MINUTES

BOARD OF DIRECTORS
CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION
Scottsdale’s Water Campus, Hassayampa Room
8787 E. Hualapai Drive,
Scottsdale, Arizona 85255

March 6, 2018

PRESENT: James Jenkins, President
Kenneth Harder, Vice President
Fredda Bisman, Secretary
William Schrader, Director

ABSENT: Larry Aungst, Treasurer

STAFF: Gina Kirklin, Enterprise and Finance Director
Jeff Nichols, City Chief Financial Officer / Treasurer
Leslie DeReche, Senior Finance Analyst
Art Nunez, Water Reclamation Services Director
Brian Biesemeyer, Scottsdale Water Director

GUESTS: William Davis, Piper Jaffray & Company
Zach Sakas, Gust Rosenfeld

1. Call to order and roll call

President Jenkins called the meeting to order at 8:33 a.m. A formal roll call confirmed Board Members present as noted.

2. Old Business:

   Request: Approve the Special Meeting Minutes of March 29, 2017 meeting.

   VICE PRESIDENT HARDER MOVED TO APPROVE THE SPECIAL MEETING MINUTES OF MARCH 29, 2017 AS PRESENTED. THE MOTION WAS SECONDED BY DIRECTOR SCHRADER AND CARRIED BY A VOTE OF FOUR (4) TO ZERO (0). TREASURER AUNGST WAS ABSENT.
3. New Business

a. Review the Audited Financial Statements, outstanding debt portfolio, debt coverage and pledged revenues.

Gina Kirklin, Enterprise and Finance Director, stated that the FY 2016/17 audit found that the financial statements presented fairly in all material respects the financial position of the governmental activities. Additionally, the auditor’s report on internal control over financial reporting, on compliance and on other matters, did not identify any deficiency in internal control that was considered a material weakness.

Vice President Harder referenced the changes in net position and asked for clarification that the issuance of debt actually increases the revenue. Ms. Kirklin stated that the issuance of debt increase revenues, due to lease payments coming from the City to the MPC. Leslie DeReche, Senior Finance Analyst, explained that the MPC is essentially a pass-through entity. If the lease (reimbursement) payments increased, this means that the MPC must pay out more.

Ms. Kirklin noted that there are a number of handouts referencing the outstanding debt. Beginning with the document titled MPC bonds outstanding as of 6/30/2017, the outstanding principal was paid down by $22.5 million. There were new Water bonds issued of $39 million and new Aviation bonds issued at $23.5 million. There was an advanced refunding which benefits in total the Water fund. There was a refund of $82.7 million by issuing $80 million. The savings for all FY 2016/17 refunding totaled $4.9 million. William Davis, Managing Director, Piper Jaffray & Company, noted that the tax reform measure eliminated the ability to complete advance refundings after January 1, 2018.

Ms. Kirklin addressed the MPC projected debt service coverage ratio with the current coverage ratio at just under 4.7 times. The current level exceeds the minimum three times. Of the bonds issued, many are supported by Water, Sewer and now Aviation as well as other dedicated revenues. When these are backed out, the coverage ratio increases to 16 times, which is very strong. The maximum annual debt service is $53.6 million in 2020. Based on current revenues, the ratio is over 3.67 times. This coverage ratio is shared with rating agencies and bond holders. Mr. Davis commented that Scottsdale is one of two cities in the state with AAA ratings from all three rating agencies, the other being the City of Chandler.

Ms. Kirklin provided a recap of the City’s excise tax collections for FY 2016/17, showing a slight increase over prior year with approximately $197.3 million excluding the bed tax. Sales tax for the City and the State have increased, however there was a small decrease in the privilege taxes. Vice President Harder asked whether these were the expected results. Jeff Nichols, City Chief Financial Officer / Treasurer, said they finished a little better than expected, due to delayed movement of some auto dealerships off of City property. The real hit came from the move to ADOR for collections. The timing involves ADOR's use of an arbitrary cutoff date, resulting in a loss of approximately $4 million in revenue. The Governor is taking action in this year's budget to add back staff on collections and auditing. President Jenkins asked whether the City still has audit staff. Mr. Nichols confirmed that there is audit staff
and there is a request to add another staff member. ADOR is not interested in audits at the state level.
Director Schrader asked about the effects of the car companies moving to Reservation land in terms of loss of sales tax revenue. Mr. Nichols confirmed that Scottsdale is losing all sales tax revenue from those business that have moved to Reservation land. It was noted that for sales at Pavilions, the sales receipts indicate City of Scottsdale tax collected, however those proceeds go entirely to the SRP Maricopa Indian Community. President Jenkins asked whether SRPMIC could be required to change the language on the receipt to reflect that the sales taxes are not actually collected by the City of Scottsdale. Mr. Nichols commented that the same issue exists along Scottsdale Road. Some businesses there have a Scottsdale mailing address, but are actually in the City of Phoenix and advertise themselves as a Scottsdale company.

b. Discussion on City debt portfolio, recent bond activity and possible future MPC bond issues

Ms. Kirklin said that for FY 2016/17 bond activity, there is more than just the MPC bond transactions previously discussed. There is also City GO debt as well as SPA bonds that were refunded with GO. Between the MPC and the City, there were three new debt issuances and three refundings. In terms of the forecasted future MPC bond issuances for the Water Fund, there is $25 million forecasted for FY 2020/21 and another $20 million forecasted for FY 2023/24. Vice President Harder asked about the normal amortization of the total water debt outstanding. Ms. DeReche stated that total water and sewer is approximately $16 million. She added that for bond interest, the City pays $10 million and $22 million for mature bonds payable.

Mr. Nichols stated that staff has been working with the CIP Subcommittee, which was formed in February of 2017. Through the process, staff has brought forward 117 projects totaling approximately $534 million. Considering that there is only $15 million available for PAYGO within the five year program, there is a deficit in funding of $519 million in the General Fund. In looking at the Transportation Fund, Staff brought forward 87 projects totaling $276 million. There is currently $18 million available to fund these projects, leaving a deficit of approximately $258 million. From this list, the CIP Subcommittee directed staff to remove Desert EDGE and the Stadium, two large projects which would total $100 million. The reason for the move is that they identified other funding sources for these projects. For the Stadium, Tourism funds were identified and for Desert EDGE, a Preserve tax was identified. A collection of signatures is ongoing with a deadline of July 5th to be included on the upcoming ballot. The intent is to place a measure on the ballot regarding placement of the Desert EDGE on the Preserve. The cost is estimated at $68 million. The stadium cost is estimated at $42 million, but could be as high as $60 million.

Mr. Nichols noted that there are many Arterial Life Cycle Program (ALCP) projects related to transportation, for which Scottsdale residents have already paid into. If the City can come up with a match of $71 million, it will receive approximately $175 million from Maricopa Association of Governments (MAG). With a PAYGO program, this will not happen. MAG has indicated that in 2020, they will begin to redistribute the funds. In the area of flood control, the City can leverage
approximately $48 million through other entities, such as SRPMIC and Maricopa County Flood Control. Again, these would not be available with PAYGO funding. Staff developed a GO Bond program with the assistance of Piper Jaffray & Company to show the CIP Subcommittee that the City could, over a ten-year period, have a $450 million GO Bond program without raising secondary property taxes above the current rates. GO debt is the only way to get commercial properties to have "skin in the game." Approximately 29 percent of the funding comes from commercial properties. Approximately 34 percent of secondary property tax comes from nonprimary residential properties. Approximately 37 percent comes from primary residential. It seemed that the majority of City Council last week decided that the bond program is probably the way to go.

Staff also presented a program whereby the City could increase sales tax in increments of one-tenth of a percent. Two-tenths of a percent would go to the General Fund and one-tenth of a percent to the Transportation Fund. This would be leveraged with MPC debt. In response to a request from Vice President Harder, Mr. Nichols said he would provide the Board with the presentation given to City Council. He said that the $10 million annual increase in sales tax could be leveraged into a $133 million MPC bond program. With three-tenths of a percent, there could be a nearly $400 million program, with the assumption over 20 years at four percent. There will be an upcoming work study session on March 27th. Time is of the essence, in order to potentially get a bond program or sales tax increase to go to the public on the November ballot. Part of the process would involve an educational program for presentation to the community.

Mr. Nichols reviewed capacities. In the 20 percent bonding capacity, there is $830 million. In the 6 percent capacity, there is $390 million. There is $1.2 billion in capacity on debt, because the City is just paying down its GO bond liability without approving a significant amount of bonds. For a comparison to other cities, there are 92 taxing communities within the State of Arizona. Only Chandler and Gilbert have a lower sales tax rate than Scottsdale.

c. Discussion on Water Campus, infrastructure financed with MPC

Art Nunez, Water Reclamation Services Director, provided a description of the Campus. The drinking water portion is 45 acres. The plant itself contains three plants. In response to a question from Vice President Harder, Mr. Nunez stated that the first plant was privately owned by Ford Motor Credit, who contracted with the City to provide water to the area in 1985/1986. The City purchased the land in 1992. Construction on the site and expansion was in April of 1997. At the time, it was the largest CIP project the City had ever undertaken. The second largest was the expansion and the third largest was the infrastructure and pumping stations to pump sewage. The waste water plant is adjacent to the advanced water treatment plant.

Much of the development of the Campus came about in the 1980's in response to the State's 1980 Groundwater Management Act. The Act established many restrictions that cities were required to comply with. At that time, the City had only a couple of treatment plants at Gainey Ranch and Troon. The majority of wastewater was going into the Phoenix system. Although many Valley cities are flat, Scottsdale
has an elevation that rises from 1,000 to 4,000 feet. This creates significant challenges with the movement of water. The City passed an ordinance following the Groundwater Management Act in 1981, which prevented developers with large turf irrigation needs from using groundwater or potable water. The City offered to assist with a resource by building a complex to treat wastewater. To have access, developers would have to buy into the system. Water volumes not needed by developers were pumped into the aquifer below ground. However, state requirements indicate that in doing so, the water quality cannot be degraded. As such, the City elected to design and build an advanced water treatment plant using reverse osmosis.

In response to a question from Vice President Harder, Mr. Nunez stated that approximately one-half of the City’s wastewater comes through the Campus. Other communities in the State are doing recharges, however no other city takes it to the level of quality that Scottsdale does.

Mr. Nunez addressed the pump back system. All the water generated north of the Campus comes into the facility. Five large pump stations and 15 miles of pipes were installed, beginning at Via Linda and Doubletree. It is collected and pumped back to the Campus. In total, the City generates 20 to 25 million gallons per day of sewage. The Campus is known worldwide as a leading edge innovator, receiving visitors from around the world.

Vice President Harder asked for a status on build-out. Mr. Nichols said that he had identified the last remaining large parcels remaining on the map related to the Preserve. Those are the largest developable parcels within the City. Ms. Kirklin said that the forecast indicates the City will reach build-out in 2035. The population currently stands at 230,000, which is projected to grow to 275,000.

President Jenkins noted there had been concerns regarding obligations to the 91st Avenue plant and asked for a status. Mr. Nunez said that the City is still meeting its obligations. The City owns adequate capacity in the 91st Avenue Phoenix facility and the conveyance system to get the sewage over there. The obligation comes into the Phoenix agreement with Palo Verde to meet demands for their cooling towers. Scottsdale receives a monthly report which indicates the City’s share of the obligation. No penalties are attached. President Jenkins inquired as to the other cities contributing to the 91st Avenue facility. Mr. Nunez listed them as Phoenix, Scottsdale, Mesa, Tempe and Glendale.

Mr. Nunez addressed the methods for distributing the clean water out to the developers/golf courses. From the site, there are 14 miles of pipe, five pump stations and a couple of reservoir stations. The water is being pumped to golf courses, including the TPC. Raw CAP water began to be delivered in 1993 to the courses as they developed. Treated wastewater was introduced in 1998. The concept for the reclaimed water distribution system was based on supporting the developers and the growth, but also on the premise that the costs not be passed on to residents. Developers were charged a development fee and a water resources fee, so that the City could build infrastructure and buy the water rights. One golf course requires approximately a million gallons per day for summer irrigation.
The reclamation plant was constructed in phases. It is currently at 20 million gallons a day with space for additional expansion, if needed.

Vice President Harder asked whether the current facilities will be able to handle the projected population growth of 40,000. Mr. Nunez stated that he believes so. They are just beginning a master planning effort to look at the growth issue.

Director Schrader asked whether there are drawbacks for properties located close to the plant. Mr. Nunez said there has not been evidence of this as such. During construction of the facility, community meetings and presentations were given and staff responds to any inquiries realtors may have.

d. Update on recently issued MPC bond funded projects (Water and Airport)

Ms. Kirklin referred Board Members to the handout, which provides a report on progress. At the Airport, the main hangar steel joints and decking have been installed. The inspections are in progress. The steel structures are topped in the ABC building. On the second floor, roof decking is starting. Progress videos are available on the Airport website. The project is on time and on budget.

e. Discussion on recruitment process of Larry Aungst

Discussion ensued regarding potential recommendations. President Jenkins said the candidate should be an individual familiar with the City and its economic development issues. He asked whether Mr. Nichols was familiar with a member of the CIP Subcommittee who might be a good candidate. Mr. Nichols stated that there had been discussions regarding the individuals currently overseeing the bond projects. One person that came to mind was former budget director for the City, Judy Frost. Another potential candidate would be former Council member, Dennis Robbins. At the Board’s direction, staff can brainstorm and provide the Board with recommendations. President Jenkins said that both recommendations would be excellent choices. Vice President Harder added that he may have some recommendations as well. There was discussion that having three Charros members on the Board could potentially result in some issues of conflict. Mr. Sakas commented that in looking at the bylaws, the Board can continue to function with four members for the time being. They have the ability to hold a telephonic special meeting to settle on a candidate.

f. Board Member rotation vote.

Potential rotation:
Kenneth Harder, President
William Schrader, Treasurer
Fredda Bisman, Vice President
James Jenkins, Secretary
SECRETARY BISMAN MOVED TO APPROVE THE BOARD MEMBER ROTATION VOTE AS PRESENTED. THE MOTION WAS SECONDED BY VICE PRESIDENT HARDER AND CARRIED BY A VOTE OF FOUR (4) TO ZERO (0). TREASURER AUNGST WAS ABSENT.

4. Identification of Future Agenda Items

   This item was not discussed.

5. Public Comment

   There were no members of the public who wished to speak

Adjournment - approximately 10:05 a.m.

Respectfully submitted,
Recorded and Transcribed by eScribers, LLC

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James Jenkins, Secretary

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Kenneth Harder, President