Pima County Bond Advisory Committee
August 19, 2003
2:30 P.M.
Public Works Building
Conference Room C

Summary of Meeting

Attendance

Committee Members	
Present	
Chris Sheafe District 1	Dan Sullivan Town of Marana
Wanda Shattuck District 1	Bob Jennins Town of Oro Valley
Rene Gastelum District 2	Stacey Lemos Town of Sahuarita
Tom Warne District 2	Arlan Colton County Administrator
Lawrence M. Hecker, Jr. District 3	Patty Richardson County Administrator
David Lyons District 4	
Alex Rodriguez District 4	
Jesus Gomez District 5	
Carolyn Campbell District 5	
Absent	**Not Appointed**
Bill Roe, District 3	
Paul Diaz City of South Tucson	City of Tucson
Sharon Flores-Madril Pascua Yaqui	
Greg Saxe, Tohono O'Odham (tentative)	
Others Present	
Chuck Huckelberry Pima County	Benny Young City of Tucson
John Bernal Pima County	Scott Douhitt, City of Tucson
Carol Bonchalk, Pima County	Albert Elias, City of Tucson
Kurt Weinrich, Pima County	Maria Baier, Trust for Public Land

David Cushman, Pima County	
Paula Wilk County Attorney's Office	
Linda Mayro Pima County	
Don Spiece Pima County	
Deseret Romero Pima County	
Tim Pickrell, Bond Counsel	
Jim Barry Pima County	

Welcome

Larry Hecker began the meeting at 2:35 P.M., with a quorum of members present. Mr. Hecker announced that Diana Barnes Freshwater had resigned from the Committee and was replaced as District 3 representative by Bill Roe. The Tohono O'Odham Nation has informed the County of its intention to appoint Greg Saxe as its representative to the Committee.

1. Approval of summary of July 18, 2003 meeting

Some members reported not receiving a copy of the meeting summary. Staff was directed to confirm all addresses of the members. The summary of the meeting was approved.

2. Background on Pima County Bonded Indebtedness

The Committee heard presentations on the history of County bonding; legal issues that effect use of bonds; and County finances and bond sales.

1. <u>History of County bonding</u>

Jim Barry presented a summary of reports provided to the Committee on County bonding since 1974. There have been nine elections and thirty-six separate ballot questions approved by voters since 1974, for a total bond authorization of $1.255 billion. Pima County has had sales of bonds in twenty-two of the twenty-nine years since 1974, selling $944.4 million of the authorized bonds. Almost all of the unsold bonds are from the 1997 authorization: $65.1 million in General Obligation bonds, which will be sold by January 2006 at the latest; $23.9 million in Sewer Revenue bonds, which will be sold by the end of the current calendar year; and $219.7 million in HURF Revenue bonds, which have a longer time frame for full sales. Of the $944.4 million in bonds sold, $891 million has been expended. The remaining $53 million largely comes from the January 2003 sales and will be expended by the end of the current fiscal year. Mr. Barry presented information on the County's current bond debt, showing that the County has the capacity to sell the remaining 1997 general obligation bond authorization, as well to sell new debt if authorized by the voters in the May 2004 election, while keeping the secondary property tax rate at or even below the $1.00 per $100 in assessed value as promised with the 1997 bond election. Under its bond program, Pima County has completed 563 projects, 161 from the 1997 authorizations. From the 1997 program, another 34 projects are under construction and 11 under design. Both the 1997 general obligation bond program and sewer revenue bond program will be substantially completed by Fiscal Year 2004/05, within seven years of the 1997 authorization and three years earlier than projected in 1997.

2. Legal issues that effect use of bonds

Tim Pickrell, from the law firm of Snell and Wilmer, the County's bond counsel, made a presentation on legal issues that effect the County's use of bond debt. Mr. Pickrell told the Committee there were two parts to the legal issues - state law and federal tax law. State law addresses the question of whether the bonds can be legally issued; federal law addresses whether the bonds can be issued with tax exempt interest.

Mr. Pickrell called the Committee's attention to four issues of state law regarding the legality of bonds: 1) There must be voter authorization of the bonds and Pima County cannot ask multiple questions in the same ballot question. Ballot language should refer to discrete subject matters and Pima County lays out the projects to be funded with bonds in a separate ordinance. 2) Pima County must have statutory authority to undertake any and all of the bond funded projects. 3) The projects must serve a public purpose. 4) The Arizona Constitution imposes debt limits on the County and prohibits any gifts or loans of the County's credit, which means Pima County must receive benefits from the expenditure of bond funds commensurate with the value of the bonds.

Federal tax laws make the interest on bonds issued by Pima County taxable if more than 10 percent of the bonds are used for private uses (private activity bonds) or more than 5 percent entails loans to private parties (private loan bonds). Federal arbitrage rules require Pima County to rebate to the federal government any interest we earn on the deposit of bond proceeds in excess of the interest we pay to the bond holders. There are two circumstances in which Pima County can keep its excess earnings: 1) if we expend all of the bonds within six months of issuance or 2) for construction projects, if we expend the proceeds within twenty-four months of their issuance, but we have to meet thresholds of 10 percent expended within six months, forty-five percent within six months, seventy-five percent within eighteen months, and one hundred percent within twenty-four months. Pima County rebated over $1,000,000 from the 1998 Sewer Revenue bond and HURF Revenue bond sales for failure to meet one of these thresholds. Interest earnings are important to Pima County because we use them to cover administrative costs and some cost overruns.

3. County finances and bond sales

Carol Bonchalk, Director of Financial and Information Services, provided a briefing financial issues and bond sales. In response to a question from the last Committee meeting, Ms. Bonchalk provided an overview of financing options Pima County has other than bond debt. These options include "pay-as-you-go" financing; grants; private contributions; developer contributions; HELP loans; Water Infrastructure Finance Administration loans; and lease-purchase. Each option has limitations and Pima County is most dependent upon bond debt to finance infrastructure improvements.

Ms. Bonchalk then discussed the details of general obligation bonds and revenue bonds. General obligation bonds are secured by the "full faith and credit" of the County, namely its ability to tax to finance debt service.

The State Constitution imposes limits, called the "Legal Debt Margin" for how much debt the County can carry, which is limited to 15 percent of net assessed secondary valuation of the County. At the present time, Pima County has a "Legal Debt Margin" available of $582 million. Assessed valuation is determined by the County Assessor on locally assessed properties and by the State for centrally assessed properties such as utilities. It was noted that the other Arizona counties have not issued significant debt. There was a discussion of bond ratings, noting that Standard and Poors rates Pima County as A+ and Moody's as A1. Since the other counties have not issued debt, there has been no occasion for them to get bond ratings. The rating agencies look at the overall management of the County on key issues (i.e., Kino Hospital), the level of local economic activity, the mix of the County's current debt and its plans for debt retirement, and other administrative issues effecting the County to arrive at ratings. Ms. Bonchalk specifically noted that issues of overlapping debt among units of government is not a factor of concern for the rating agencies in a growing economy like Pima County. It was noted that in the late 1980's and early 1990's, net assessed secondary valuation for Pima County declined.

Mr. Huckelberry noted that the $582 million "Legal Debt Margin" is a red line that we must not exceed, but that how much authorization to ask the voters for ought to be determined by how much debt the County can incur over a five to seven year period while keeping faith with the Board's pledge to keep the secondary debt service tax rate at or below $1.00/$100 in net assessed value. At the present time, that figure for general obligation bonds is probably around $350 million.

Revenue bonds are secured by the recurring revenues of the utility or department. They also require voter authorization. The amount of revenue bond debt is governed by rate covenants which set "bond coverage ratios." These ratios are the product of total annual revenues less total annual operations and maintenance costs. For sewer revenue bonds, the remaining amount, available for debt service, must be equal to 1.2 times the amount of the debt service payment.

There was a discussion of the need to separate bond sales for open space from bond sales for project construction, primarily to accommodate the 6 month and 24 month federal arbitrage rules discussed by Mr. Pickrell.

3. Establishing Committee Schedule and Agendas

1. <u>Adoption Mission Statement</u>

The Committee discussed the draft Mission Statement. In response to a question from Carolyn Campbell, it was explained that the Mission Statement refers specifically to general obligation bonds and sewer revenue bonds because the Board decided to only address those types of bond authorization and not seek additional HURF revenue bond authorization. It was noted that the Committee is free to recommend that no bond authorization be sought for either type of bond. In response to a question from Larry Hecker, it was noted that the Mission Statement refers specifically to a May 18, 2004 election because state statute specifies the third Tuesday in May as one of the four dates upon which a special election can be called. The Committee approved the first and second sentences of the Mission Statement.

Carolyn Campbell recommended that the third sentence be changed as follows:

> The Committee will hear presentations on capital improvement needs from County elected officials and public works departments, as well as from other local governments that might wish to make

presentATIONS. ~~, and~~ **THE COMMITTEE WILL ALSO HEAR FROM TWO SUBCOMMITTEES, THE CONSERVATION BOND ADVISORY COMMITTEE AND THE NEIGHBORHOOD REINVESTMENT BOND ADVISORY COMMITTEE AND** receive any other information it deems necessary to make its recommendations.

The Committee approved these changes.
Ms. Campbell then recommended inclusion of the following new sentence, that was included in the Steering Committee's recommendations to the Board of Supervisors:

"The conservation bond package will place the highest priority on acquisition and protection of lands necessary to achieve the goals of the multi-species habitat conservation plan over the duration of the Section 10 permit."

After discussion, Mr. Huckelberry noted that the Board expects the 2004 bonds to place significant emphasis on open space and to focus on neighborhood reinvestment. With regard to open space, in a perfect world the first priority would go to supporting the Section 10 permit, but the Board recognized there are other communities of interest in open space (such asa the Tucson Mountains, Tortolita Mountains) so they left the question of the open space bonds somewhat open. Mr. Huckelberry said, nonetheless, the first priority for open space should be the Section 10 permit. Mr. Hecker suggested the Mission Statement should be tied to the motion of the Board from June 17, 2003 and the Committee directed staff to draft the appropriate language.

The Committee then approved the final sentence of the Mission Statement. The Committee placed ratification of the new Mission Statement on the agenda of its next meeting (see Attachment A).

Alex Rodriguez recommended adoption of a Statement of Principles for how the Committee will operate, as an addition to the Mission Statement. The Statement of Principles was approved as amended (see Attachment B).

2. <u>Scheduling Meeting Dates, Times and Locations</u>

The Committee set the following schedule of meetings, on Thursday from 3:00 p.m. to 5:00 p.m.:

September 4, 2003
September 18, 2003
October 2, 2003
October 16, 2003
October 30, 3002
November 6, 2003
November 13, 2003
November 20, 2003

3. <u>Setting Schedule of Presentations</u>

The Committee discussed combining Flood Control, Solid Waste Management, and Parks in one meeting; the Sheriff's Department and Facilities Management in one meeting; one meeting each for Wastewater Management, Conservation/Open Space, and Neighborhood Reinvestment. The Committee discussed

whether other jurisdictions would wish to make presentations.
Specifically, the City of Tucson was asked whether it would like to make a presentation to the Committee. Benny Young from the City of Tucson told the Committee that City staff is awaiting further direction from Mayor and Council on how the City will participate with the Committee, noting the City wanted a stronger role in the formation of the bond package. Mr. Young told the Committee he expected the City would want to make a presentation and would like to have the better part of one meeting to make its presentation.

4. Agenda for next meeting

In response to issues raised by Dan Sullivan during the meeting about the legal significance to the City of Tucson's complaints regarding inadequate representation and inadequate time for consideration, the Committee placed on the agenda for the next meeting a discussion of the City of Tucson's concerns and the County's response and any legal ramifications raised, including legal advice from the County Attorney's Office if appropriate.

Additionally, the agenda for the next meeting will include ratification of the Mission Statement and presentations by Flood Control, Parks and Solid Waste Management.

5. Call to the audience

Mr. Hecker noted that the agenda failed to include a Call to the Audience and that it would be appropriate to do so at this time. There was no response to the call.

6. Adjournment

The meeting adjourned at approximately 5:00 p.m.

Attachment One

2004 County Bond Advisory Committee

MISSION STATEMENT

The 2004 County Bond Advisory Committee will make recommendations to the Board of Supervisors, consistent with the objectives and directions of the Board in creating the committee**,** on special elections for May 18, 2004 seeking voter authorization for the sale of general obligation and sewer system revenue bonds. The Committee will recommend a basic Bond Improvement Plan for the utilization of bonds, if approved by voters, that will include, but not be limited to, the overall amount of bond authorization to be sought; allocation of bond authorizations to general categories of activities and to specific projects; and a general schedule for the accomplishment of bond program. The Committee will hear presentations on capital improvement needs from County elected officials and public works departments, as well as from other local governments that might wish to make presentations. The Committee will also hear from two subcommittees, the Conservation Bond Advisory Committee and the Neighborhood Reinvestment Bond Advisory Committee and receive any other information it deems necessary to make its recommendations. Pursuant to the request of the Board of Supervisors, the Committee intends to submit its recommendations to the Board by December 2, 2003.

Attachment Two

2004 County Bond Advisory Committee
Pima County, Arizona

Statement of Principles

In light of working toward a potential bond issuance election on May 18, 2004, the bond advisory committee adopts the following guiding principles:

- To conduct ourselves in a "Spirit of Collaboration."
- To work in a fair and transparent manner that builds trust among fellow committee members and members of the public.
- To seek the best possible outcomes for all the residents of Pima County.
- To make an effort to attend all of the scheduled meetings and stay for the duration of each meeting.