



# **\$20.3M Debt Defeasance**

Town Council Meeting

June 5, 2024

# Debt Management



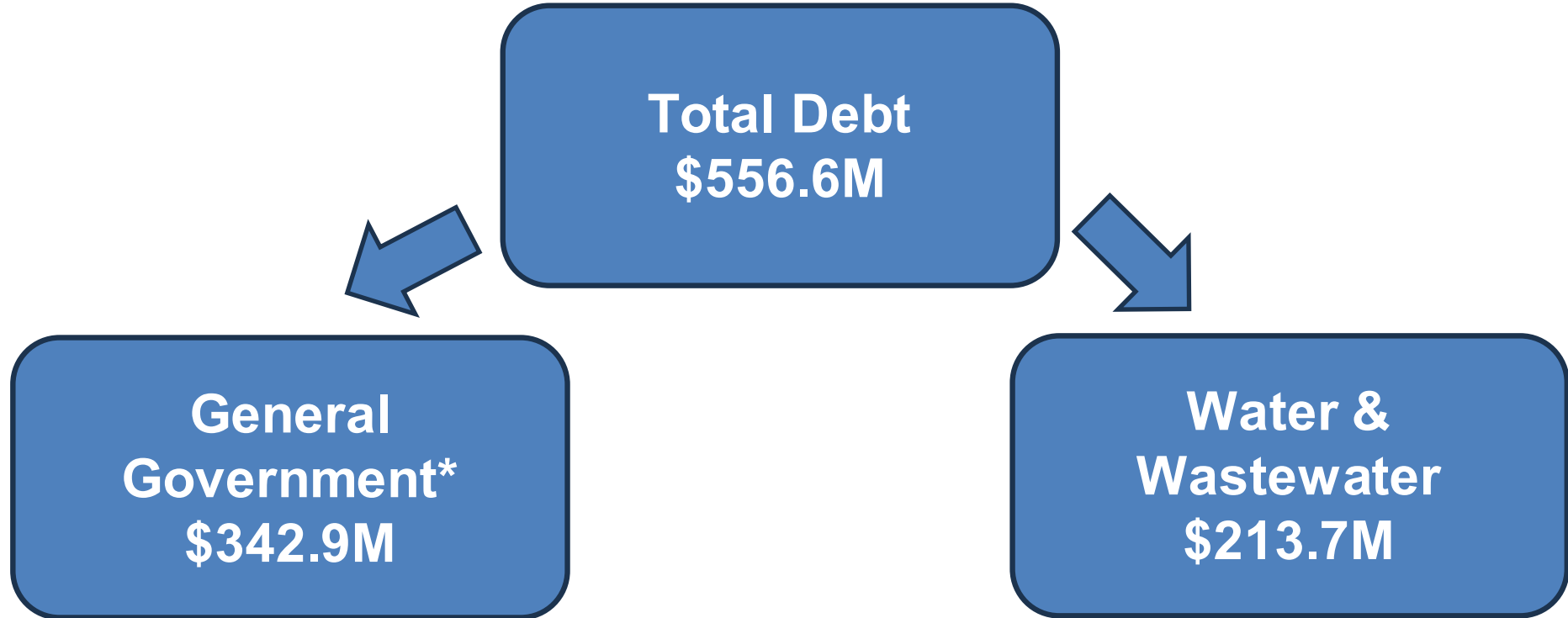
- Debt is Only Used to Build Infrastructure
- Debt Accomplishes the Financial Objective of Spreading the Cost of Infrastructure over Multiple Generations of Taxpayers (**Intergenerational Equity**)
- Two Types of Debt
  1. General Government
  2. Water / Wastewater
- Debt is Paid Using Numerous Sources
  - Impact and Capacity Fees, Operating Budget, 2% Sales Tax Dedicated for Transportation, and Water and Wastewater Rates

# Current Bond Rating



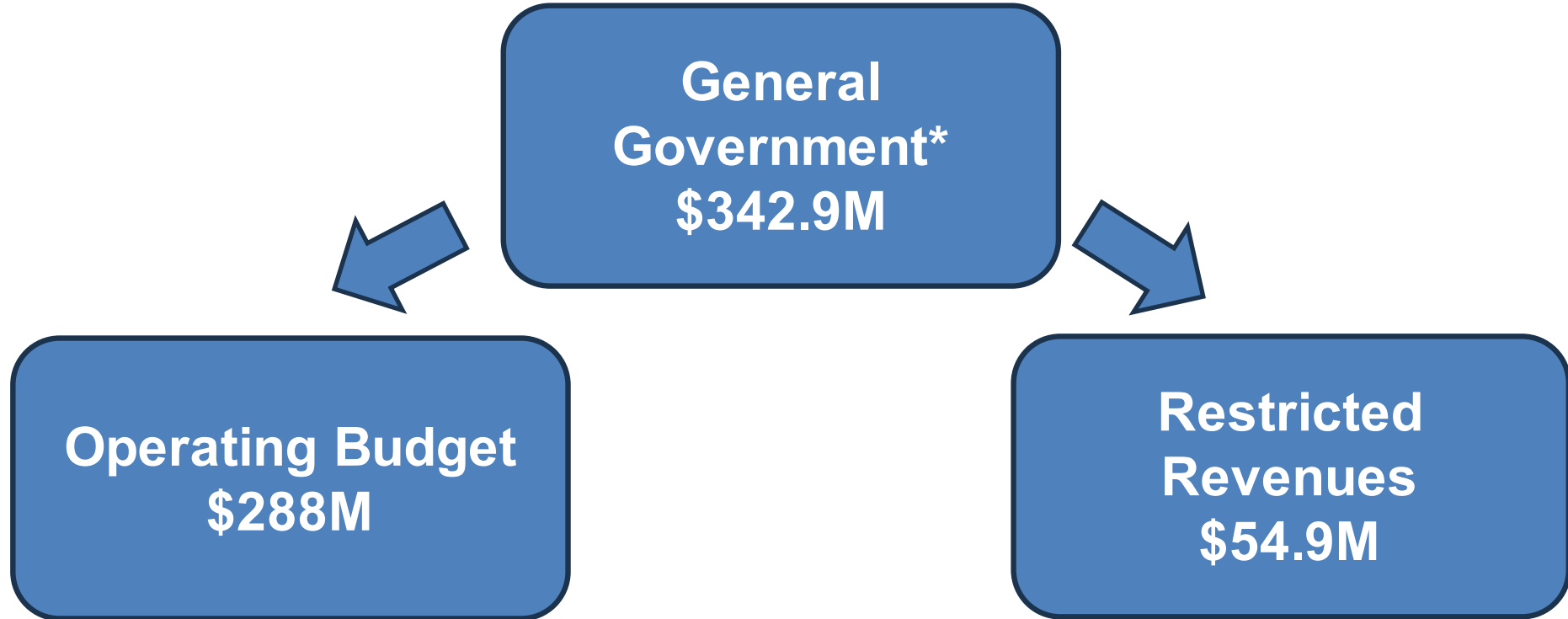
- Current Rating: 'AA+' (S&P and FitchRatings)
- Last Rating Increase: March 2022
- Rating Highlights
  - Stable and Diverse Revenue Base
  - Continued Strong Population Growth and Employment Gains Expected
  - Strong Arizona Economy and Connectivity to Phoenix-Metro Area

# Outstanding Debt at June 30, 2024



\* Police, Fire & Medical, Roads, Parks and Recreation Facilities, Horseshoe Park, and General Government Buildings.

# General Debt:\$342.9M



\* Police, Fire & Medical, Roads, Parks and Recreation Facilities, Horseshoe Park, and General Government Buildings.

# General Government: \$342.9M Outstanding

Infrastructure	Outstanding Amount at 6/30/24	Operating Budget	Restricted Funds
Transportation	\$168.1M	\$136.6M	\$31.5M
Parks	\$131.8M	\$130.3M	\$1.5M
Fire	\$27.7M	\$12.6M	\$15.1M
Police	\$1.5M	-	\$1.5M
Town Buildings	\$3.2M	\$1.6M	\$1.6M
Library	\$4.0M	\$1.9M	\$2.1M
Recreation Annex	\$3.4M	\$3.4M	-
HPEC	<u>\$3.2M</u>	<u>\$1.6M</u>	<u>\$1.6M</u>
<b>TOTAL</b>	<b>\$342.9M</b>	<b>\$288M</b>	<b>\$54.9M</b>

# What is a Defeasance?

- An Early Payoff of Debt ... But Via an Escrow Account
- Bonds Cannot be Redeemed Until August 1, 2026
- Funds Placed in an Irrevocable Escrow Account to Make Principal and Interest Payments Until Early Redemption
- Escrow Amount: \$22.5M (Principal and Interest)
- Unique Feature: Fully Funded Escrow
  - Allows the Town to Earn Interest Until August 1, 2026 at an Amount in Excess of 1.8% Bond Yield (\$750K)
  - Town Expects to Earn \$1.7M at 4% (+\$1M)
  - Interest Earnings Returned to Paying Funds when Escrow Closed





# \$20.3M Defeasance

- Approval on Tonight's Agenda
  - Emergency Clause Included so Debt Can be Removed FY 23-24 Financial Statements (Legal Defeasance of the Debt)
- Specific to Outstanding Debt Paid by **Restricted Revenues**
  - 2% Dedicated Construction Sales Tax, Development Impact Fees, 0.25% Town Center Sales Tax, Highway User Revenue Fees
- Outcomes
  - Outstanding Debt Reductions: **\$20.3M**
  - Interest Savings: **\$2.7M**
  - Estimated Interest Earnings in Escrow: **\$1.7M**





# \$20.3M Defeasance

Funding Source	Principal Reduction	Interest Savings
Dedicated 2% Construction Sales Tax	\$9.2M	\$1.2M
Town Center Sales Tax	\$2.4M	\$0.3M
HURF	\$1.9M	\$0.3M
Parks Impact Fees	\$3.1M	\$0.4M
Library Impact Fees	\$2.1M	\$0.4M
Town Building Impact Fees	<u>\$1.6M</u>	<u>\$0.1M</u>
<b>TOTAL</b>	<b>\$20.3M</b>	<b>\$2.7M</b>



# Discussion and Questions