of this resolution, the County’s Constitutional debt limitation is \$ 1,250,083,936.

NOW THEREFORE, BE IT RESOLVED, that:

- 1. A special bond election will be held on November 6, 2018, to submit to the qualified electors of the County the Proposition set forth in the form of Notice of Special Bond Election (the “Notice”), which shall be in substantially the form attached to this Resolution as Exhibit A and incorporated herein by reference (the “Proposition”).
- 2. The County Administrator and the County Elections Director, or their designee(s) will cause the following to take place:

- a. Publish the Notice, in substantially the form attached to this Resolution as Exhibit A, in a newspaper published and circulated generally within the County.
 - b. Mail to the residence of each registered voter in the County, not less than 35 days prior to the election, an informational pamphlet containing the information required by law.
 - c. Prepare a Bond Implementation Plan Ordinance for approval by the Board, and then publish the full text of the approved ordinance in a newspaper published and circulated generally within the County and on the County website, prior to the start of early voting.
 - d. Prepare and deliver to the election boards, to be furnished to the qualified electors wishing to vote at the special bond election, ballots and related materials in the form and containing the information required by law.
 - e. Direct early voting, in the manner provided by law, with the assistance of the County Recorder.
 - f. Arrange for all voting to take place on voting equipment authorized by the Arizona Secretary of State.
 - g. Conduct the special bond election and keep the poll lists in the manner provided by law.
 - h. In order to comply with the Voting Rights Act of 1965, as amended, include, in each of the following, as it is posted, published, and recorded, a Spanish translation: the Notice, the informational (publicity) pamphlet, the ballot, all early voting materials, and all instructions at the polls.
 - i. Return the results of the special bond election to the Board within twelve days after the special bond election.
 - j. Submit a copy of the informational pamphlet to the department of revenue within thirty days after the special bond election.
3. The Board will hold a special meeting within twenty days after the election to canvass the votes cast and certify the results of the special bond election, as provided by law. The Board will be governed by the vote of the majority as to the Proposition. The Clerk of the Board is hereby directed to prepare and present to the Board, at that special meeting, a certificate as required by law, and cause that certificate to be recorded in the office of the Pima County Recorder after approval by the Board.
 4. Written arguments of no more than 300 words in length for and against the Proposition, for inclusion in the informational pamphlet to be distributed to registered voters in connection with the special bond election as required by law, must be submitted as provided in the Notice and must be received no earlier than 8:00 a.m. on July 9, 2018 and no later than 5:00 p.m. on July 20, 2018.
 5. If issuance of bonds is authorized at the special bond election, the expenditure of the bond proceeds will be governed by the provisions of Chapter 3.06 of the Pima County Code

“Bonding Disclosure; Accountability and Implementation,” as it may be amended from time to time.

6. If any provision of this resolution, or its application to any person or circumstance, is determined to be invalid, that will not affect other provisions or applications of this resolution that can be given effect without the invalid provisions or applications.

PASSED, ADOPTED AND APPROVED by the Board of Supervisors of Pima County, Arizona, on _____, 2018.

PIMA COUNTY, ARIZONA

By: _____
Chairman, Board of Supervisors

ATTEST:

By: _____
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SQUIRE PATTON BOGGS (US) LLP
Bond Counsel

By: _____
Timothy E. Pickrell

DRAFT EXHIBIT A
NOTICE OF SPECIAL BOND ELECTION FOR REGIONAL ROAD REPAIR TO BE HELD IN
AND FOR
PIMA COUNTY, ARIZONA ON NOVEMBER 6, 2018
AND
SOLICITATION OF ARGUMENTS FOR AND AGAINST THE PROPOSITION

TO THE QUALIFIED ELECTORS OF PIMA COUNTY, ARIZONA:

A special bond election will be held on November 6, 2018 (the "Election").

The purpose of the Election is to submit a Proposition to the qualified electors of the County as to whether the County should be authorized to issue County bonds in addition to those authorized at previous elections.

The proposition to be submitted is as follows:

Proposition No.

Regional Road Repair

Shall Pima County, Arizona be authorized to issue and sell general obligation bonds of the County in an aggregate principal amount not exceeding \$430,000,000 for the purpose of reconstructing, repairing and preserving existing public roads and highways in the County, including paying all expenses properly incidental thereto and to the issuance of such bonds? The bonds are to be issued in one or more series, maturing not less than one year (or portion thereof) and not more than 10 years following the date of issuance of each such series, bearing interest at a rate or rates not higher than 6 percent per annum and sold at prices that may include a premium not greater than that permitted by law. The issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on the bonds.

The polls will be open during the period from 6:00 A.M. to 7:00 P.M., inclusive, on the day of the election.

Any qualified elector may vote by early ballot in the manner provided by law. Official early balloting materials may be requested via the County Recorder's website at www.recorder.pima.gov, or by mail at 240 N. Stone Avenue, Tucson, Arizona; or by telephone at 520-724-4330, prior to 5:00 P.M. on October 26, 2018. Any elector prevented from voting at the polls as a result of an emergency occurring between 5:00 P.M. on October 26, 2018 and 5:00 P.M. on November 5, 2018 should contact the County Recorder for directions as to voting.

The County hereby solicits the submission of written arguments of no more than 300 words in length for and against the proposition for inclusion in the informational pamphlet to be distributed to registered voters in connection with the special election, as required by law. Each argument shall contain the name of each person sponsoring it. Such arguments must be submitted to the Pima County Election Department, 6550 South Country Club Road, Tucson AZ 85756, and must be received no earlier than 8:00 a.m. on July 9, 2018 and no later than 5:00 p.m. on July 20, 2018. A \$100 fee payment in the form of cash, check or money order payable to the Pima County Elections Department, must accompany each argument submitted to offset a portion of the printing and mailing costs associated with the informational pamphlet.

The person or persons submitting the argument(s) shall identify themselves by giving their residence or mailing address and phone number, which information will not be printed in the informational pamphlet.

If you have any questions about the foregoing, please contact the Elections Department of the County at (520) 724-6830 or mary.martinson@pima.gov.

For information about the Proposition, visit the County's website at _____, send an email to _____, or call _____.

DATED _____, 2018.

PIMA COUNTY, ARIZONA
By: Julie Castañeda
Clerk, Board of Supervisors

DRAFT