Approved January 6, 2022

MINUTES

BOARD OF DIRECTORS
CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION

VIRTUAL MEETING
Tuesday, January 26, 2021 8:15 a.m.

PRESENT: James Jenkins, President (arrived at 8:35 a.m.)
Kenneth Harder, Vice President
Judith Frost, Secretary
Dennis Robbins, Treasurer
Fredda Bisman, Director

STAFF: Judy Doyle, Acting City Treasurer
Kim Campbell, City Attorney Senior
Deb Ramirez, Accountant II
Korey Ekblaw, Executive Assistant Strategic Projects
Gina Kirklin, Enterprise Finance Director

GUESTS: William Davis, Piper Sandler & Co.
Zack Sakas, Sherman & Howard, L.L.C.

1. **Call to order and roll call**

Vice President Harder called the meeting to order at 8:26 a.m. A formal roll call confirmed Board Members present as noted.

2. **Old Business:**

a. Request approval of minutes of the October 13, 2020 Special Board meeting

SECRETARY FROST MOVED TO APPROVE THE SPECIAL BOARD MEETING MINUTES OF OCTOBER 13, 2020. DIRECTOR BISMAN SECONDED THE MOTION, WHICH CARRIED 4-0 WITH VICE PRESIDENT HARDER, SECRETARY FROST, TREASURER ROBBINS AND DIRECTOR BISMAN VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES. PRESIDENT JENKINS WAS NOT YET PRESENT.

b. Request approval of the minutes of the December 29, 2020 Special Board meeting

DIRECTOR BISMAN MOVED TO APPROVE THE SPECIAL BOARD MEETING MINUTES OF DECEMBER 29, 2020. SECRETARY FROST SECONDED THE MOTION, WHICH CARRIED 4-0 WITH VICE PRESIDENT HARDER, SECRETARY FROST, TREASURER ROBBINS AND DIRECTOR BISMAN VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES. PRESIDENT JENKINS WAS NOT YET PRESENT.

c. Review refunding opportunities - MPC Excise Tax Revenue Refunding Bonds, Series 2021A and Taxable Series 2021B

Ms. Kirklin stated that the City will close on the MPC Excise Tax Revenue Refunding Bonds, Series 2021A and Taxable Series 2021B in February. In October, the Board authorized a refunding strategy of up to $145.0 million in bonds if and when savings to the taxpayers was $1 million or more and/or a net present value of 3 percent. In December, the Board subsequently authorized the City to issue a refunding bond in one or more taxable or tax-exempt series to allow staff to react favorably to movements in bond markets. The sale on January 21st included $135.2 million in a taxable series. The sale included $7.9 million in a tax-exempt series. The City was able to establish a net present value savings of $11.5 million (8.1 percent) over 25 years.

3. New Business:

a. Review the Audited Financial Statements including debt outstanding

Ms. Kirklin stated that the fiscal year 2019/20 audit found that the financial statements presented fairly in all material respects the financial position of the governmental activities. The auditor's report on internal control over financial reporting and on compliance in other matters did not identify any deficiencies in internal control that were considered material weaknesses.

In fiscal year 2019/20, the MPC issued MPC Excise Tax Revenue Bonds for two projects: flood control and the stadium.

The total bond payable increased by $8.9 million, due to new debt issued of over $42.6 million, offset by a decrease in bonds payable from $464.5 million to $430.9 million or by $33.7 million, due to scheduled debt service payments. The fiscal year 2019/20 outstanding bond payable totaled $473.4 million, of which 42 percent was issued for the General Fund, 53 percent for utility funds and 4 percent for the Aviation Fund.

Vice President Harder referred to the fiscal year 2019/20 prior period adjustment; a Declaration of Official Intent was filed making expenditures that occurred in fiscal year 2018/19 bond eligible but were not recorded in the MPC annual report as a payable to the City. He inquired as to why they were not reported in the year of occurrence. Ms. Kirklin stated that a reimbursement resolution was in place before the stadium and flood control bonds were issued, allowing the City to spend a number of months before the issuance. Once the bonds are issued, proceeds were used to reimburse the City for the expenditures.

b. Review the prior quarterly capital improvement progress reports

Ms. Kirklin stated that the fiscal year 2019/20 debt service ratio was 4.15 times. When the enterprise and transient occupancy tax supported debt is backed out, the coverage ratio increases to 10.63 times. If the revenue for fiscal year 2019/20 is held constant, the ten-year debt service coverage ratio is 5.38 times or 17.33 times when the transient and occupancy tax supported debt is backed out.

President Jenkins joined the meeting at 8:35 a.m. Vice President Harder continued to chair the virtual meeting.

President Jenkins asked for perspective on the comparison to other cities. William Davis, Piper Sandler & Co., stated that the coverage ratio in other cities ranges widely, generally at 1.5 to 3 times coverage at minimum. Scottsdale's coverage levels are significantly higher than the average. President Jenkins inquired as to the proportion of enterprise fund debt in other cities. Mr. Davies stated that Phoenix is comparable to Scottsdale. Many cities in Arizona and the country have financed water and wastewater utilities slightly differently. There is an evolution in Arizona moving away from voter authorized water and wastewater revenue bonds to MPC obligations backstopped by excise tax or specifically secured by utility system revenues.

c. Review future MPC financing ideas

Ms. Kirklin stated that in fiscal year 2019/20, the pledged excise tax collections were $6.9 million, 3 percent higher than the prior fiscal year. The largest increases were in franchise tax, state revenue sharing and state shared sales tax categories.

Vice President Harder commented that the most notable change was in the transient occupancy tax, which is understandable. Ms. Kirklin clarified that transient occupancy taxes are not pledged for repayment of MPC debt.

Ms. Kirklin referred to the Construction bond proceeds status reporting, noting that the bonds issued for the flood control improvements are 70 percent spent. Installation of the security fence and project completion are anticipated this month. Stadium bonds have been fully spent, but there were follow up questions from last year's annual meeting to do with the ASU study, business marketing plan and name plates.

Kroy Ekblaw, Executive Assistant Strategic Projects, referenced the ASU economic financial impact report. The primary focus was in terms of construction benefit, including a very conservative first year projection. The intent was to update the projection after a full year of operation. Unfortunately, with the pandemic all 13 events were cancelled. As such they are on hold updating the economic report for six to nine months, as the pandemic is mitigated, with a final study in 12 to 18 months. A brief overview of the marketing strategy, website design and social media was provided. Vice President Harder commented that if possible, it would be nice to have a future meeting held at the facility.

Ms. Kirklin stated that the City Manager and acting City Treasurer are currently working to prepare the City's next five-year financial plan, starting with fiscal year 2021/22. Pending development of the plan, future MPC financing ideas could include stormwater infrastructure, energy efficiency assets and possibly water and sewer infrastructure. As planning progresses, staff will have in-depth discussions regarding the assets planned to be financed and evaluate the best long-term financing solutions.

In response to a question from Vice President Harder, Ms. Kirklin stated that they do not yet know the magnitude of requests.

d. Review steps in bond closing and introduction to financing team

Zack Sakas, Sherman & Howard, L.L.C., stated that a checklist approach is used. MPC sells bonds in two ways, as either a competitive sale or a negotiated sale. In the case of a refunding, a negotiated sale sometimes makes more sense, as it better allows for anticipation of debt service savings in advance. The current issuance of the tax-exempted taxable series is done on a negotiated basis. In this case, investment banking institutions provide a list of things they want. A form of the bond purchase contract is approved when the MPC Board and City Council consider the financing transaction. On a competitive deal, bond counsel prepares a similar checklist in anticipation of closing. The MPC had a very successful sale last week. Documents are being prepared. They will be reviewed by Mr. Sakas' team, the underwriters, attorneys, trustee counsel, City staff and Mr. Davis' team. There will be a call on February 17th to close the tax exempt and taxable refund series.

Judy Doyle, Acting City Treasurer, provided a brief background of her employment with the City and stated that her office plays a role in financing deals by providing direction, evaluating financial impacts, ensuring accuracy and completeness of City information.

The acting budget director, Sylvia Dlott's, permanent position is the CIP budget manager. She has worked in the department since 2005. Ms. Dlott evaluates budget impacts and coordinates the finance asset CIP details.

Ms. Kirklin provided a brief background of her time with the City. Her role is to coordinate tasks and share coverage.

Kim Campbell, Senior Assistant City Attorney, introduced herself, noting that she provides legal support for a number of City departments and Treasurer staff.

In response to a question from Vice President Harder, Ms. Kirklin stated that the contracted City partners, bond counsel and financial advisor, are selected through a request for proposal competitive process. Contract duration is generally from one to five years and contacts are coordinated through the administrator.

e. In light of COVID-19 pandemic, review City's financial position and impact to bond rating

Ms. Doyle addressed City sales tax by fiscal year. In January of last year, totals were up nearly 9 percent over the prior year and up nearly 11 percent by March. The pandemic hit at that time. However, since the City was seeing such a favorable year, this carried the City through the periods of April, May and June to be basically flat by year-end. Dining, hotel/motel categories were most negatively impacted. Year over year, dining and entertainment was down nearly 10.5 percent. Hotel/motel was down over 19 percent. Other categories fared better. Construction was up nearly 4 percent. Miscellaneous retail was up 19 percent in March and continued with double digit growth in April and May, finishing the year at 9.5 percent growth. Much of the increase was credited to the Wayfair Bill, which imposed tax on most internet sales beginning in October, 2019. The retail classification did not suffer the expected loss anticipated from the shutdowns. Food stores were up 6 percent.

In response to a question from VP Harder, there was no significant decrease in automotive sales as a result to dealerships moving to the Salt River Pima-Maricopa Indian Community.

At the December meeting, the Board requested a review of the City's financial position. The fiscal year 2020/21 monthly financial update through December was reviewed, with emphasis on the General Fund. The fund is $23.3 million (16 percent favorable) when compared to the budget. The total General Fund revenue is reduced by only approximately $500,000 from the same period a year ago and up over $14.0 million for the same period two years ago. The majority of the overall increase is in the taxes local category at a $15.1 million favorable variance (26 percent), virtually all of which is sales tax. State shared revenues is favorable at $4.7 million (14 percent). State shared sales tax represents a majority of the variance at $3.7 million, consistent with local sales tax. Auto sales were anticipated to level off, however this has not been the case, with revenues performing better than expected. Charges for services shows a favorable variance of $1.2 million (23 percent). This is due to hosting a much larger national equestrian show at WestWorld. Also contributing are reimbursements from the state and county for assistance the fire department provided in response to fires around Arizona. Finally, timing contributed the variance in terms of the TPC payments earned in the fourth quarter of fiscal year 2019/20 but received in fiscal year 2020/21. License, permits and fees reports $1.0 million favorable variance, primarily due to the difficulty during budget development in accurately predicting occupancy at recreational facilities during the pandemic. Occupancy has been better than expected.

In terms of the 1 percent sales tax, the City is $14.0 million (30 percent) favorable to the budget. Drivers are automotive, construction, dining and entertainment, hotel/motel and increases in booking for short-term vacation rentals, miscellaneous retail stores and other activity.

Uses reflect an unfavorable variance of $1.8 million (1 percent). The driver is the $4.8 million unfavorable variance in the transfers-out category. A transfer to the CIP occurred related to the purchase of land from the Arizona State Land Department for the WestWorld main access and master plan project. Removing the transfers-out, there is a favorable $3.0 million variance (2 percent). The majority of the variance is reflected in contractual services, in terms of timing of invoices and purchasing delays due to back orders. There is savings in jail services, due to fewer offenders being arrested and sent to Maricopa County Jail. Total personnel services shows a favorable $400,000 variance. Overtime is unfavorable. A number of firefighters are out of work as a result of worker's comp or off-duty injuries and FMLA. The unfavorable overtime variance is offset by the favorable variance in salaries and retirements.

The change in the General Fund balance through December is $21.5 million. Scottsdale uses a very conservative approach in the forecasting of revenues and expenses. Results are presented monthly to City Council. Within the General Fund, the City maintains an operating reserve equal to 10 percent of the operating budget. Because fund balance should be used for one-time purposes, they have designated funding for the Nationwide project, for the eligible infrastructure reimbursements associated with milestones achieved in phases 1 and 2 of the development agreement. There is a designation to address the Public Safety Personnel Retirement System unfunded liability. During a City Council retreat on February 23rd, the City Manager will bring forward a recommendation on use of the designation to start paying down the unfunded liability.

Scottsdale received Arizona CARES funding in the amount of $29.5 million. The City shifted $29.6 million of police and fire expenses from the General Fund to grant funding, thereby freeing up $29.6 million in the General Fund and increasing the fund balance. City Council approved moving the $29.6 million from the General Fund to a special revenue fund to ensure governmental accounting standards are being met and the funds are being used for their dedicated purpose. The transfer will occur in June.

Since their original adoption in 1994, the City's comprehensive financial policies have evolved over time with annual review and adoption by City Council. Staff seeks City Council adoption of the fiscal year 2021/22 financial policies on February 2nd. Treasurer staff uses the policies as the basic tenets of the City's multiyear financial planning and as guidelines for advising the City Manager in preparation of the budget.

In preparation for the recent bond financings, staff met with rating agencies in November 2020 and walked them through the City's financial position, including the City's response to COVID. Upon the pandemic's inception, staff immediately began to recraft most City operations and services to reflect the pandemic operating environment and the new fiscal realities. This included curtailing nonessential expenditures, travel, hiring holds, elimination of contract workers, approving only critical budget requests, delaying vehicle and equipment purchases, removal of merit and market increases. The City Manager noted at the time, that he would revisit the merit and market increases mid-fiscal year. As revenues supported reinstatement, City Council approved merit and market increases for all employees effective January 2021. All the bond rating agencies have reconfirmed the City's stellar credit ratings.

f. Board Member rotation vote
   Potential rotation:
   - Ken Harder, President
   - Judith Frost, Vice President
   - Dennis Robbins, Secretary
   - Fredda Bisman, Treasurer
   - James Jenkins, Director

DIRECTOR BISMAN MOVED TO APPROVE THE POTENTIAL BOARD MEMBER ROTATION. SECRETARY FROST SECONDED THE MOTION, WHICH CARRIED FOUR (4) TO ZERO (0). PRESIDENT JENKINS, VICE PRESIDENT HARDER, SECRETARY FROST AND DIRECTOR BISMAN VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES. TREASURER ROBBINS WAS NOT PRESENT

4. Identification of Future Agenda Items

Vice President Harder requested that the presentation slides be provided to Board Members.

5. Adjournment

With no further business to discuss, being duly moved by Treasurer Bisman and seconded by Vice President Frost, the meeting adjourned at 9:34 a.m.

AYES: President Harder, Vice President Frost, Treasurer Bisman and Director Jenkins. Secretary Robbins was not present.
NAYS: None

Respectfully submitted,
Recorded and Transcribed by eScribers, LLC

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Dennis Robbins, Secretary

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Ken Harder, President