

# **Board of Supervisors Memorandum**

July 3, 2018

#### Resolution Calling a Bond Election for Regional Road Reconstruction, Preservation and Repair for November 6, 2018

#### Background

At the Board's June 19, 2018 meeting, the Board directed staff to prepare the necessary materials to send to voters a \$430 million general obligation bond proposition to fund regional road repair this November, and bring that item back to the Board on July 3, 2018. The Board also directed staff to schedule a meeting of the Bond Advisory Committee to consider the bond election request, and to update the Transportation Advisory Committee.

## Resolution Calling Election, Notice and Solicitation of Arguments for and Against the Proposition

Attached is the resolution the Board could consider approving on July 3, to place a regional road repair bond proposition on the November 6, 2018 ballot. As required by State Statute, Exhibit A would be published in newspapers, in English and Spanish. It provides notice of the bond election, includes the text of the proposition as it would be stated on the ballot, and solicits arguments for and against the bond proposition to be submitted between July 9th and July 24th to be included in the voter information pamphlet that is required to be mailed to homes of registered voters not less than 35 days prior to the election.

#### Ballot Proposition Text and "Purpose" for Which Bonds Can Be Sold

The proposition would be worded on the ballot as follows:

"Shall Pima County, Arizona be authorized to issue and sell general obligation bonds of the County in an aggregate principal amount not exceeding \$430,000,000 for the purpose of reconstructing, repairing and preserving existing public roads and highways in the County, including paying all expenses properly incidental thereto and to the issuance of such bonds?"

Note that the text is worded very narrowly such that the only legally allowable purposes for which the County could sell these bonds, is for "reconstructing, repairing and preserving existing public roads and highways." Supervisor Miller has stated on social media that the County will most likely state the purpose broadly so as to allow for the funding to be spent on bike paths, transit, crosswalks, etc. That is simply not true.

#### Ballot Proposition Text and Not to Exceed Repayment Period and Interest Rate

The ballot proposition would also include the following:

"The bonds are to be issued in one or more series, maturing not less than one year (or portion thereof) and not more than 10 years following the date of issuance of each such series, bearing interest at a rate or rates not higher than 6 percent per annum and sold at prices that may include a premium not greater than that permitted by law."

Although the County is planning on repaying the debt incurred from each annual bond sale over an average of 3.4 years at interest rates of about 3 percent, the ballot proposition is worded so as to permit a maximum of 10 years to repay the debt from each sale, at interest rates not to exceed 6 percent, just in case financial markets do not continue to improve. Including a buffer such as this is typical. In all the years that the County has been issuing voter approved bond debt, we have never come close to the maximum repayment period and interest rate listed in the ballot proposition.

Table 1 below shows the interest rates on general obligation bonds sold by the County since 2007, including our final issuance in 2017.

	Interest		
Bond Sales	Rate %		
Series 2007	4.03		
Series 2008	3.66		
Series 2009	3.90		
Series 2009A	3.37		
Series 2011	3.50		
Series 2012	2.60		
Series 2013	2.27		
Series 2014	3.00		
Series 2015	2.54		
Series 2016 A/B	1.63		
Series 2017	2.05		

### Table 1 Interest Rates for Past General Obligation Bond Sales

#### The Issuance of these Bonds will NOT Result in a Tax Increase

The ballot proposition is required by state statute to contain the phrase: "The issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on the bonds."

To be clear, the issuance of the regional road repair bonds will not result in a property tax increase, even though we are required to include this text. This is because the County will issue the bonds as other bonds are repaid, so as to maintain the current secondary property tax rate of \$0.69 per \$100 of taxable next assessed value. However, we are required to include this statement on the ballot. Although we cannot explain this on the ballot, we can do so in the voter information pamphlet. The City of Flagstaff included the following wording in one of their voter information pamphlets:

### "Will my secondary property tax rate increase if either of these projects pass?

No. While Arizona Revised Statutes require the City to make a disclosure that the issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on the bonds, the City of Flagstaff intentionally only asked for projects that could be completed in the next few years. The City will time the issuance of new bonds as old bonds are repaid with the intent to keep the tax rate constant."

#### Current County General Obligation Debt and Constitutional Debt Limitation

The resolution states that the County currently has \$275,990,000 in outstanding general obligation debt, with a constitutional debt limitation of \$1,250,083,936. While the County has no intention of selling all of the \$430 million in bonds at one time, this shows that the County has more than enough capacity from a constitutional debt limitation perspective.

#### **Bond Implementation Plan Ordinance and Voter Information Pamphlet**

The content of the voter information pamphlet is clearly delineated in state statute. The bulk of the pamphlet is typically dedicated to arguments for and against the bond proposition. The pamphlet must also disclose financial information, ballot proposition text, and information about where and how registered voters can cast their vote. If the Board decides to call the election, then staff will begin preparing the publicity pamphlet, translating it into Spanish, and working with the vendor to print and mail a copy to every household containing

a registered voter, 35 days prior the election (October 2). The voter information pamphlet does not require Board approval, but will be provided to Board offices in advance.

A bond implementation plan ordinance is required by County code, and goes above and beyond what is required by state statute. It will include details on how the County intends to implement the bond program, if approved by voters, including how the County will work with the cities and towns to implement their share of the bond funded road repairs. It will also include details about oversight of the program, the roles of the Transportation Advisory Committee and Bond Advisory Committee, regular audits, and coordination with Pima Association of Governments (PAG) or the Regional Transportation Authority (RTA). It will look different than the bond implementation plan ordinance for the 2015 bond election, since the bonds would fund essentially one project (regional road repair) instead of 99 projects. Per County code, the bond implementation plan ordinance must be approved by the Board, after the required public hearing that is noticed 15 days prior, and must then be published in its entirety in the newspaper and on the County's website prior to early voting (October 10). If the Board decides to call the election, staff will also begin preparing the bond implementation plan ordinance.

#### Distribution to Cities and Towns, and County Plan for its Allocation

Pima County maintains 1,891 miles of paved roads in unincorporated areas, of which about 70 percent are rated in poor or failing condition. The County Department of Transportation's model and draft plan to repair all of the County-maintained paved roads within 10 years, includes regular maintenance. At the June 19 meeting, I provided the Board with two bond funding options. The \$860 million bond option would have been equivalent to what the half-cent sales tax would have generated, to be shared with cities and towns. The County's share of this, plus annual state-shared Highway User Revenue Funds (HURF) and Transportation Vehicle License Tax (VLT) revenues, including expected cost savings due to reorganization of the Department of Transportation, would have been enough to fully fund this 10 year plan. About a third of the state-shared transportation revenues currently fund debt service on 1997 bonds authorized by voters to address traffic congestion, and as those are paid off more of those state-shared transportation revenues will also be allocated to funding the road repair plan.

The Board, however, chose the \$430 million bond option, which would be distributed as shown in Table 2.

					% of Tax Base + %	
Jurisdiction	Taxable Net Assessed Valuation <sup>1</sup>	% of Overall County Tax Base	July, 1 2016 Census Population	% Population	of Population Divided by Two	Distribution Per Jurisdiction <sup>2</sup>
Junsuiction	Valuation	Tax base	Fopulation	Fopulation	100	Junsuiction
Marana	\$645,311,769	7.74%	43,474	4.28%	6.01%	\$25,849,926
Oro Valley	\$535,042,025	6.42%	43,781	4.31%	5.37%	\$23,069,657
Sahuarita	\$233,877,438	2.81%	28,794	2.83%	2.82%	\$12,118,133
South Tucson	\$22,169,911	0.27%	5,645	0.56%	0.41%	\$1,775,945
Tucson	\$3,414,161,333	40.97%	530,706	52.22%	46.59%	\$200,352,448
Unincorporated Pima	\$3,483,330,430	41.80%	363,806	35.80%	38.80%	\$166,833,891
Total	\$8,333,892,906	100.00%	1,016,206	100.00%	100.00%	\$430,000,000

Table 2Distribution of \$430 million in Bond Revenues

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

<sup>2</sup>Less bond issuance and other financial admin costs

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

that they will be sold faster due the County's conservative debt management practices and continued excellent general obligation bond ratings by rating agencies, which result in lower borrowing costs. Rating agency reports from March 2018, cited the County's "aggressive debt amortization schedule (more than 90% repaid in 10 years)," "strong debt and liability position," "low" long-term liability burden "comprised of overall debt and net pension liabilities," "Strong management, with good financial policies and practices," and "Strong budgetary flexibility."

It is also important to note that after these 10 years, the annual state-shared transportation revenues are anticipated to be sufficient to adequately maintain the County's roads for subsequent years.

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

#### Bond Advisory Committee and Transportation Advisory Committee

The Transportation Advisory Committee held its regularly scheduled meeting on June 26. Deputy County Administrator Carmine DeBonis provided the Committee with an update on sales tax failing, as well as this option to pursue voter authorization for \$430 million in general obligation bonds for regional road repair. Comments from committee members included the need to clarify roles of the Bond Advisory Committee versus the Transportation Advisory Committee, should this pass; support for the bond proposal as the last option available to the Board; questions about the how quickly a \$430 million bond program could be implemented; and the role of the RTA or PAG.

The Bond Advisory Committee held a special meeting on June 27 to consider the Board's request for a \$430 million bond election for regional road repair for this November's ballot. Per County code, the Bond Advisory Committee is tasked with making recommendations to the Board on future bond projects and dollar amounts. Mr. DeBonis and I both presented information to the Committee about this proposal, the road repair funding crisis and past efforts to address it. Committee members asked questions and discussed the proposal. The Committee voted 14-1 in favor of placing the \$430 million general obligation bond for road

repair on this November's ballot, and provided input on how to improve the ballot proposition language and the resolution calling the election.

#### Responses to Supervisor Miller's Alternative Budget and Other Misinformation

#### A. Funding already exists for road repair

Supervisor Miller continues to state that the funding needed to repair and adequately maintain our roads can be found within the County's existing budget and that we just need to make it a priority. I strongly disagree and so did the Sales Tax Advisory Committee when they reviewed Supervisor Miller's proposals last fall and concluded that Board action on a new revenue source was the "sole realistic solution."

On multiple occasions I have reviewed proposals by Supervisor Miller to reallocate existing County revenues to road repair, and have found that most of her proposals are simply illegal. Case in point is her latest "Alternative Budget Proposal FY 2018/19". The largest single line item in this proposal is eliminating \$11 million for the Kino Sports Complex capital improvement projects, and reallocating that funding to road repair. This \$11 million is the result of the County issuing certificates of participation (COPs), repaid with the District's share of hotel/motel bed taxes, the eligible uses of which are strictly stated in state statute and clearly do not include road repair. Supervisor Miller does not understand that COPs are merely the financing mechanism that allows the County to borrow, not the revenue source. The revenue source to pay off this debt is the hotel/motel bed tax and these funds cannot be used for road repair.

#### B. <u>Issuing bonds for road repair is like using a credit card to pay for groceries and paying</u> interest

Supervisor Miller has made this statement multiple times. First, we should keep in mind that bonding for road repair is the last possible option available to this Board to fund our critical road repair needs. It was not the first choice. The first choice this Board lobbied for, over many years, was an increase in the State gas tax. This was unsuccessful, as was stopping the State from shifting HURF revenues to use for other State needs. The Board pursued a short, stop gap measure, to fix roads with a maximum 25-cent primary property tax increase for road repair. The Transportation Advisory Committee, tasked with recommending which roads to repair first, responded unanimously that this source of funding was woefully inadequate in comparison to the need. The Board also pursued State legislation, in cooperation with the RTA, to allow the RTA to send to voters an additional half-cent sales tax for regional road repair. That legislation also failed. Then the Board voted on levying a half-cent sales tax for regional road repair, and that failed to get the required unanimous

vote. Finally, after trying everything else, the Board directed staff to prepare the necessary materials to pursue the bond option.

In response, and also being cognizant that taxpayers should not be repaying debt after the useful life of a road repair or maintenance treatment, staff and I put forth a bond option that has the shortest repayment period possible; 3.4 years on average to pay off each annual bond issuance. This is as close to pay-as-you-go as possible under a bonding scenario. It is also substantially less than the useful life of a full reconstruction and a mill and fill treatment, and is even less than the useful life of a fog seal, which is the lightest maintenance treatment included in the County's road repair plan. Therefore, I disagree with Supervisor Miller's above statement.

#### C. County is still issuing 1997 road bonds

Supervisor Miller has stated that the County should not issue general obligation bonds (repaid with property taxes) for road repair because we are still issuing bonds from the voterapproved 1997 election for roadway capacity expansion, which are repaid with HURF and Transportation VLT revenues. The fact that the 1997 bond program has taken so long to complete is because HURF revenues have been much lower than anticipated, which is precisely why we do not have enough HURF revenue to both fix roads and expand roadways to reduce traffic congestion. It should not be one or the other. The State used to regularly increase the gas tax to offset inflation, and the gas tax is the primary source of revenue for HURF. It has not done so since 1991. The State also continues to shift HURF funds for other purposes.

The 1997 bond program, albeit delayed, has been very successful. Over 250 lane miles where built, reducing traffic congestion by 43 percent and doubling the average roadway capacity, especially in high growth areas northwest of Tucson. The fact that the County has been unable to fully issue these HURF bonds because of failures of the State, makes a strong case for why we can no longer rely on HURF revenues alone to fund our transportation needs, and certainly not until we get all our roads up to at least a fair condition.

#### Recommendation

In summary,

- The critical need for road repair funding has been clearly verified.
- The Department of Transportation's road repair model and draft plan shows that there is a path forward to address this crisis within 10 years such that annual state-shared revenues are adequate for ongoing maintenance after this. These bonds would

provide substantial funding for this plan, and the County would continue to seek the remaining funds.

- Bonds could be issued without increasing taxes and with very short repayment periods, 3.4 years on average, such that the life of the road repair treatments exceed the debt repayment periods.
- The public has weighed in over the past year, as have stakeholders. •
- The only question now is how to fund it in light of all of the other options we have pursued unsuccessfully.
- There is general election on November 6, 2018, which means this is essentially a free opportunity to add an item to the ballot asking voters if they would support the issuance of general obligation bonds to fund regional road repair.

I respectfully recommend that the Board approve the resolution calling the bond election for regional road reconstruction, preservation and repair for November 6, 2018, including the public notice, and the solicitation of arguments for and against the proposition beginning July 9 and ending July 24.

Sincerely,

C. Dulubay

C.H. Huckelberry County Administrator

CHH/dr

c: Jan Lesher, Chief Deputy County Administrator Tom Burke, Deputy County Administrator for Administration Carmine DeBonis, Deputy County Administrator for Public Works Nanette Slusser, Assistant County Administrator for Public Works Michelle Campagne, Interim Director, Finance and Risk Management Ana Olivares, Director, Transportation Department Yves Khawam, Deputy Director, Transportation Department Nicole Fyffe, Executive Assistant to the County Administrator

#### RESOLUTION NO. 2018 -

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

#### The Board of Supervisors of Pima County, Arizona (the "Board"), finds that

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

#### NOW THEREFORE, BE IT RESOLVED, that:

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

- a. Publish the Notice, in substantially the form attached to this Resolution as <u>Exhibit A</u>, in a newspaper published and circulated generally within the County.
- b. Mail to the residence of each registered voter in the County, not less than 35 days prior to the election, an informational pamphlet containing the information required by law.
- c. Prepare a Bond Implementation Plan Ordinance for approval by the Board, and then publish the full text of the approved ordinance in a newspaper published and circulated generally within the County and on the County website, prior to the start of early voting.
- d. Prepare and deliver to the election boards, to be furnished to the qualified electors wishing to vote at the special bond election, ballots and related materials in the form and containing the information required by law.
- e. Direct early voting, in the manner provided by law, with the assistance of the County Recorder.
- f. Arrange for all voting to take place on voting equipment authorized by the Arizona Secretary of State.
- g. Conduct the special bond election and keep the poll lists in the manner provided by law.
- h. In order to comply with the Voting Rights Act of 1965, as amended, include, in each of the following, as it is posted, published, and recorded, a Spanish translation: the Notice, the informational (publicity) pamphlet, the ballot, all early voting materials, and all instructions at the polls.
- i. Return the results of the special bond election to the Board within twelve days after the special bond election.
- j. Submit a copy of the informational pamphlet to the department of revenue within thirty days after the special bond election.
- 3. The Board will hold a special meeting within twenty days after the election to canvass the votes cast and certify the results of the special bond election, as provided by law. The Board will be governed by the vote of the majority as to the Proposition. The Clerk of the Board is hereby directed to prepare and present to the Board, at that special meeting, a certificate as required by law, and cause that certificate to be recorded in the office of the Pima County Recorder after approval by the Board.
- 4. Written arguments of no more than 300 words in length for and against the Proposition, for inclusion in the informational pamphlet to be distributed to registered voters in connection with the special bond election as required by law, must be submitted as provided in the Notice and must be received no earlier than 8:00 a.m. on July 9, 2018 and no later than 5:00 p.m. on July 24, 2018.
- 5. If issuance of bonds is authorized at the special bond election, the expenditure of the bond proceeds will be governed by the provisions of Chapter 3.06 of the Pima County Code

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

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

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

PIMA COUNTY, ARIZONA

By:\_\_\_

Chairman, Board of Supervisors

ATTEST:

By:\_\_\_\_\_ Clerk, Board of Supervisors

APPROVED AS TO FORM:

SQUIRE PATTON BOGGS (US) LLP Bond Counsel

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

#### TO THE QUALIFIED ELECTORS OF PIMA COUNTY, ARIZONA:

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

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

The proposition to be submitted is as follows:

#### Proposition No. 463

#### **Regional Road Reconstruction, Preservation and Repair**

Shall Pima County, Arizona be authorized to issue and sell general obligation bonds of the County in an aggregate principal amount not exceeding \$430,000,000 for the purpose of reconstructing, repairing and preserving existing public roads and highways in the County, including paying all expenses properly incidental thereto and to the issuance of such bonds? The bonds are to be issued in one or more series, maturing not less than one year (or portion thereof) and not more than 10 years following the date of issuance of each such series, bearing interest at a rate or rates not higher than 6 percent per annum and sold at prices that may include a premium not greater than that permitted by law. As required by A.R.S. § 35-454(C), the County gives notice that the issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on the bonds.

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

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

The County hereby solicits the submission of written arguments of no more than 300 words in length for and against the proposition for inclusion in the informational pamphlet to be distributed to registered voters in connection with the special election, as required by law. Each argument shall contain the name of each person sponsoring it. Such arguments must be submitted to the Pima County Election Department, 6550 South Country Club Road, Tucson AZ 85756, and must be received no earlier than 8:00 a.m. on July 9, 2018 and no later than 5:00 p.m. on July 24, 2018. A \$100 fee payment in the form of cash, check or money order payable to the Pima County Elections Department, must accompany each argument submitted to offset a portion of the printing and mailing costs associated with the informational pamphlet.

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

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

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

DATED \_\_\_\_\_, 2018.

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