



Lake Havasu City

Lake Havasu City
Municipal Courthouse
Council Chambers
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Lake Havasu City, Arizona
86403
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Legislation Text

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COUNCIL COMMUNICATION

TO: Honorable Mayor and Council

FROM: Tabatha Miller, Administrative Services Director

SUBJECT:

Adopt Resolution No. 17-3187 Authorizing the City to Borrow Up to \$13,000,000 from an Arizona Bank in the Form of a Loan to Finance the Prepayment of the City's Arizona Public Safety Personnel Retirement System (PSPRS) Expenditures for the Fiscal Years 2018 and 2019; Authorizing the Execution and Delivery of a Financing Agreement Setting Forth the Terms of the Loan and Providing for the Repayment; Pledging the City's Excise Tax Revenues as Security; Authorizing the Execution of all Necessary Agreements, Certificates and other Documents; and Declaring an Emergency

FUNDING SOURCE:

General Fund

PURPOSE:

Adopt Resolution No. 17-3187 authorizing the City to borrow up to \$13 million from an Arizona Bank in the form of a loan to prepay the fiscal year 2018 and 2019 PSPRS expenditures, in order to exclude those expenditures from the Expenditure Limitation; authorize the execution and delivery of the finance agreement setting for the terms and providing for repayment of the loan; authorizing the execution of all necessary documents; and declaring an emergency.

BACKGROUND:

As part of the fiscal year 2017-18 budget, the City Council adopted appropriation for up to \$28.05 million in debt issuance. The purpose for the budgeted debt is to allow the City to operate within its state-imposed Expenditure Limitation. The Expenditure Limitation caps the amount municipal governments in Arizona can expend in any year to its spending in FY 1979-80, adjusted annually by population change and inflation.

Approximately \$12.6 million was planned to prepay the City's PSPRS contributions for this year and next. The expenditure of these debt proceeds is excluded from the Expenditure Limitation as is the repayment of the debt service. The authority of up to \$13 million allows for flexibility in the final terms of issuance. The remaining \$15 million of budget appropriation is a place holder if needed for additional Community Investment Program

(CIP) expenditures. In 2016, the City issued \$12.2 million to fund the CIP and allow for those expenditures to be excluded from the Expenditure Limitation. Approximately \$5 million of proceeds remain and will fund the ongoing CIP program.

When those bond proceeds are close to depleted, we will determine if additional debt is needed to fund the CIP within the confines of the Expenditure Limitation. This matter is not one of available cash resources but a lack of spending capacity at a level to match the City's resources. Staff is recommending the City Council approve a Permanent-Base Adjustment ballot measure for the August 2018 primary election, in order to remove the current constraint and allow the City to budget according to the available revenue and resources.

Resolution No. 17-3187, authorizes the debt issuance. The debt is structured as a private placement from an Arizona bank. Stifel, Nicolaus & Company, who served as the City's placement agent for the 2016 issue will serve as financial advisor. Ballard Spar is Bond Counsel for the transaction. On October 19, 2017, the City issued a Request for Proposal (RFP) soliciting private financing proposals for a two-year loan of \$12.6 million.

The proposals are due November 8, 2017. At the City's discretion, it may accept any one of the proposals or none of the proposals. The City may also negotiate final terms. The results of those proposals, will be discussed with the City Council at this meeting.

In addition to authorizing the debt, the Resolution authorizes the Mayor, City Manager and Administrative Services Director to execute the Financing Agreement, and other necessary documents to complete the debt transaction.

COMMUNITY IMPACT:

The issuance of the PSPRS debt will allow the City to exclude the public safety pension expenditures from the City's Expenditure Limitation which will free up revenue and resources for other uses. The prepayment of the PSPRS contribution has the potential to earn higher interest during the prepayment period. PSPRS earned a 12% return last year and has a target return of 7.5%, much higher than the City's investment return of less than 2% and expected interest rate on this debt of approximately 2%.

FISCAL IMPACT:

The PSPRS contributions are regular operating expenditures and this debt will be repaid with operating revenues. The City will incur interest on the borrowed funds and costs associated with debt issuance. PSPRS interest earnings will be applied to the City's current unfunded liability on the police and fire pension plans.

ATTACHMENTS:

Resolution No. 17-3187

Exhibit A - Financing Agreement

SUGGESTED MOTION:

I move to adopt Resolution No. 17-3187 authorizing the City to borrow up to \$13,000,000 from an Arizona Bank in the form of a loan to finance the prepayment of the City's Arizona Public Safety Personnel Retirement System (PSPRS) Expenditures for the fiscal years 2018 and 2019; authorizing the execution and delivery of a Financing Agreement setting forth the terms of the loan and providing for the repayment; pledging the City's Excise Tax revenues as security; authorizing the execution of all necessary agreements, certificates and other documents; and declaring an emergency.

