



2023 General Obligation Bond Program Development and Report of the Fiscal Capacity Committee

This report provides information regarding a potential 2023 General Obligation Bond Program, documents the findings of the City Council-appointed Fiscal Capacity Committee, and requests direction from Mayor and City Council to the General Obligation Bond Committee.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

General Obligation (GO) Bond programs provide a mechanism to fund construction and rehabilitation of City facilities and infrastructure such as parks, libraries, fire stations, streets and storm drains. Bond programs require voter approval, and cannot be used to fund operating costs like staff salaries or to fund assets that are not owned by the City. Since 1957, the City's approved GO Bond programs have totaled \$4.6 billion. The most recent GO Bond program for \$878.5 million was approved by voters in 2006. This 16 year gap is the longest in the City's bond program history and has resulted in a significant amount of unfunded capital needs.

Prior to the COVID-19 pandemic, Mayor and City Council began to lay the foundation for a new GO Bond program, in recognition of the City's growth, aging facilities, and needed infrastructure. After a pause to assess the economic environment, efforts resumed over recent months by the Mayor and City Council-appointed Fiscal Capacity Committee. The committee has recently completed its work and report on its findings. On June 1, Mayor and City Council appointed the 2023 GO Bond Committee in preparation for the next steps towards bond program development.

REPORT OF THE FISCAL CAPACITY COMMITTEE

In March 2019, the Mayor and Council appointed a Public Safety Bond Executive Committee ([Attachment A](#)) to formulate recommendations for a potential November 2020 public safety bond election.

In October 2019, Mayor Gallego appointed a Public Safety Bond Fiscal Capacity Committee (**Attachment B**) (“the Committee”) to identify the financial parameters for any bond program and the capacity for operations and maintenance, and to report its findings to the City Council. The appointed Committee includes:

- David Krietor, Chair
- Ron Butler
- Deb Fisher
- MaryAnn Guerra
- Hope Levin

Committee meetings were held in December 2019 and January 2020 to formulate recommendations; however, the City paused these efforts as a result of uncertainty stemming from the COVID-19 pandemic. Subsequently, the City acquired the existing building at 100 W. Washington St. to ultimately replace police headquarters - addressing the most critical public safety need - and the Mayor and Council have expressed support for a broader scope of projects for a future GO Bond program. The Committee was renamed the Fiscal Capacity Committee and asked to assess the City’s capacity for a potential November 2023 bond program, irrespective of its scope.

Six total Committee meetings were held:

- Dec. 13, 2019
- Jan. 10, 2020
- Jan. 17, 2020
- Jan. 24, 2022
- Jan. 31, 2022
- Feb. 7, 2022

This report summarizes the information presented to the Committee by staff in January and February 2022, and the Committee's recommendations. Associated staff-provided materials and meeting minutes are transmitted as **Attachment C**.

Summary of Considerations

The principal and interest payments on GO Bonds are typically backed by secondary property taxes. Operations of City facilities are typically funded by General Funds and Special Revenue Funds.

The City's financial ability to implement a GO Bond program is dependent upon:

- The amount of secondary property tax revenue projected to be available to fund additional GO Bond principal and interest, and when it will be available.
- Whether the City can fund additional operations and maintenance costs associated with new systems and facilities.
- Implications on the City's credit ratings.
- Constitutional debt limits.

Property Tax

The City levies a primary and a secondary property tax. The primary property tax is a revenue source to the General Fund, the Parks Fund, and the Library Fund. The City Charter limits the primary property tax rate to \$1.00 per \$100 net assessed value, plus an amount restricted to Library use. The Arizona State Constitution places an additional restriction on the City's primary property tax, calculated by formula. Based on the provisions contained in the City Charter and State Constitution, the City's primary property tax levy is at its maximum allowable levy. The Fiscal Year 2021-22 primary property tax rate is \$1.3055 per \$100 net assessed value, generating a primary property tax levy of \$193 million. Staff's property tax model assumes that the primary property tax levy will continue to be maximized.

The secondary property tax is a revenue source to pay principal and interest on general obligation bond debt. The City's Fiscal Year 2022-23 secondary property tax rate is \$0.8141 per \$100 net assessed value, generating a secondary property tax levy of \$120 million. Current secondary property tax revenues are below annual debt service on outstanding general obligation bond debt; the remaining debt service is currently being paid by an accumulated general obligation bond reserve fund. As a result of a 2017 state law, that reserve fund is legally required to be reduced to 10 percent of annual principal and interest by the end of Fiscal Year 2022-23. Subsequent to Fiscal Year 2022-23, annual secondary property tax revenues will effectively be the sole funding source for annual debt service.

The amount of secondary property tax generated each year for a given tax rate is a function of:

- Annual appreciation on existing property
- New construction
- Assessment ratios established by the state legislature

The taxable value of existing property is the lesser of its full cash value determined by the County Assessor, or an amount 5 percent greater than the prior year's taxable value - this is referred to as limited property value. Citywide, full cash value is

approximately 47 percent higher than limited property value. This provides a buffer against an economic downturn.

At its Feb. 7, 2022 meeting, the Committee endorsed the following valuation model assumptions:

- Annual net appreciation on existing property of 2.0 percent through Fiscal Year 2025-26 due to reductions to commercial property assessment ratios approved by the Legislature.
- Annual net appreciation on existing property of 3.0 percent thereafter.
- Annual year-over-year growth on new construction of 2.0 percent.
- No change to legislatively-determined assessment ratios after Fiscal Year 2025-26.

The resulting model was used to determine projected primary and secondary property tax rates for various bond program scenarios. The Committee reviewed various stress-test scenarios in addition to these baseline assumptions and determined that realistic stress-test scenarios did not materially impact the City's fiscal capacity.

Operations and Maintenance

The primary property tax rate is currently maximized and is fully used to pay for existing programs and services. The primary property tax rate could therefore not be used as a source of new operations and maintenance revenue for new systems and facilities, absent a corresponding reduction in existing programs and services. The City's ability to absorb new operations and maintenance costs in the future is indeterminate. At its Feb. 7, 2022 meeting, the Committee recommended the City Council minimize new operations and maintenance commitments for bond program projects.

Program Scope

As program content was outside the scope of the Committee's charge, the Committee did not review the magnitude or merit of identified public safety capital needs or non-public safety capital needs. The Committee recommends that City management review all public safety and non-public safety capital needs prior to convening the GO Bond Program Executive Committee.

Ballot Timing

The Fiscal Capacity Committee unanimously recommended the City Council develop a bond program for a November 2023 election.

Tax Rate Informational Requirements

Projected tax rates relayed in this report are based on the valuation assumptions endorsed by the Committee.

State Statute places different restrictions on assumptions conveyed in materials distributed to voters. For the first five years, growth assumptions in voter materials cannot exceed the average appreciation in the past ten years; thereafter, growth assumptions in voter materials cannot exceed 20 percent of the average appreciation in the past ten years. Modeled growth assumptions endorsed by the Committee for the first five years are functionally equivalent to those required by statute, while modeled growth assumptions thereafter are substantively higher. As a result, projected tax rates conveyed to voters in later years will be overtly higher than those the Committee believes are likely. Nevertheless, the statutorily required assumptions do not materially change the City's capacity for a November 2023 bond program.

Program Sizing and Bond Sale Timing

After reviewing property tax revenue models and remaining debt service on existing general obligation bonds, at its meeting on Feb. 7, 2022, the Fiscal Capacity Committee unanimously recommended the City Council develop a \$500 million bond program for a November 2023 election.

Absent unanticipated Legislative changes, or severe economic changes, the Committee determined that a \$500 million bond program can likely be supported without any increases to the current secondary property tax rate of \$0.8141 per \$100 of net assessed valuation. Peak debt service is not anticipated to rise substantially beyond the status quo maximum annual debt service of \$155 million. A bond program of this magnitude is not expected to adversely impact the City's bond ratings.

Further, the Committee advises this approach strategically positions the City for subsequent bond elections in five year increments with values of approximately \$500 million each. Financial models indicate that routine bond programs of this magnitude will continue to be sustainable without any material increases to property tax rates, assuming no significant legislative changes.

2023 BOND PROGRAM DEVELOPMENT

The City's bond processes have traditionally been community-driven. Accordingly, on June 1, the Mayor and City Council appointed a citizen's 2023 GO Bond Committee

and eight subcommittees:

- Arts and Culture
- Economic Development and Education
- Environment and Sustainability
- Housing, Human Services and Homelessness
- Neighborhoods and City Services
- Parks and Recreation
- Public Safety
- Streets and Storm Drainage

City staff have begun the process of identifying critical unfunded capital projects. Subject to the approval of the Mayor and City Council, the Bond Committee and program-area subcommittees would be tasked with reviewing these projects, and recommending funding priorities based on the needs of the community. Bond Committee and subcommittee meetings would be held in public, with opportunities for citizens to provide input both in person and virtually, from August through November. The Bond Committee would provide recommendations to the Mayor and City Council at the Policy Meeting on Dec. 6, 2022. The Mayor and City Council would ultimately determine bond propositions and corresponding values to be proposed to voters in the November 2023 General Election. The findings of the Fiscal Capacity Committee are recommended as the financial framework for the Bond Committee.

Community Engagement and Next Steps

As mentioned earlier, community input is a priority to ensure bond projects reflect the needs of Phoenix residents. Staff has developed a robust communications and engagement plan, which provides multiple ways for residents to provide feedback on proposed bond projects. The plan includes the following:

- Dedicated GO Bond website to include instructional video
- GO Bond interactive tool (available on dedicated website) to allow residents to prioritize and recommend projects
- Press releases/PHX Newsroom
- Social media outreach
- Targeted emails
- Radio ads and interviews
- Print ads - Arizona Republic, AZCentral, AZ Informant, La Voz, Prensa
- Grocery TV ads

- Flyer distributions via multiple City departments
- PAYS Newsletter

Additionally, community input will be solicited at all bond committee meetings, which will be open to the public and residents will be able to attend in person or virtually to request to speak or provide written comments. Bond Committee meetings are scheduled to take place beginning in August 2022 through early November 2022. Information about bond committee meetings, including the schedule and instructions on how to participate will be made available on the GO Bond dedicated website in July 2022 prior to committee meetings commencing in August 2022.

Recommendations from the GO Bond Executive Committee are tentatively scheduled to be presented to City Council in December 2022. Upon Council approval of bond propositions, staff will bring the form of the ballot and publicity pamphlet materials to the Council for approval in the Spring 2023 in preparation for the November 2023 General Election.

RECOMMENDED ACTION

Consistent with the recommendations of the Fiscal Capacity Committee, staff recommends the Mayor and City Council direct the 2023 GO Bond Committee to:

- Review citywide unfunded capital needs, excluding Aviation, Phoenix Convention Center, Public Transit, Wastewater, and Water facilities, but including cultural facilities managed by the Phoenix Convention Center;
- Exclude project proposals that would result in net new ongoing operating costs, except in critical cases;
- Identify the highest priority unfunded capital needs totaling \$500 million for a November 2023 bond election; and
- Report findings and provide recommendations to the Mayor and City Council by Dec. 6, 2022.

Responsible Department

This item is submitted by City Manager Jeffrey Barton, and the Budget and Research and Finance departments.

ATTACHMENT A



To: City Council **Date:** March 15, 2019
From: Mayor Thelda Williams
Subject: Public Safety Bond Executive Committee – **REVISED***

Historically, periodic bond programs have been a best practice for the City of Phoenix to maintain and update the city's infrastructure. Almost 13 years have passed since the last General Obligation bond program, and significant public safety capital needs have accumulated. The Police and Fire departments have identified priority facility and vehicle needs totaling between \$449 and \$613 million. Addressing these needs will take a deliberate and sustained effort.

In accordance with the timeline and process approved at the March 5, 2019 Policy Meeting, I recommend the establishment of a Public Safety Bond Executive Committee to review and refine the bond program's scope and size, and to coordinate community engagement. The committee will provide a final recommendation to Council in the Spring of 2020 in preparation for a November 2020 bond election.

I recommend the following for appointment to the executive committee. Additional members and subcommittees may be added as needed.

CHAIR

David Krietor, former CEO Downtown Phoenix, Inc. and former Phoenix Deputy City Manager

Claude Mattox, Molera Alvarez

Peggy Neely, Neely Public Strategies

Rick Naimark, Arizona State University

*Phil Gordon, former Mayor of Phoenix

Susan Ehrlich, former Arizona Court of Appeals Judge

Art Hamilton, The Art Hamilton Group, LLC

Sue Glawe, Blue Cross Blue Shield

Maria Baier, Phoenix Suns

Gail Knight, Protocol Communications

Verma Pastor



City of Phoenix
Office of Mayor Kate Gallego

To: Phoenix City Council **Date:** October 31, 2019
From: Mayor Kate Gallego
Subject: Public Safety Bond Fiscal Capacity Committee

In March Mayor Williams and City Council approved the formation of the 2019 Public Safety Bond Executive Committee. The committee was created with the charge to provide a final recommendation to the Mayor and Council in the Spring of 2020 in preparation for a November 2020 public safety bond election.

Prior to a final recommendation, a Fiscal Capacity Committee will be instituted to identify the financial parameters for the bond program and the capacity for operations and maintenance, then report to the original committee and the City Council. The Fiscal Capacity Committee will be charged with reviewing the City of Phoenix's financial, operating, and debt capacity and recommending an appropriately sized public safety bond program. It is anticipated the basis for the committee's analysis will be the 25-year assessed valuation forecast as well as forecasted debt service and constitutional debt limits.

The Fiscal Capacity Committee should begin meeting as soon as possible with the goal of delivering a recommendation on financial capacity and parameters.

The committee shall be composed of five members including one member of the Public Safety Bond Executive Committee. The members are as follows:

Chair David Krietor, former CEO Downtown Phoenix, Inc and former Phoenix Deputy City Manager
Ron Butler, Ernst & Young
Hope Levin, Johnson Financial Group
MaryAnn Guerra, Aesthetics BioMedical Inc.
Deb Fisher, Realty Executives

Cc: Ed Zuercher
Penny Parrella
Deanna Jonovich
Milton Dohoney
Denise Olson
Jeff Barton

ATTACHMENT C

**City of Phoenix
Fiscal Capacity Committee
Summary Minutes
Monday, Jan. 24, 2022**

Virtual Meeting – Via WebEx

Committee Members Present

Dave Krietor, Chair
Ron Butler
Deb Fisher
Hope Levin
MaryAnn Guerra

Committee Members Absent

1. CALL TO ORDER

Chairman Krietor called the Fiscal Capacity Committee to order at 11:05 a.m. with committee members Ron Butler, Deb Fisher, Hope Levin and MaryAnn Guerra present.

2. INTRODUCTORY REMARKS

Chairman Krietor welcomed committee members and staff and invited them to begin with introductions. He explained the committee's charge and history, and he expressed appreciation to members for returning to reconvene the committee for a potential 2023 bond issue.

Chairman Krietor discussed the planned schedule of meetings for the group to arrive at a recommendation. He mentioned the fourth meeting on Feb. 15 had been scheduled but may not be needed. He further explained the schedule would provide staff time to review the recommendation with City Council and move to the next stage of the potential bond issue.

3. REVIEW AND APPROVAL OF THE JANUARY 17, 2020 MEETING MINUTES

Committee member Ron Butler made a motion to approve the minutes of the Jan. 17, 2020 meeting. Committee member Deb Fisher seconded the motion, which passed unanimously, 5-0.

4. STAFF UPDATE REGARDING POTENTIAL GENERAL OBLIGATION BOND PROGRAM

Chairman Krietor introduced the item and City Manager Jeffrey Barton, Budget and Research Director Amber Williamson, and Chief Financial Officer Kathleen Gitkin to provide a staff update on the potential general obligation (GO) bond program.

Mr. Barton thanked the committee for their participation and discussed the impacts of the COVID-19 pandemic on the potential bond program, which previously focused exclusively on public safety. He highlighted the replacement of Police Headquarters as an example of a project previously considered for the bond program, explaining

the city had since acquired 100 West Washington, formerly the Wells Fargo building, to house Police and other city operations. He stated this acquisition would provide greater flexibility within the proposed bond program.

Mr. Barton emphasized the importance of setting up a process to have a bond program every five to seven years, focused on maintenance and no new ongoing costs, with virtually no increase to secondary property tax. He explained that, if successful, the plan would lay the groundwork for four bond programs over the next 20 years and set the city up for success moving ahead.

Chairman Krietor recalled bond issuances in 1987, 2000, and 2006, with no other bond issuances since that time.

Ms. Williamson provided an overview of the city's current financial health, particularly considering the COVID-19 pandemic. She stated the impact of the pandemic on revenues was initially unclear, but that the city has done well financially. She shared that staff was preparing a general fund status and five-year forecast to present to the City Council which would demonstrate potential scenarios about the city's fund balance over the next few years.

Ms. Williamson stressed the importance of focusing on projects that would not result in net new increases in operating expenses, as existing city infrastructure and assets could be expanded, replaced, or renovated. She stated she would provide more detailed information during forthcoming meetings, including challenges the general fund would face.

Ms. Gitkin gave an overview of financial modeling and key metrics that would be presented at forthcoming meetings. She explained the city had contained expenditures remarkably well through the pandemic and acknowledged that the city measured higher revenues than in the past, beyond receiving significant resources from the federal government.

Ms. Gitkin emphasized the importance of thoughtful and methodical planning, as well as relying on experts from Piper Jaffray to obtain exact market numbers for financial modeling. She stated she would hire a financial advisor if the bond program moved forward, to validate the information that would be presented.

Chairman Krietor discussed the tentative schedule for the potential bond program process, explaining that the next meeting would be devoted to reviewing models and figures. He stated the current meeting's agenda would focus on a tutorial of how the property tax works in Phoenix and the technical mechanisms for it.

5. COMMITTEE TITLE

Chairman Krietor introduced the item and explained that it would be necessary to change the name of the committee since it would no longer focused exclusively on public safety projects. He asked Deputy Budget and Research Director Chris Fazio to confirm the new proposed name for the committee.

Mr. Fazio stated the proposed name was Fiscal Capacity Committee.

Committee member Hope Levin made a motion to approve the committee name change. Committee member Ron Butler seconded the motion, which passed unanimously, 5-0.

6. PROPERTY TAX OVERVIEW

Chairman Krietor introduced Deputy Budget and Research Director Christopher Fazio to provide an overview of property tax, specifically in Phoenix.

Mr. Fazio explained general obligation bonds were backed by secondary property tax and reiterated the goal of the proposed bond program to proceed without raising tax rates above current levels.

Mr. Fazio defined property tax, net assessed value, secondary net assessed value, limited property value and full cash market value. He explained implications of Proposition 117, distinguished the property tax levy from the property tax rate, and provided the formula used to calculate municipal property tax levies. He identified changes to Phoenix's full cash value compared to two years earlier.

Chairman Krietor mentioned the calculation of net assessed value was particularly relevant now because of significant appreciation seen in the market.

Mr. Fazio identified changes to Phoenix's full cash value, primary tax levy, and secondary rate and levy, compared to two years earlier. He stated the primary rate remained \$1.3055.

Chairman Krietor asked what years the new tax levies represented in terms of actual assessed valuation.

Mr. Fazio stated the primary levy of \$193 million was indexed approximately 12 months earlier and there would be some predictability moving forward because the market was doing well.

Mr. Fazio discussed the functions of the primary property tax as a general fund source and secondary property tax as supporting debt service for general obligation

bonds. He briefly discussed the city's current secondary property tax reserve, which would be discussed in detail during the Jan. 31 meeting.

Chairman Krietor clarified that the committee's recommendations could not rely heavily on the existing reserve, which has preserved the city's financial position in rough times, as the state would be limiting the amount that could fund the reserve.

Mr. Fazio stated there would be less need for the reserve from a modeling standpoint. He explained forecasting could be hindered by legislative action absent major catastrophic situations that impact property values, due to the change with Proposition 117.

Mr. Fazio gave an overview of a sample property tax bill and emphasized that the city represented only one piece of the total bill. He presented the results of a study benchmarking Phoenix's tax rates against other cities in the region, which showed the \$2.12 combined primary and secondary rate exceeded only by Tempe. He explained the secondary tax rate alone was one of the lowest and the city share of median single-family residential was below average.

Chairman Krietor clarified the recommendation would focus on maintaining the existing tax rate, but people may have to pay more taxes because assessed valuations are increasing.

Mr. Fazio confirmed.

Committee member Maryann Guerra asked if a scenario would be presented that assumed a market crash and decrease in property values.

Mr. Fazio stated this presentation focused on the baseline scenario, based on what will most likely occur. He added Ms. Gitkin would discuss scenarios to look at contingencies and explained a downturn or housing bubble over the long term would tend to be smoothed out.

Chairman Krietor agreed that this is a question the committee would need to understand to make their recommendation and acknowledged that a smaller bond issue would attempt to mitigate the impacts of a downturn.

Mr. Fazio gave an overview of the baseline assumptions for the assessed valuation forecast and discussed what had been presented two years earlier and adjustments since then. He presented the staff net assessed valuation model reflecting long-term growth and indicated stress scenarios would be discussed at the Jan. 31 meeting.

Chairman Krietor clarified the modeled growth did not only reflect what had been built and was appreciating, but also assumed new construction over time.

Mr. Fazio confirmed the model accounted for new construction, appreciation, and new inventory each year. He mentioned one of the stress scenarios considered a bubble in new construction activity.

Chairman Krietor asked if massive commercial projects such as the Taiwan Semiconductor Manufacturing Company development, with tax abatements, would be factored into the calculations.

Mr. Fazio stated the project would not be captured in fiscal year 2022, but it had been factored into long-term new construction figures.

Mr. Fazio explained the statutorily required informational pamphlet accompanying a general obligation bond election must ensure five-year appreciation would not exceed the 10-year average.

Committee member Hope Levin asked if the pamphlet could be updated to reflect changes in growth, since the vision of the program would be smaller, more frequent bond sales.

Mr. Fazio stated each bond election would include its own assessment and assumptions.

Ms. Gitkin confirmed the four proposed bond programs would each have unique pamphlets to reflect new financial impacts.

Committee member Levin recalled a recent Madison School District bond override and referred to the sample tax bill, which showed the city as only one part of the total bill. She asked if there was historic knowledge of how appealing a municipal bond program would be to voters when they have other bond proposals presented to them.

Mr. Fazio stated there was no current data on other jurisdictions' bond elections presented to voters concurrently with a municipal bond election.

Chairman Krietor mentioned there had not been a failed bond issue in the time he has lived in Phoenix, aside from a transit sales tax bond issue.

Committee member Ron Butler expressed support for the effort and appreciation for the property tax tutorial to get back up to speed. He stated he would be interested to see how inflation may impact the timing of the bond issuance.

Ms. Gitkin stated the presentation for the following week would show modeling and assumptions based on 5% interest rate loans to account for unpredictability. She explained there had been historically low rates and inflation is taking time to catch up to the market, particularly with municipal bonds.

Committee member Guerra asked for clarification on the Madison School District and its effect on the Phoenix bond election.

Mr. Fazio clarified that on a property-by-property basis, there could be various school districts involved, each with their own bond elections or overrides. He confirmed those would be in addition to a Phoenix GO bond election.

Chairman Krietor thanked Mr. Fazio for his presentation and stressed the importance of the committee's knowledge of commercial and residential growth, and forthcoming models and forecasting from staff, to arrive at a final recommendation.

7. FUTURE AGENDA ITEMS

Chairman Krietor discussed the items currently planned for the next meeting:

- Summary of Outstanding GO Bond Debt Service
- Constraints and Considerations for a New GO Bond Program
- New GO Bond Program Scenario Assumptions
- New GO Bond Program Scenarios

Chairman Krietor asked if there were other items the committee would like to include. Committee members had no additions.

8. ADJOURNMENT

Chairman Krietor adjourned the meeting at 12:10 p.m.



Public Safety Bond Fiscal Capacity Committee

January 24, 2022



Agenda

1. Introductory Remarks
2. Approval of Minutes
3. Staff Update
4. Committee Title
5. Property Tax Overview

Planned Meetings



Meeting Schedule (11 am):

Monday, January 24

Monday, January 31

Monday, February 7

Tuesday, February 15

Tentative Schedule



JAN/FEB 2022 – Fiscal Capacity Committee

MAR 2022 – Fiscal Capacity Report to Council

APR 2022 – Community Budget Hearings

MAY 2022 – Council Appoint Bond Committee

AUG 2022 – Start Bond Committee Work

DEC 2022 – Bond Committee Recommendations

NOV 2023 – Election



Property Tax



Property Tax

Ad Valorem tax on real & personal property

Property valued by County Assessor & DOR

Primary & secondary rates established

Assessed and collected by County Treasurer

Distributed to taxing jurisdictions

Formula



$$\begin{aligned} \text{Property Tax Levy} = \\ \text{Net Assessed Value}/100 \\ \times \\ \text{Tax Rate} \end{aligned}$$

City assumes 1% of its levy is uncollected

Secondary NAV



Historically calculated off of market value

November 2012: Proposition 117

Now calculated off of limited property value

Change first reflected in FY 2016

NAV = LPV x Ratio



Limited Property Value =
lesser of Full Cash (Market) Value or
Prior Year Limited Property Value + 5%

Phoenix's current FCV > LPV by 38% 47%

NAV = LPV x Ratio



Established by State Statute

Residential: 10%

Commercial: 18% => 16%

Agricultural/Vacant: 16%

*~~City assumes no change to these ratios~~
Legislation reducing commercial to 16%*

Levy = NAV x Rate



Established by taxing jurisdictions

Governed by legal limits

City of Phoenix Tax



Primary Rate: \$1.3055

Primary Levy: ~~\$173 million~~ \$193 million

Secondary Rate: ~~\$0.8244~~ \$0.8141

Secondary Levy: ~~\$109 million~~ \$120 million

Primary Property Tax



General Fund source

Ceilings:

Constitutional 2% Levy Limit

City Charter \$1.00 plus Library Levy

Current Rate: \$1.3055

Current Constitutional Limit: ~~\$1.3447~~ \$1.3061

Secondary Property Tax



Debt service for general obligation bonds

Ceilings (2017 HB 2011):

Annual debt service costs

Reserve \leq 10% by end of FY 2023

Sample Tax Bill



Your 2021 Property Tax Summary				
Previous Year Total	\$1,146.46	Total 2021 Assessed Taxes	\$1,187.08	

	2020	Ratio	Assessed	2021	Ratio	Assessed
Limited Value (Primary)	\$112,032.00	10.00%	\$11,203.00	\$117,634.00	10.00%	\$11,763.00
Full Cash Value (Secondary)	\$189,800.00			\$205,500.00	NOT TAXED	

+5%

+8%

Sample Tax Bill



Primary District Information

Tax District	Rate/100	2020	2021	Change
City Of Phoenix	1.3055	\$146.26	\$153.57	5.00%
County	1.3459	\$156.94	\$158.32	0.90%
Elderly Assistance	Credit	\$0.00	\$0.00	0.00%
State Aid	Credit	(\$194.24)	(\$196.44)	0.00%
State Equalization Tax	0.4263	\$49.59	\$50.14	1.10%

School District

Tax District	Rate/100	2020	2021	Change
Community College Dist	1.1112	\$126.03	\$130.71	3.70%
Paradise Valley Unified	3.7424	\$421.20	\$440.22	4.50%

	Rate/100	2020	2021	Change
Primary Tax Totals	7.9313	\$705.78	\$736.52	4.40%

Sample Tax Bill



Secondary District Information				
Tax District	Rate/100	2020	2021	Change
Central Az Water Conservation Dist	0.1400	\$15.68	\$16.46	5.00%
Fire District Assistance Tax	0.0086	\$1.00	\$1.02	2.00%
Flood Control Of Maricopa County	0.1792	\$20.08	\$21.08	5.00%
Library District	0.0556	\$6.22	\$6.54	5.10%
Maricopa Special Health Dist	0.1803	\$20.60	\$21.20	2.90%
Paradise Valley Unified Desegregation <i>A.R.S. 15-910</i>	0.0000	\$0.00	\$0.00	0.00%

Voter Approved Overrides				
Tax District	Rate/100	2020	2021	Change
Paradise Valley Unified Overrides	0.8832	\$104.34	\$103.90	-0.40%

Sample Tax Bill



Voter Approved Bonds				
Tax District	Rate/100	2020	2021	Change
City Of Phoenix Bonds	0.8141	\$92.32	\$95.76	3.70%
Community College Dist Bonds	0.1145	\$13.27	\$13.47	26.30%
Maricopa Special Health Dist Bonds	0.1167	\$13.53	\$13.73	1.50%
Paradise Valley Unified Bonds	1.1801	\$130.10	\$138.82	6.70%

	Rate/100	2020	2021	Change
Secondary Tax Totals	3.5723	\$422.14	\$431.98	2.30%

Special District Information				
Special Districts	Rate/100	2020	2021	Change
WEST-MEC	0.1579	\$18.54	\$18.58	0.20%
TOTAL FOR SPECIAL DISTRICTS	0.1579	\$18.54	\$18.58	

Grand Totals				
		2020	2021	Change
Grand Total For Tax Districts		\$1,146.46	\$1,187.08	3.50%

City Portion (this taxpayer):
 $(\$154 + \$96)/(\$1,187) = 21\%$

City Portion (average for all taxpayers):

16%

FY 2022 Tax Rates



	Primary	Secondary	Combined
Tempe	0.8852	1.4816	2.3668
Phoenix	1.3055	0.8141	2.1196
Glendale	0.3848	1.3409	1.7257
Mesa	-	1.1319	1.1319
Chandler	0.2426	0.8700	1.1126
Scottsdale	0.5039	0.5042	1.0081
Gilbert	-	0.9895	0.9895

FY 2022 Tax Rates



	Primary	Secondary	Combined
Tempe	0.8852	1.4816	2.3668
Glendale	0.3848	1.3409	1.7257
Mesa	-	1.1319	1.1319
Gilbert	-	0.9895	0.9895
Chandler	0.2426	0.8700	1.1126
Phoenix	1.3055	0.8141	2.1196
Scottsdale	0.5039	0.5042	1.0081

FY 2022 Tax Bills



	Median SFR (City Share Only)
Tempe	\$397
Scottsdale	\$344
Phoenix	\$251
Chandler	\$226
Gilbert	\$216
Glendale	\$204
Mesa	\$170

Average: \$258



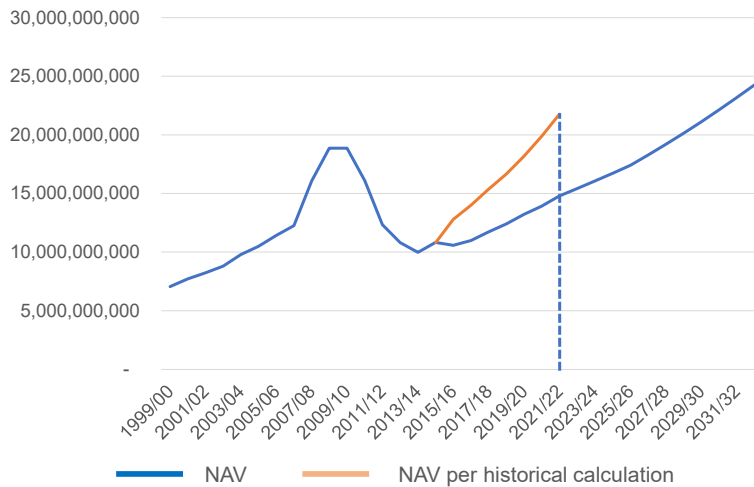
Assessed Valuation Forecast

Staff Assumptions



Assessment ratios held constant
Assessment ratios held constant after FY 2026
~~3.5%~~ 2.0% appreciation through FY 2026
3.0% appreciation thereafter
Annual new construction growth of 2.0%
12/2019 FY 2022 Projected NAV: \$14.84B
Actual FY 2022 NAV: \$14.80B (-0.3%)

Staff NAV Model



Informational Pamphlet



Required by statute

Growth years 1-5 \leq prior 10-year average

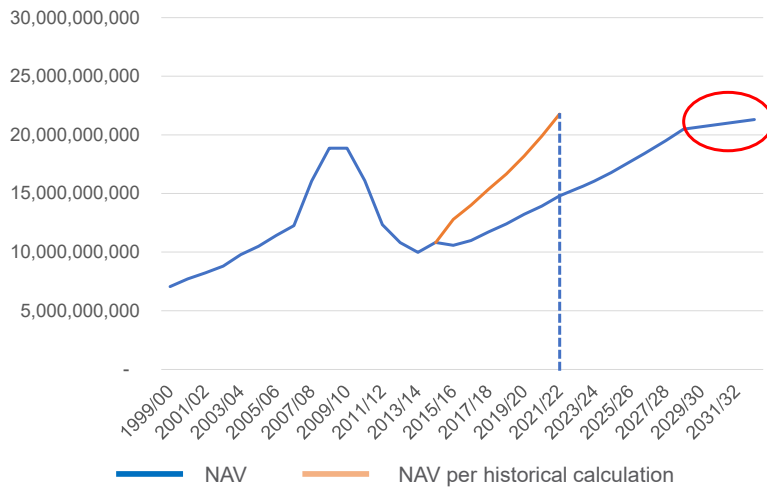
0% ~5% growth assumption

Growth years 6+ \leq 20% of prior 10-year avg.

0% ~1% growth assumption

Informational pamphlet must reflect long range assumptions that staff considers unlikely

Pamphlet NAV Max



Next Meeting Agenda



1. Summary of Outstanding GO Bond Debt Service
2. Constraints and Considerations for a New GO Bond Program
3. New GO Bond Program Scenario Assumptions
4. New GO Bond Program Scenarios



Questions

**City of Phoenix
Fiscal Capacity Committee
Summary Minutes
Monday, Jan. 31, 2022**

Virtual Meeting – Via WebEx

Committee Members Present

Dave Krietor, Chair
Ron Butler
Deb Fisher*
MaryAnn Guerra
Hope Levin

Committee Members Absent

*Joined at 11:11 a.m.

1. CALL TO ORDER

Chairman Krietor called the Fiscal Capacity Committee to order at 11:04 a.m. with committee members Ron Butler, Hope Levin and MaryAnn Guerra present.

2. REVIEW AND APPROVAL OF THE JANUARY 24, 2022 MEETING MINUTES

Committee member Hope Levin made a motion to approve the minutes of the Jan. 24, 2022 meeting. Committee member Ronald Butler seconded the motion, which passed unanimously, 4-0. Committee member Deb Fisher joined the meeting after the motion passed at 11:11 a.m.

3. FISCAL CAPACITY ANALYSIS

Chairman Krietor introduced Chief Financial Officer Kathleen Gitkin to present on the fiscal capacity analysis. He explained the basis of the analysis would assume one \$500 million bond issue every five years, for a total of \$2 billion over a 20-year period.

Ms. Gitkin began by sharing the history of the city's general obligation (GO) bond programs beginning in 1957, with 12 voter-approved programs totaling \$4.6 billion since then. She indicated the last GO bond program was in 2006 and the last new money bonds issued associated with the authorization were in 2012.

Chairman Krietor reiterated that voters approved the last bond program in 2006, but the last issue that went to market was in 2012. He asked if staff structured the sales of individual bonds based on the demand generated by the approved projects, after voters approved the bond issue.

Ms. Gitkin confirmed that after voter authorization is received, staff considers project planning timeframes, procurement needs, and cash flows before there are capital

expenditures and bond issuances. She added staff would not want to issue bonds too soon and have unused cash.

Ms. Gitkin discussed the legal and statutory requirements and restrictions for GO bonds. She explained the city could only issue bonds for major infrastructure and capital expenditures with a long useful life, to ensure the debt could be repaid before the end of its useful life. She added that bond sales could be adjusted to coincide with the life of the asset.

Ms. Gitkin explained cost of issuance could also be paid, including bond counsel fees, financial advisor fees, underwriter fees, and staff cost specifically related to sale of the bonds.

Ms. Gitkin cautioned against using tax-exempt bond proceeds for private activity or loans, using a Family Advocacy Center and a neighborhood clean-up loan program as examples of activities that would not be permissible by the IRS as tax-exempt. She explained a city-owned Family Advocacy Center operated by various non-profits to offer services to the public, while serving the community and the city's goals, would be considered private activity and no longer a public use. She added that there would be a small allocation for private activity and stated that if a program was a priority for the city, taxable bonds could be issued, which had been done in the past but could be more costly.

Ms. Gitkin stated action could only be taken based on what was written in the proposition that would go before voters. She explained the proposition should be written in a manner that strikes a balance between being clear for voters to understand and flexible for how bond proceeds could be used. She cautioned against omitting necessary language, using land acquisition for a municipal building as an example where the language should clearly state that land would be purchased, and a building constructed.

Chairman Krietor wanted to know how taxable or tax-exempt would be determined in a situation where the city hypothetically planned to purchase the old Channel 12 headquarters and renovate it for use by the Southwest Center for HIV.

Ms. Gitkin stated the process the Budget and Research Department was undertaking, asking departments to submit recommended projects early, provides ample opportunity to get tax opinions early and discuss with departments.

Ms. Gitkin discussed the existing GO bonds, currently outstanding in the principal amount of \$919 million. She pointed out the period from 2022 through 2027 had substantial debt service. Total GO bond debt service is fully paid off in 2034. She

stressed the importance of being mindful of the maximum annual debt service (MADS), the peak debt service, currently at \$155 million in 2026.

Ms. Gitkin discussed two aspects that would impact the look of the debt stack, the GO bond reserve and GO bond refunding opportunities.

Ms. Gitkin reiterated the impact of House Bill (HB) 2011 on the GO bond reserve, which would require the city to deplete the reserve to less than or equal to 10% of annual debt service by the end of fiscal year 2023. She discussed the history of the reserve and explained a significant amount had been used to pay down debt service from 2011 through 2016. She explained that by the end of 2022, \$73 million would remain in the reserve, which would be approximately \$60 million higher than what would be required by HB 2011. She detailed staff's proposal to use approximately \$54 million of the GO Bond Reserve balance to pay off \$58 million in debt service, which includes interest, to drive down the MADS from \$155 million to \$146 million.

Ms. Gitkin stated there were approximately \$280 million outstanding in 2012 GO bonds, 30% of all city bonds, which could potentially be refunded for savings on July 1, 2022, and result in savings of approximately \$15 million over the life of the GO bonds. She detailed staff's proposal to take advantage of refunding to target savings early and increase capacity for a new GO bond program in 2023.

Chairman Krietor clarified there would be \$54 million in the reserve and the refunding would provide \$15 million in savings, to give capacity to do additional bonds, which would be almost \$70 million.

Ms. Gitkin confirmed taking these actions would create additional capacity for another bond program and could also help avoid a property tax rate increase in 2026, the peak year, even if a bond program is not done.

Committee member Hope Levin asked what the interest rate had been on the previous bonds, and how time passing from bond approval to issuance could impact the rate.

Ms. Gitkin stated there would always inherently be savings in a bond sale because the city issues debt with a 10-year par call. She explained this meant the city could call or pay off the bonds without premium or penalty in 10 years, even if they would not be set to mature for another five to 10 years. She stated most likely in 2012, the city paid around 4 to 5% yield, which would be 1.8% right now for a 20-year bond. She emphasized the new refunding bonds would not go out beyond 2034 and the city would not extend the life of the bonds.

Finance Debt Manager Andrew Durket confirmed yields to 2034, the longest date of maturity, was 3.75%, so the 1.8% to 2% yield would provide plenty of savings.

Committee member Maryann Guerra asked if paid down bond funds could be reused, or if it would only serve to improve capacity for future bonds.

Ms. Gitkin stated legislation had been passed three to four years ago that prevented the city from reusing authorization and the city could be penalized.

Ms. Gitkin provided an overview of the debt stack including the reserve payoff and refunding opportunity, which would decrease the MADS to \$135 million and build approximately \$20 million in capacity in the front end. She explained the scenarios moving forward would assume both actions were taken, and staff would be going to City Council for formal authorization to do the refunding that same week.

Ms. Gitkin discussed bond ratings and explained the city would take them into consideration but not make decisions based on the rating agencies' methodologies. She explained that we do not want any increase to MADS or any negative impact to fixed cost burden, and affordability of additional operating expenses would be important.

Chairman Krietor asked if \$155 million had been based on the rating agencies' view and wanted to know if that amount was the pain threshold.

Ms. Gitkin confirmed that was correct and the amount reflected the bond rating perspective.

Ms. Gitkin discussed another major consideration was property tax affordability and reiterated the intent to ensure capacity for \$500 million of projects every five years, with no increase to the current total property tax rate or the secondary property tax rate.

Ms. Gitkin gave an overview of the final considerations related to legislative and administrative mandates, including reduction of the GO reserve fund, growth rate assumptions, the timing of infrastructure needs, and other legislative changes.

Ms. Gitkin discussed fixed cost burden as an impact to credit ratings and the differences between the rating agencies' methodologies. She explained Moody's considered pension cost, other post-employment benefits, and debt service fixed costs, and added a disclaimer that this did not represent a generally accepted standard and Finance did not believe it was an adequate methodology to measure financial stability.

Ms. Gitkin stated the city was rated AA+, stable outlook, with S&P; AAA, stable outlook, with Fitch; and Aa1, negative outlook, with Moody's. She explained the city had been on a negative outlook with Moody's since 2016, in preparation to downgrade, primarily because of the fixed cost burden caused by pension costs. She explained the city has paid its liabilities and more on pension costs than what has been required, and stressed the importance of maintaining the debt below \$155 million because Moody's is watching those pension costs and the city would not want to do anything related to debt to drive numbers up.

Committee member Guerra asked if the Moody's rating had always been AA1.

Ms. Gitkin confirmed the city has long been rated Aa1 with Moody's, and the recession put the city on a negative outlook due to economic impacts. She added S&P previously rated the city as AAA, but changed their rating methodology in 2013 to assess the city's economy score based on the state's economy score.

Chairman Krietor asked if exceeding \$155 million threshold would result in a downgrade.

Ms. Gitkin emphasized the significance of rising pension costs, specifically Public Safety Personnel Retirement System (PSPRS) costs, risking a downgrade. She explained that raising debt service costs above current levels could increase potential credit rating concerns which the city would not want to be the reason behind a downgrade.

Chairman Krietor acknowledged the difficulty of working around the state's requirements for PSPRS.

City Manager Jeffrey Barton confirmed the bigger concern with Moody's was the public safety pension costs and the limitations those presented on the city's flexibility from a general fund perspective. He mentioned the rating methodology around fixed cost burden did not account for the city's provision of other key public services.

Ms. Gitkin explained the rating methodology was called "treading water" and assumed a rate of return of 3%, while both the public safety and civilian plans were over 7%.

Chairman Krietor asked if the interest rate differential would be material if the city were to be downgraded.

Ms. Gitkin confirmed it would not have a major cost difference, as the city already has a split credit rating and would likely be priced in the AA range, which is what the GO bonds currently price at.

Committee member Levin asked if residents would be swayed by bond ratings.

Ms. Gitkin did not know how voters would react to the credit rating, but she anticipated they would react similarly to bondholders, indifferent.

Mr. Barton agreed and added he believed there would be a larger political reaction to the credit ratings.

Budget and Research Director Amber Williamson gave an overview of challenges that could put pressure on the general fund, specifically challenges with forecasting revenue and other operating budget needs. She highlighted the city's strategic approach with CARES and ARPA funding and the city's nationwide lead in job growth, net migration, and diversification of the economy over the last 20 years. She stated the general fund was in a good position and forecasted a surplus but did not anticipate it would continue this way as COVID-related federal aid works its way out of the system.

Ms. Williamson emphasized the importance of being mindful of increasing net new operating costs because of other outstanding operating budget needs, including employee compensation increases, classification and compensation study impacts, PSPRS costs, information technology needs, health insurance cost increases, appropriate funding for trust fund reserves, and fleet replacements. She stated it would be important to have resources available to meet those needs as well as City Council and community demands for more programs and services, including affordable housing, homelessness, and climate initiatives.

Ms. Gitkin reminded the committee of the three bond program options, and their associated property tax rate impact, that were discussed in 2020. She shared the final discussion with the committee centered on the impact of timing on bond sales and the committee recommended Option 1, a \$450 million program, or Option 2, a \$615 million program. She added the committee's further recommendation that the city postpone a bond election to Nov. 2021.

Ms. Gitkin discussed the city's financial capacity for three new scenarios:

- No new GO Bond Program
- Four GO Bond Programs – No change to Total Rate
- Four GO Bond Programs – No increase to Total or Secondary Rate

Ms. Gitkin began by discussing the scenario in which there would be no new program, which showed no tax rate increases above the current fiscal year 2022 rate with the MADS at \$135 million. She detailed the scenario modeling assumptions,

which included an annual coupon payment of 5% on all new bond sales which would build a significant cushion should any unforeseen fluctuations in the market arise.

Ms. Gitkin discussed the timing of the proposed bond programs and sales, which laid out a plan to put \$500 million bond programs before voters in 2023, 2028, 2033, and 2038, and split bond sales into two \$250 million tranches between each election.

Chairman Krietor recalled the city had done a \$2 billion bond program over the last 20 years, but there had been no strategic approach. He expressed appreciation for the planned bond program schedule as it demonstrated a more strategic approach.

Ms. Gitkin presented the scenario of four new bond programs resulting in no increase to the total rate, which showed increases in the secondary rate with a MADS of \$157 million. She stated this program would be achievable and the MADS would increase slightly above \$155 million in 2027 but go back down.

Ms. Gitkin continued by discussing the scenario of four new bond programs which would result in no increase to the secondary or total rate with a MADS of \$157 million. She explained this scenario would also be feasible, relying on the depletion of the reserve fund to \$4.4 million in the first five years of peak debt service. She explained if that were to happen, there would be capacity after 2027 to start rebuilding the reserve balance to 10% of annual debt service.

Chairman Krietor asked what risks would be involved in depleting the reserve further.

Ms. Gitkin stated the main risk would be flexibility to address unforeseen changes in the market. She explained that if the interest rates skyrocket, net assessed valuation drops, or a legislative mandate occurs, the city could use the GO reserve fund to balance rather than increase property tax rates.

Ms. Gitkin reaffirmed that the city could afford a \$500 million bond program but presented alternative scenarios with a coupon rate of 6% or a \$600 million program. She explained these scenarios would have no increases to the total rate but would increase the secondary rate and deplete the reserve fund to \$5.9 million. She added that an additional \$5.6 million in other resources would be needed to maintain the current secondary rate, which the city may not be able to afford.

Chairman Krietor clarified the amount of the bond programs after the first could increase beyond \$500 million.

Mr. Barton explained it would depend on other resources the city would come to bear in this same window. He stressed the importance of being strategic and practical in creating a framework that could deliver for the City Council and the community.

Chairman Krietor invited his fellow committee members to weigh in on the proposed scenarios.

Committee member Ron Butler stated the first bond program seemed capped at \$500 million and graduated increases could occur in the long term. He expressed interest in how the \$500 million would be used.

Committee member Guerra wanted to understand the community's critical needs to determine the level of risk that would be taken financially.

Chairman Krietor asked what steps would need to be taken to get to a bond election in 2023.

Ms. Williamson provided an overview of the timeline for the next two years, including formal action by City Council, the solicitation of community input on the bond program, developing and refining the total scope of projects, and working with the City Clerk to get the bond program on the ballot.

Committee member Butler asked if it would be the committee's recommendation on the total amount of the bond program, the timing of the program, and direction on tax rate impacts.

Mr. Barton stated he would defer to Chairman Krietor but explained staff's perspective would be to have no increase, or a minimal increase, given the political appetite for tax increases.

Chairman Krietor recommended staff return to the committee with a report that outlines the two scenarios with a \$500 million program and a clear strategic pathway. He stated during the next meeting, the committee could discuss those two scenarios to develop a recommendation for City Council and that the small increase above MADS for one year should be addressed.

Committee member Levin asked if the recommendation would become a strategic plan for the City Council, and whether it provides them with flexibility in 2030 and for future programs.

Mr. Barton explained it would be like a 5-year capital improvement program, where the City Council would adopt the 2023 bond program as well as a strategic plan for

the next 20 years, which would allow flexibility for future councils to make decisions depending on market conditions.

Committee member Guerra asked if the committee should consider any negative impacts using the GO reserve fund as proposed in the scenarios might have on bond ratings.

Ms. Gitkin stated the rating agencies are familiar with this and there would be no anticipated impact to ratings that should be considered.

Chairman Krietor asked if a bond issuance could be delayed, given any catastrophic change in the market, since the bonds would be sold in two tranches.

Ms. Gitkin confirmed that this is possible and was done historically with the recent water bond sale.

Chairman Krietor expressed his hope that the committee would be recommending a structure that would avoid that situation.

Ms. Gitkin gave an overview of the legislative scenario and explained that the legislation dictates the content of the pamphlet and how the numbers would appear. She discussed the assumptions associated with growth in net-assessed value (NAV) and how the assumed growth rate has increased since the committee first convened in 2020. She explained that Deputy Budget and Research Director Chris Fazio had looked at every potential scenario and this scenario seemed unlikely. She added that the primary property tax levy would be impacted.

Ms. Gitkin went on to discuss the legislative requirement scenario and pointed out that 2048 is when it would start to compound. She explained the city would only have to show the first program in the pamphlet and it would not have a significant impact on the city's ability to do a bond program. She noted that a rate increase of \$0.13 may be a dramatic change to voters that would have to be noted in the pamphlet.

Chairman Krietor clarified that that change would be in a future pamphlet.

Ms. Gitkin confirmed it would be in a pamphlet far into the future. She reaffirmed that for the first five years there would be no impact.

Ms. Gitkin presented the stress scenario and discussed the assumptions, including that the legislature continues incremental cuts to commercial assessment ratio to 10%, then appreciation of 2.5%. She described additional assumptions, such as new construction slowing in the first year after the election, and that the primary rate is

held constant unless there is a reduction required by the constitutional levy limit. She explained that the scenario modeled an immediate impact in the first five years, but not as dramatic as the legislative requirement scenario.

Ms. Gitkin explained the total rate would increase in this scenario in fiscal year 2027 by approximately \$.04 and, after depleting the bond reserve, the city would still need \$3.2 million to fund with other sources. She stated there were things the city could do now to alleviate that, such as another refunding opportunity and use of the cushion built into the assumptions with 5% couponing. She stated that under an extreme stress scenario, a program would be manageable.

Mr. Fazio reminded the committee that there was a window into the future with property taxes, as there was a lag between market conditions and what is seen.

Chairman Krietor acknowledged special attention should be paid to this stress scenario. He recalled commercial and industrial assessment ratios had been 2.5 times higher than residential.

Mr. Fazio stated commercial is currently at 18% and would be reduced to 16%. He added there is a bill currently floating to take off two more half-percents.

Committee member Levin clarified if this impacts other cities in the county.

Mr. Fazio confirmed this has a statewide impact.

Chairman Krietor commended staff on their presentation, which built on the property tax overview from the previous meeting.

Committee member Butler echoed Chairman Krietor's comments and commended staff on the presentation.

4. FUTURE AGENDA ITEMS

Chairman Krietor asked staff to return to the committee at the Feb. 7 meeting with a draft report including the two scenarios discussed and a recommendation to strategically position the city for recurring bond issues every five years.

Chairman Krietor asked if there were other items the committee would like to include. Committee members had no additions.

5. ADJOURNMENT

Chairman Krietor adjourned the meeting at 12:47 p.m.



 Overview

- Existing GO Bond Program
- GO Bond Program Considerations & Constraints
- GO Bond Program Capacity As Presented in 2020
- 2023 GO Bond Program Scenarios
- 2023 GO Bond Program Stress Scenario

1



Existing GO Bond Program

**Parks
Libraries
City Hall**



**Technology
Facilities
Equipment**



**Police
Fire
Arts**



2



Existing GO Bond Program

The City has a long history of issuing GO bonds

- Phoenix voters have approved 12 bond programs since 1957, totaling \$4.6 billion
- 2006 GO Bond Program was the last
- Last new money GO Bonds were issued in 2012
- GO bonds are issued for major capital infrastructure throughout the City with very finite legal restrictions



Legal Uses of Bond Proceeds

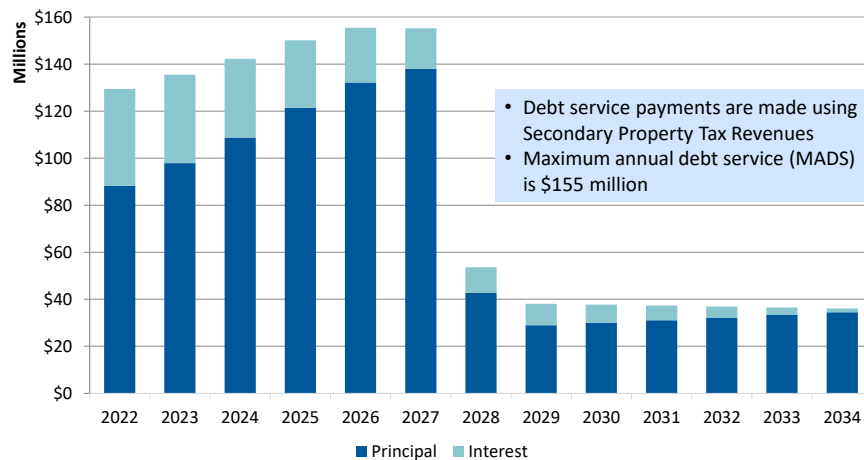
- Capital projects (major infrastructure)
 - No operating costs or working capital
 - Long useful life
- Cost of issuance
 - Bond Counsel
 - Financial Advisor
 - Underwriter
- NO private activity or loans, unless bonds are issued taxable
- Only what is written in the propositions

4



Existing GO Bond Debt Service

Annual GO Bond Debt Service (principal and interest) for \$919 Million Principal Amount of Currently Outstanding GO Bonds



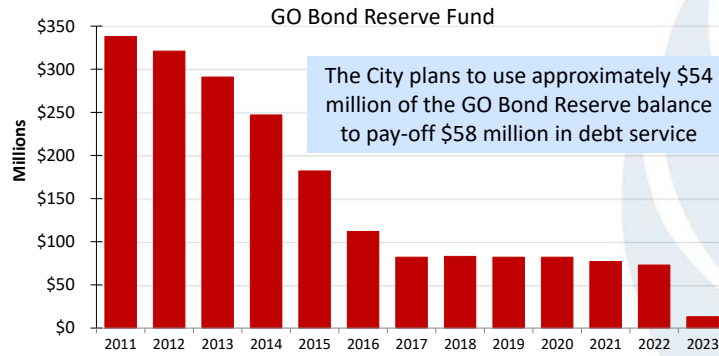
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GO Bond Reserve

State Law

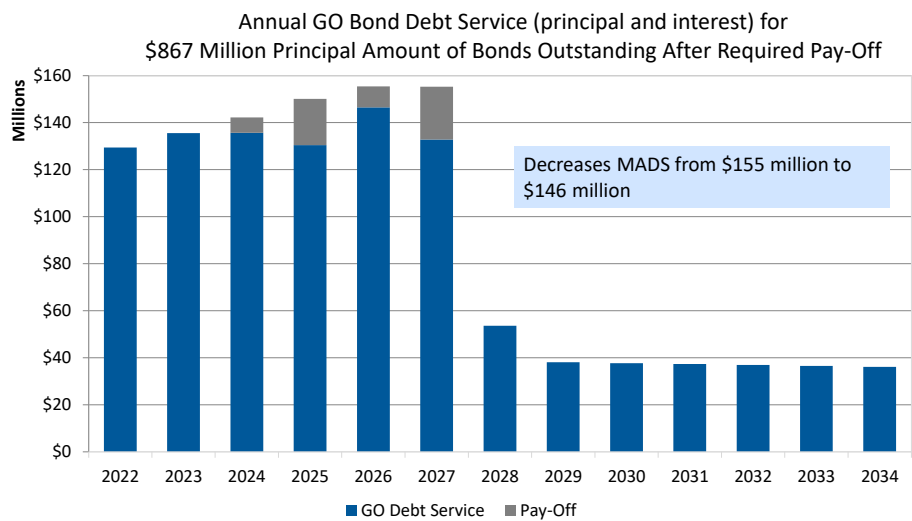
HB 2011 - Existing general obligation reserve fund balance must be $\leq 10\%$ of annual debt service by end of FY 2023



6



Existing GO Bond Debt Service After Required Pay-Off

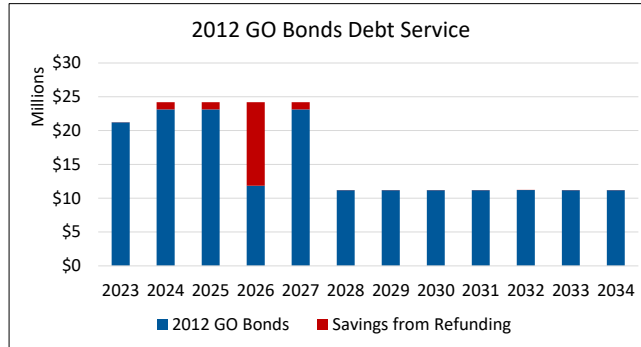


7



GO Bond Refunding Opportunity

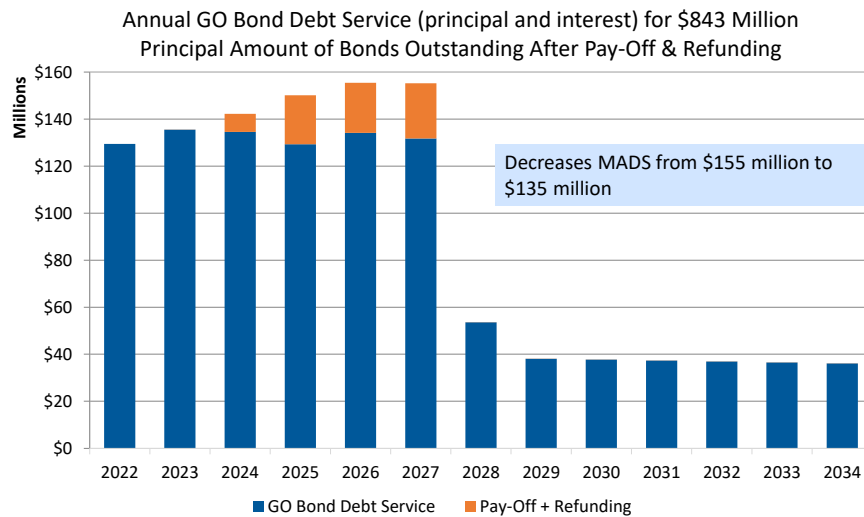
- The City has \$280 million outstanding (30% of total) in 2012 GO Bonds
- The 2012 GO Bonds can be refunded for savings on 7-1-2022
- Total savings of approximately \$15 million over the life of the GO Bonds



8



Existing GO Bond Debt Service After Pay-Off & Refunding



9



GO Bond Program Considerations & Constraints



Bond Program Capacity Considerations

Bond Ratings

- No increase to peak debt service, approximately \$155 million
- No negative impact to fixed cost burden
- Affordability of additional operating expenses

Property Tax Affordability

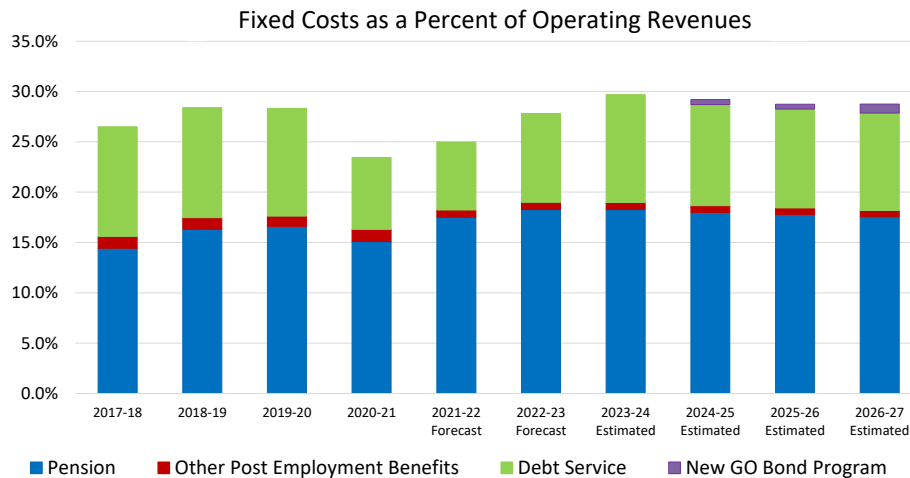
- Capacity for \$500 million of projects every 5 years
- No increase to current total property tax rate of \$2.1196
- No increase to secondary property tax rate of \$0.8141

Legislative & Admin Mandates

- Reduction of the GO Reserve Fund requiring pay-off of debt
- Growth rate assumption in election pamphlet
- Timing of infrastructure needs (special initiatives)
- Other legislative changes (ratio or debt limitation changes)



Fixed Cost Burden



Phoenix City Charter requires full payment of annual pension costs

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Other Operating Budget Needs

- Employee Compensation Increases
- Classification & Compensation Study Impacts
- Public Safety Pension (PSPRS) Costs
- Information Technology Needs
- Health Insurance Cost Increases
- Trust Fund Reserve Levels
- Fleet Replacements
- Council and community demands for more programs and services

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GO Bond Program Capacity As Presented in 2020



Summary of 2020 Presentation

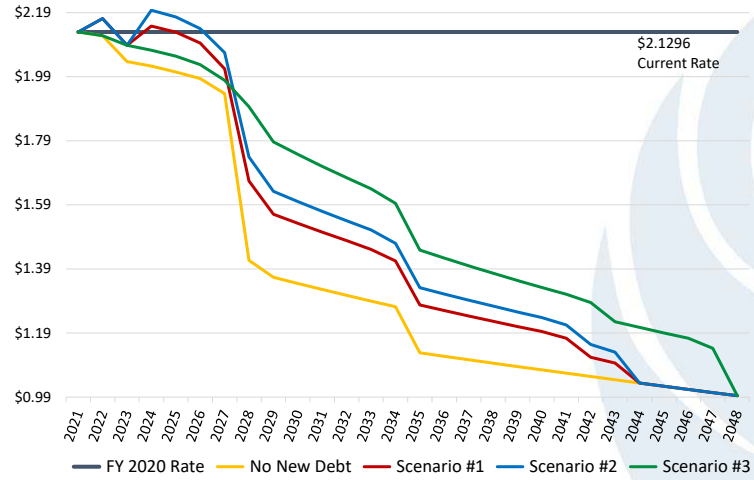
Option 1 \$450 Million*	\$200 million	FY 2022	6-year interest only
	\$250 million	FY 2024	4-year interest only
Option 2 \$615 Million*	\$200 million	FY 2022	6-year interest only
	\$415 million	FY 2024	4-year interest only
Option 3 \$1.1 Billion*	\$200 million	FY 2023	5-year interest only
	\$900 million	FY 2028	no interest only

*Assumed interest rates: FY 2022 – 4%
FY 2024 – 5%

- The final discussion with the committee centered on the impact of timing on the bond sales
- The committee recommended Option 1 or Option 2
- The committee also recommended that the City postpone a bond election for a year, November 2021 rather than November 2020



Total Property Tax Rates from 2020 Presentation



2023 GO Bond Program Capacity



- No new GO Bond Program
- Four GO Bond Programs - No change to Total Rate
- Four GO Bond Programs - No increase to Total or Secondary Rate





No New GO Bond Program

- GO Reserve Fund Pay-off by 7/1/23
- Refunding by 7/1/22

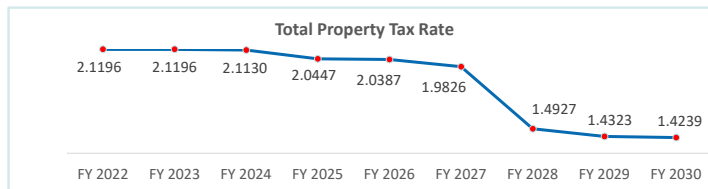
No Increases Above Current FY 2022 Rate

Total Rate	Secondary Rate	Fiscal Year
\$2.1196	\$0.8141	FY 2023
\$2.1130	\$0.8141	FY 2024
\$2.0447	\$0.7521	FY 2025

Max Annual Debt Service

\$135 million

FY 2023



Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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Scenario Modeling Assumptions

- Four separate \$500 million GO Bond Programs, every 5-years
- Use of GO Bond Reserve Fund to pay-off a portion of bonds
- Refunding of the GO Bonds, Series 2012A and 2012C
- Refunding assumes current market interest rates plus 50bps (.50%)
- First bond sale is interest only for three-years; All others are interest only for 2-years
- 25-year amortization for all bond sales

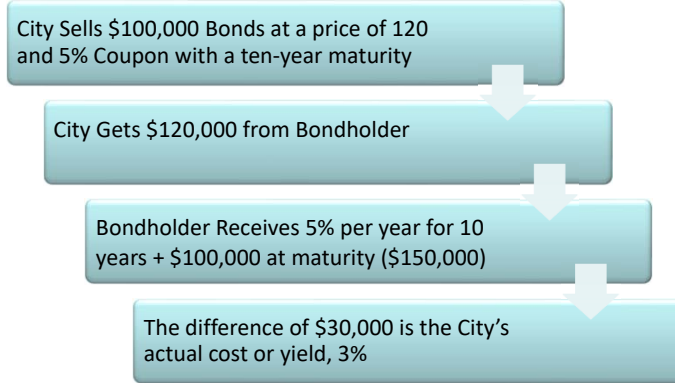
Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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Scenario Modeling Assumptions (continued)

- Annual coupon payment of 5.0% on all new bond sales

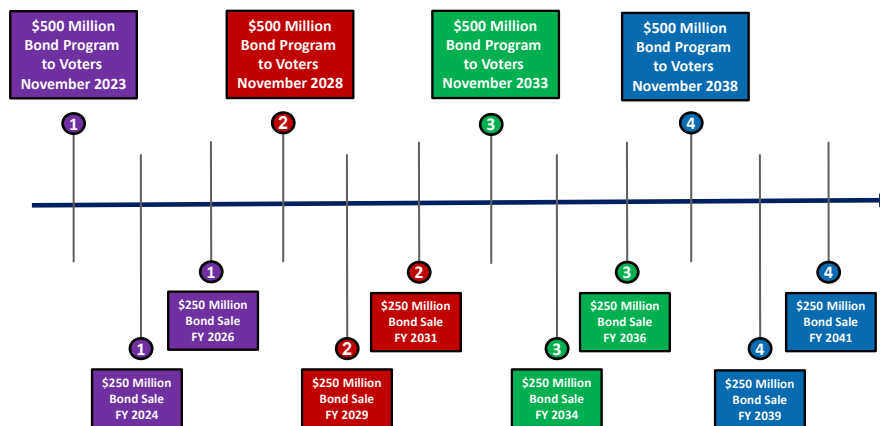


Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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Timing of Bond Programs & Sales



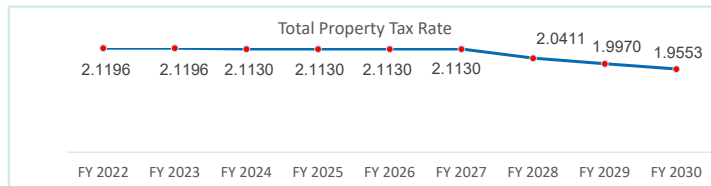
21



Four GO Bond Programs – No Increase to Total Rate

Increases in Secondary Rate	Total Rate	Secondary Rate	Fiscal Year
	\$2.1196	\$0.8141	FY 2023
	\$2.1130	\$0.8141	FY 2024
	\$2.1130	\$0.8204	FY 2025
	\$2.1130	\$0.8264	FY 2026
\$2.1130	\$0.8351	FY 2027	

Max Annual Debt Service	\$157 million	FY 2027
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Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

22

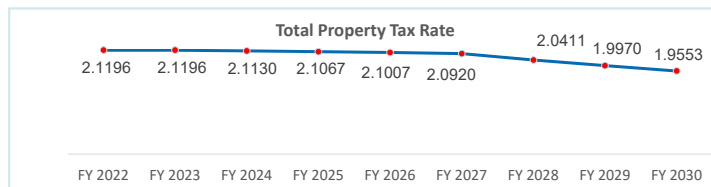


Four GO Bond Programs – No Increase to Total or Secondary Rate

GO Bond Reserve Fund balance is depleted to \$4.4 Million

No Increases in Total or Secondary Rates	Total Rate	Secondary Rate	Fiscal Year
	\$2.1196	\$0.8141	FY 2023
	\$2.1130	\$0.8141	FY 2024
	\$2.1067	\$0.8141	FY 2025
	\$2.1007	\$0.8141	FY 2026
\$2.0920	\$0.8141	FY 2027	

Max Annual Debt Service	\$157 million	FY 2027
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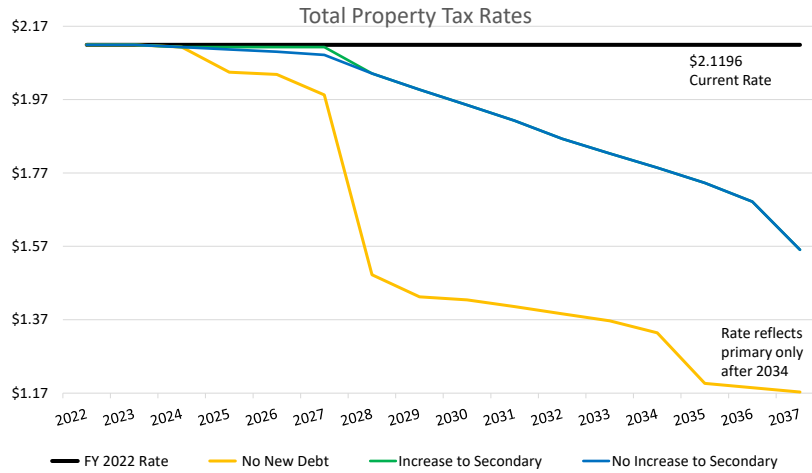


Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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Total Property Tax Rates



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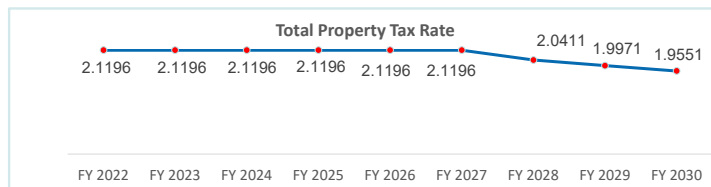


Four GO Bond Programs – 6% Coupon or \$600 Million Program Amount

- GO Bond Reserve Fund is depleted to \$5.9 Million
- Maintaining secondary rate of \$0.8141 would require approximately \$5.6 million in other sources

No Increases in Total Rate	Total Rate	Secondary Rate	Fiscal Year
	\$2.1196	\$0.8141	FY 2023
	\$2.1196	\$0.8207	FY 2024
	\$2.1196	\$0.8270	FY 2025
	\$2.1196	\$0.8330	FY 2026
	\$2.1196	\$0.8417	FY 2027

Max Annual Debt Service \$162 million FY 2027



Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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Legislative Scenario Modeling Assumptions

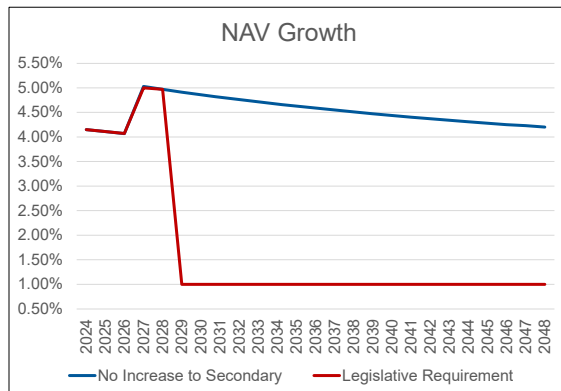
- Growth in NAV in the first five-years cannot exceed the actual 10-year average growth rate in NAV, assumed 5%
- Growth in NAV in year six and on cannot exceed 20% of the 10-year average growth rate in NAV, assumed 1%
- This assumption is not within the realm of any economic situation either realized or envisioned
- The primary levy amount is impacted

Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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NAV Growth – Legislative Requirement



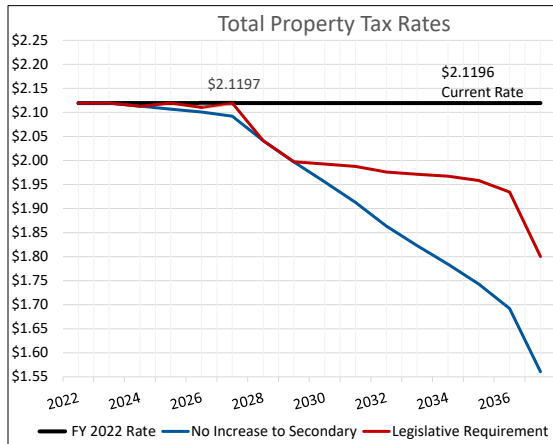
Fiscal Year	Estimated NAV (in millions)	
	Forecast	Legislative Requirement
2024	\$16,063	\$16,063
2025	16,723	16,723
2026	17,403	17,403
2027	18,278	18,273
2028	19,186	19,180
2029	20,128	20,122
2030	21,106	20,323
2031	22,120	20,527
2032	23,173	20,732
2048	46,392	24,310

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Total Property Tax Rates in Pamphlet – Legislative Requirement

Secondary Property Tax Rate			
Fiscal Year	No Increase Secondary	Legislative Requirement	Difference
2024	\$0.8141	\$0.8139	-0.0002
2025	0.8141	0.8269	0.0128
2026	0.8141	0.8239	0.0098
2027	0.8141	0.8417	0.0276
2028	0.7714	0.7716	0.0002
2029	0.7352	0.7354	0.0002
2030	0.7010	0.7280	0.0270
2031	0.6688	0.7207	0.0519
2032	0.6317	0.7061	0.0744
2048	0.1511	0.2883	0.1372



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Stress Scenario Modeling Assumptions

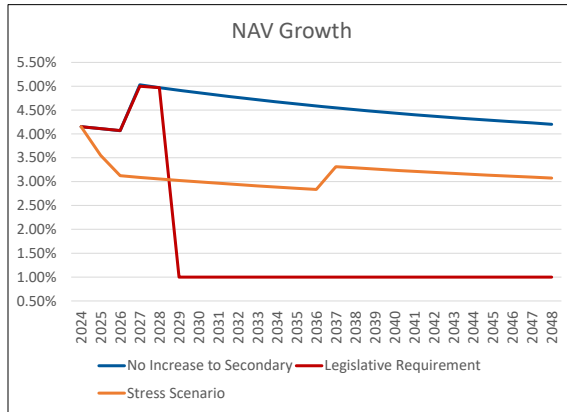
- Legislature continues incremental cuts to commercial assessment ratio, until it reaches 10% (to match residential)
- After that, appreciation is 2.5%
- First year after the election, new construction slows two years in a row, down to levels similar to construction during the financial crisis
- Primary rate is held constant, unless a reduction is required by the constitutional levy limit

Note: Tax rates are subject to change (plus or minus) based on actual Net Assessed Values (NAV). There is no guarantee that NAV forecast will be achieved.

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NAV Growth – Stress Scenario

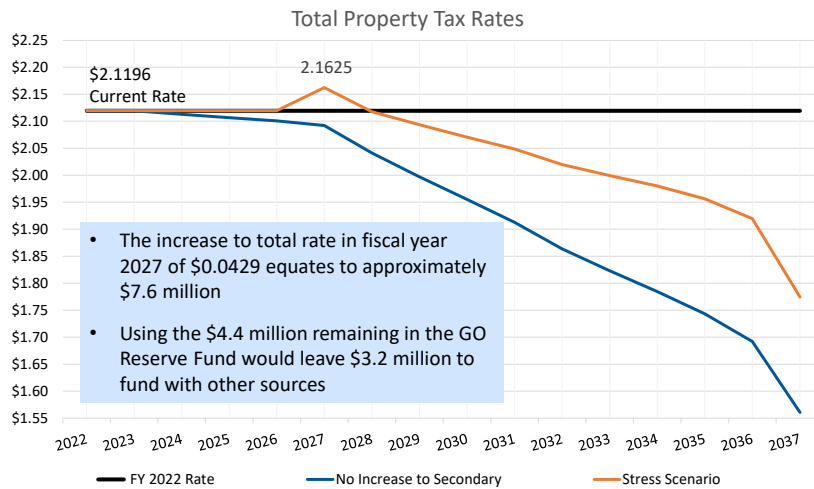


Estimated NAV (in millions)		
Fiscal Year	Forecast	Stress Scenario
2024	\$16,063	\$16,063
2025	16,723	16,633
2026	17,403	17,153
2027	18,278	17,683
2028	19,186	18,223
2029	20,128	18,775
2030	21,106	19,337
2031	22,120	19,910
2032	23,173	20,496
2048	46,392	33,449

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Total Property Tax Rates Stress Assumptions



- The increase to total rate in fiscal year 2027 of \$0.0429 equates to approximately \$7.6 million
- Using the \$4.4 million remaining in the GO Reserve Fund would leave \$3.2 million to fund with other sources

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Questions and Additional Discussion



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**City of Phoenix
Fiscal Capacity Committee
Summary Minutes
Monday, Feb. 7, 2022**

Virtual Meeting – Via WebEx

Committee Members Present

Dave Krietor, Chair
Ron Butler
Deb Fisher
Hope Levin

Committee Members Absent

MaryAnn Guerra

1. CALL TO ORDER

Chair Krietor called the Fiscal Capacity Committee to order at 11:01 a.m. with committee members Ron Butler, Deb Fisher, and Hope Levin present.

2. REVIEW AND APPROVAL OF THE JANUARY 31, 2022 MEETING MINUTES

Committee member Ron Butler made a motion to approve the minutes of the Jan. 31, 2022 meeting. Committee member Hope Levin seconded the motion, which passed unanimously, 4-0.

3. FINANCIAL CAPACITY RECOMMENDATIONS

Chair Krietor recommended the committee discuss comments, suggestions, or changes they had on the drafted recommendation.

Chair Krietor stated the report was reflective of what the committee learned and what had been discussed in previous meetings. He listed three suggestions based on his review of the drafted recommendation:

1. List the names of the committee members, dates the committee met, and attaching staff reports that were reviewed during the reconvened meetings
2. Update the language in the last paragraph of the Program Sizing and Bond Sale Timing section to state the committee is “strategically positioning” the city to allow for subsequent bond elections
3. Update the tone of the second paragraph in the Tax Rate Informational Requirement section to avoid an appearance of negatively characterizing statutory requirements

Chair Krietor stated the report looked consistent with the analysis and modeling that had been discussed, and he opened the floor to the rest of the committee for suggestions or changes.

Committee member Hope Levin referred to the last paragraph in the report and requested clarification that the report needed to state the tax rates are meeting the statutory requirements so that could be disclosed to the voters. She stated that the

last sentence in the report appeared to be missing information and asked where the different scenarios would be included.

Chair Krietor asked for suggestions from staff on how the Tax Rate Informational Requirements section could be revised, based on Committee member Levin's feedback.

Mr. Fazio stated the committee could consider moving the Program Sizing and Bond Sale Timing section to the end of the report, which would have the report end with the overall recommendations.

Committee member Levin expressed her support for the change, explaining it provided her with clear direction that the committee was supporting the \$500 million bond program and intended not to increase rates.

Chair Krietor expressed support for moving the section up in the report and requested the language be tempered so that the City Council would not have the impression that the committee was demeaning the State's legislative actions.

Committee member Levin said she was fine with the final sentence in the Tax Rate Information Requirements section, as it was factual and expressed the impact to the voters. She suggested updating the sentence before it to state, "The committee believes the statutory requirements have been analyzed and are used in our recommendation."

Chair Krietor stated he was fine with that change. He stated he wanted to remove "misleading" but would be amenable to leaving in "pessimistic".

Committee member Levin asked if "pessimistic" was understated and requested clarification that higher growth rates could not be used.

Chair Krietor explained his understanding of the sentence was that the state statute was forcing the use of a more pessimistic model, where the tax rate could be impacted.

Mr. Fazio explained the biggest difference was that the modeled tax rates would be higher than they otherwise would be, and that the statutorily required model shows rates higher than what staff believes they would be.

Chief Financial Officer Kathleen Gitkin stated what was being conveyed was that the modeling for the first five years almost exactly mimics the state requirement, which was more restrictive than staff's modeling which had built in a generous cushion. She explained the thought process was that the committee evaluated the first five

years, and the growth assumption was similar and could be endorsed but going out further would be risky because the difference would be drastic.

Chair Krietor asked if the section could state that the statute would be reflected in the modeling, and the modeling for the first five years would be consistent with state requirements, since the committee would only be officially recommending the first bond program.

Mr. Fazio clarified how the state statute might impact the information that would appear in the pamphlet, explaining that the rates would reflect higher than what staff would otherwise show them to be, and modeling would reflect more than five years of debt service in the pamphlet.

Chair Krietor summarized the feedback received from the committee, including the recommendation to move the Tax Rate Information Requirements earlier in the report, and updating language to communicate to the City Council how the state statute might have an impact.

Committee member Butler agreed with Chair Krietor's comments and asked if the Ballot Timing section could be written similarly to the Program Timing and Sizing section, which stated the committee would be recommending to City Council to develop a 2023 bond program.

Chair Krietor confirmed that was correct. He asked Committee member Butler if he was recommending changes to the language which stated, "the Fiscal Capacity Committee unanimously recommended the City Council develop a \$500 million bond program for a November 2023 election".

Committee member Butler confirmed that his recommendation would be to make the language similar to what was written in the first paragraph of the Program Sizing and Bond Sale Timing section, where it describes the program as one portion of a larger long-term strategy.

Chair Krietor asked if there were any issues with updating the language.

Mr. Fazio confirmed the change could be made.

Chair Krietor reconfirmed the changes requested in the recommendation would be to adjust the wording, move the Tax Rate Information Requirements earlier in the report, and conclude with the recommendation. He asked if one of his fellow committee members would offer a motion to approve the report.

Committee member Levin made a motion to approve the report as finalized and that the recommendation supports the committee's desire to see the city of Phoenix offer a \$500 million bond program that would be brought before the voters on the ballot in November of 2023. Committee member Deb Fisher seconded the motion.

Chair Krietor asked staff if the motion was sufficient.

Budget and Research Director Amber Williamson confirmed the motion was sufficient and explained that staff would make edits to the document and send the finalized report to the committee within 48 hours.

Chair Krietor agreed that it would be important to review the revised language and provide an opportunity for all committee members to see the final recommendation.

The motion passed unanimously, 4-0.

4. FUTURE AGENDA ITEMS

Chair Krietor thanked the committee for returning for this effort. He detailed the next steps would be to receive a final draft of the recommendation from staff with language that was consistent with the discussion and motion. He requested clarification on when the item would go to the City Council for approval.

Budget and Research Director Amber Williamson explained she was awaiting confirmation from the Mayor's Office on timing of City Council briefings and agendas. She stated she would let the Chair know once direction has been received.

Chair Krietor reiterated his appreciation for the work of staff and the committee members. He canceled the Feb. 15 meeting and requested a motion to adjourn the meeting.

Committee member Ron Butler made a motion to adjourn. Committee member Deb Fisher seconded the motion, which was approved unanimously, 4-0.

5. ADJOURNMENT

Chair Krietor adjourned the meeting at 11:25 a.m.