



MEMORANDUM

Date: October 22, 2003

To: Chair and Members
Pima County Bond Advisory Committee

From: C.H. Huckelberry
County Administrator 

Re: **Analysis of a Possible Ceiling for the 2004 General Obligation Bond Ballot**

As of the meeting of October 17, 2003, the County Bond Advisory Committee heard funding requests totaling just over \$722 million. It is likely that other local jurisdictions will submit requests on October 31, 2003, which will increase the total considerably more. The presentations already made and those to come present strong evidence of the need for the projects, but the Committee faces the task of reducing the requests to a more affordable investment, as has been accomplished by previous bond advisory committees.

The Chair of the Bond Advisory Committee has asked that I provide a written analysis of the various factors involved in establishing a reasonable ceiling for a General Obligation Bond ballot to be before the voters on May 18, 2004. The following is my analysis.

Magnitude Range of 2004 General Obligation Bond Authorization

Previously, based on discussions with the Committee by County staff, it had been indicated that the bond authorization in 2004 for general obligation bonded indebtedness could range from \$300 million to \$400 million.

Based on the analysis which follows, I now believe it is possible to increase the upper limit of this range to as high as \$450 million.

This higher estimate is based on a number of assumptions: the secondary property tax rate for debt service would not exceed 85 cents per \$100 assessed value; issuance of the debt would occur over a seven year period; growth in the assessed value would initially continue for the next two years at 7 percent, but then drop to a constant 5 percent; the bond interest rate over the period of issuance should not exceed 6 percent; and the size of annual sales would be lowered in the beginning and increase in magnitude over time.

Clearly, not increasing the tax rate is the primary control in bond debt issuance. For example, if the growth in assessed value were to somehow substantially drop, bond sales would be delayed rather than break the tax rate cap set by either the Committee or the Board.

Tax Rate Controls

Historically in voter bond issues an area of primary concern has been the secondary tax rate that is necessary to retire authorized public bond debt. Taxpayers do not respond favorably to widely varying, inconsistent and unpredictable tax rates. For this reason the Board of Supervisors has usually established, as a primary controlling factor in issuing new public debt through voter authorized bond issues, a tax rate limitation. This limitation is not statutorily required nor mandated by those who evaluate the creditworthiness of local governments. However, it is a recognition of the political reality that voters want predictability in taxes and do not tolerate surprises. In the 1997 General Obligation Bond Issue, \$256,980,000 in debt was authorized. The Board pledged a tax rate ceiling of \$1 per \$100 of assessed value. Table 1 below gives the tax rate by fiscal year since 1998 and the corresponding levy to pay principal and interest on all outstanding and/or issued General Obligation Bonds of the County.

Table 1

<u>Year</u>	<u>Tax Rate</u>	<u>Levy</u>
1998	\$1.0000	\$37,002,183
1999	\$0.9650	\$37,177,339
2000	\$0.9350	\$37,405,835
2001	\$0.9350	\$30,607,255
2002	\$0.8950	\$40,197,988
2003	\$0.8150	\$39,409,824

As can be seen, the present tax rate to repay General Obligation Bond indebtedness is approximately 82 cents per \$100 of assessed value. Given this rate, it is unlikely that the Board would make the same tax rate pledge made in 1997 where bonds would not exceed \$1 per \$100 of assessed value. It is likely the Board would choose to select a tax rate very near the current rate of 82 cents per \$100 of assessed value. Assuming this to be the case, I would set the secondary property tax rate cap for any new bond issuance authorized by the voters in 2004 at 85 cents per \$100 of assessed value.

Time Length of New Debt Issuance

Because of federal arbitrage rules, a voter authorization does not lead to an instantaneous issuance of the debts authorized. The debt is issued in increments over time, geared toward project or program cash flow demands. For example, the \$256,980,000 in General Obligation Bond debt authorized by the voters in 1997 has been sold in a series of bond sales beginning in 1998, and expected to end by fiscal year 2004/05. Table 2 reports on the proceeds for five sales between 1998 and 2003. After these sales, there is a remaining authorization of \$65,081,000 for the 1997 General Obligation Bonds.

Table 2

<u>Year</u>	<u>Amount of Bonds Sold</u>
1998	\$34,858,000
1999	\$45,596,000
2000	\$49,704,000
2002	\$16,612,000
2003	\$45,129,000

Once a bond sale occurs, a very specific debt retirement schedule is structured for the sale, comprised of principal and interest payments over a period of time. It is these series of sales and overlapping debt service schedules that combine to determine the secondary property tax levy to meet all principal and interest payments required for a series of bond sales or previously outstanding General Obligation Bond debt. Generally the program life of General Obligation Bond elections has been desired to be between five and seven years; however, they have varied in time between authorizations from as little as one and two years to as much as eleven years. Generally, the longer the time between voter authorization, the higher the authorization amount will be.

Prior and Remaining Debt Obligations

The amount of outstanding debt also has an influence over the issuance of new debt since both must be retired through the primary property tax. Fortunately for Pima County, we have had a very aggressive debt retirement project. In total, \$671.7 million of General Obligation Bonds have been authorized by the voters since 1974. From that authorization, Pima County sold bonds and assumed principal debt in the amount of just over \$606.6 million. As of July, 2003, Pima County retired \$403.3 million in this principal debt, with a remaining principal debt of \$203.3 million. The maximum bonded indebtedness life of a General Obligation Bond of Pima County has been set at fifteen years, and the schedule of annual debt service payments declines each year as principal and interest payments decline. However, if Pima County continued with a principal and interest levy in fiscal year 2002/03 of \$39.2 million, we could retire this existing debt within six years and, without incurring future debt, could effectively be debt-free in that period of time.

Tax Base Influence on Public Debt Capacity

A growing tax base allows more public debt to be assumed, if desired, with a constrained and constant tax rate. Annual variations in the tax base are largely outside the control of the County, and hence a factor that must be judged conservatively to avoid sharp and unnecessary swings in the secondary property tax rate for public debt service. Table 3 indicates the value of the secondary tax base in Pima County over the last twenty years and the percent of growth from year to year of the tax base. As can be seen, the secondary tax

base has grown significantly over the last ten years. However, there was a period within the last twenty years when the base remained relatively constant, or even declined over a five year period.

Table 3

<u>Fiscal Year</u>	<u>Secondary Assessed Value</u>	<u>Change</u>	<u>Percent</u>
1982/83	\$2,059,000,000		
1983/84	\$2,207,000,000	\$148,000,000	7.19
1984/85	\$2,324,000,000	117,000,000	5.30
1985/86	\$2,565,000,000	241,000,000	10.37
1986/87	\$2,841,000,000	276,000,000	10.76
1987/88	\$2,994,000,000	153,000,000	5.39
1988/89	\$3,111,000,000	117,000,000	3.91
1989/90	\$3,105,000,000	(6,000,000)	-0.19
1990/91	\$3,045,000,000	(60,000,000)	-1.93
1991/92	\$2,998,000,000	(47,000,000)	-1.54
1992/93	\$2,993,000,000	(5,000,000)	-0.17
1993/94	\$2,974,000,000	(19,000,000)	-0.63
1994/95	\$3,150,000,000	176,000,000	5.92
1995/96	\$3,219,000,000	69,000,000	2.19
1996/97	\$3,248,000,000	29,000,000	0.90
1997/98	\$3,700,000,000	452,000,000	13.92
1998/99	\$3,853,000,000	153,000,000	4.14
1999/2000	\$4,001,000,000	148,000,000	3.84
2000/01	\$4,236,000,000	235,000,000	5.87
2001/02	\$4,491,395,307	255,395,307	6.03
2002/03	\$4,835,561,219	344,165,912	7.66

Constitutional Debt Limitations

The Arizona Constitution places General Obligation Bond debt limitations on Pima County and the Flood Control District. The constitutional debt limits are 15 percent of the secondary property tax base for General Obligation Bonds of the County and 5 percent of the Flood Control District, which total just over \$1 billion based on the present secondary assessed value of the County. The Pima County Library District can issue general obligation bonds, which it has never utilized. Assuming a 6 percent debt limit, the Library District's constitutional debt limit is at least \$313.3 million. Obviously, existing debt must be subtracted, leaving the ability of the County, Flood Control District, and Library District to issue \$1.1 billion in public debt before exceeding the constitutional limitation. Other controlling factors, such as not exceeding the specified secondary property tax rate, will constrain the amount of bonds to be sold long before the constitutional debt limit takes effect.

Amortization Schedules

Amortization schedules are those computations associated with retiring public debt over a specified period of time, making principal and interest payments where interest paid in total amount declines over time with the principal increasing over time. Such is a typical schedule for standard debt retirement such as a standard home mortgage. These amortization schedules may be varied, depending upon the specific circumstances of the public borrower. They can be front loaded, where an entity has surplus cash so that amortization of principal occurs earlier, or they may also be back loaded, where interest payments are only made for the first few years with increasing principal payments in the latter years. In almost all cases, Pima County has used straight amortization schedules for our General Obligation Bonds. However, both front loading and back loading schedules are available if desired to accomplish a specific purpose.

CHH/jj

c: The Honorable Chair and Members, Pima County Board of Supervisors
Jim Barry, Executive Assistant to the County Administrator