

## **FINANCING THE CIP**

### **Introduction**

The financial projections used to develop the CIP are based on staff's best prediction of future real estate values, construction costs, interest rates, and other relevant variables. These financial projections are jointly developed by the Management & Budget, Finance, and Engineering Departments, in conjunction with the Deputy City Manager for Administrative Services. They are updated annually to reflect changes in the economic environment.

As with prior FY capital programs, the first five years of the plan are financially balanced. This means the plan

- complies with the state's constitutional debt limits;
- complies with the available voter authorization required for municipal bonds;
- balances the use of incoming revenue streams with the use of fund balance, while maintaining a fund balance that exceeds the required minimum of 10% of the prior year's debt service; and
- identifies the source of revenue to finance various projects.

Financial and legal constraints make it impossible for the city to fund every project on its priority list. For example, it is not possible for the city to fund concurrently several large-scale projects that have significant operating budget impacts. Also, revenues used to pay the debt service are not limitless. Therefore, implementation timetables are established to stagger projects over time based on Council's strategic goals and the estimated financial resources expected for the future.

Limited staff resources to undertake new capital projects also must be considered. Capital projects can consume significant time to manage effectively, and project managers in the departments typically manage several capital projects concurrently.

The city also must coordinate the timing of many of its capital projects with federal, state, county and municipal governments and outside entities. For example, street improvements are coordinated with utility companies, when possible, to minimize the amount of new street surface that must be cut to lay new or replacement utility and fiber optic lines. Also, flood control capital improvements are coordinated with the Maricopa County Flood Control District to maximize matching funds that the district makes available for eligible projects.

The availability of unanticipated financing, such as federal or state transportation grants or Arizona Heritage Fund grants, may cause the city to accelerate or delay a particular project. In addition, a scheduled project may be delayed in order to take advantage of an unusual one-time opportunity such as the receipt of non-governmental grant monies.

All of these issues are discussed in more detail in the following material.

## Debt Management Plan

A critical element of financing capital projects is the ability to manage within available resources the overall debt incurred for past projects while including new debt for future projects. Glendale has a formal *Debt Management Plan* (DMP) that is produced as a separate document from the annual budget book. For the purposes of this discussion, portions of the DMP issued in May 2006 are reflected below. (An update to the 2006 DMP was under development at the time this budget document was created in April 2010.)

The purpose of the city's DMP is to manage the issuance of the city's debt obligations within the city's financial policies, the legal framework governing municipal debt and the bond covenants established for prior issuances. This plan also includes an assessment of the city's ability to incur additional debt and other long-term obligations within these same limits at favorable interest rates.

Analysis of the city's debt position is important as planned future capital projects could result in the need for additional capital financing. Decisions regarding the use of debt will be based in part on the long-term needs of the city, the limitations identified above and the amount of cash that can be dedicated in a given fiscal year to capital outlay. Glendale believes that a disciplined, systematic approach to debt management will allow the city to maintain its excellent credit rating.

The city's chief financial officer has instituted a conservative plan of finance for the city's capital projects. The main objectives of that plan are:

- evaluate all possible funding mechanisms to insure the city receives the best possible terms and conditions;
- use debt structures that match the useful lives of the projects being financed or fall within accepted maturity guidelines;
- use revenue-based bond issuances where feasible, e.g. water and sewer revenue bonds, transportation sales tax revenue bonds and highway user fee revenue fee (HURF) bonds;
- use excise tax-secured bond financing when appropriate; and
- finance the majority of the remaining projects with general obligation bonds that are supported by the city's secondary property tax revenue.

Furthermore, the DMP states that the city's direct net tax-supported debt should be maintained at a level considered manageable by the rating agencies given current economic conditions. Measures of economic conditions include per capita income for Glendale residents and the assessed valuation of property within the city's corporate limits.

Within the context of the DMP, the ten-year CIP is developed with identified funding sources for each CIP project. For example, a street project might be funded through one or more of the following financing sources: HURF bonds, general obligation (G.O.) bonds, federal or state grants, local improvement district funding (LIDs), development impact fees (DIFs) or Glendale's dedicated transportation sales tax. In many cases, a large or multi-year project will be financed using a mix of these funding sources.

## **General Obligation (G.O.) Bonds**

G.O. bonds are direct and general obligations of the city. Glendale uses G.O. bonds to fund most large-scale capital improvements other than water, sewer, sanitation and landfill projects. These bonds are backed by "the full faith and credit" of the city.

Arizona State law mandates the separation of city property taxes into two components, the primary tax levy and the secondary tax levy. A municipality's secondary property tax revenue can be used only to pay the principal, interest and redemption charges on bonded indebtedness or other lawful long-term obligations that are issued or incurred for a specific capital purpose. In contrast, primary property tax revenue may be used for any lawful purpose.

It is preferable for water and sewer (utilities) revenues to pay for water/sewer G.O. bond debt if this type of financing is used instead of revenue bonds. However, if adequate utility revenue is not available, the city can fall back on secondary property tax revenue for water/sewer G.O. bond debt.

## **General Obligation Debt Limitations**

Arizona's State Constitution limits G.O. bonded indebtedness to 6% or 20% of the city's total secondary assessed valuation. With this approach, a municipality's capacity to issue additional G.O. debt will grow as assessed valuation increases and as outstanding G.O. bonds are retired. If secondary assessed valuation declines, then the city's G.O. debt limitations will decrease. The debt limitation – commonly called "bond capacity" and "debt capacity" – figures do not represent the amount of G.O. debt that could be supported by the city's current and projected secondary property tax revenue.

G.O. projects in the 20% category are

- Water, sewer, storm sewers (flood control facilities) and artificial light when controlled by the municipality;
- Open space preserves, parks, playgrounds and recreational facilities;
- Public safety, law enforcement, fire and emergency services facilities; and
- Streets and transportation facilities.

G.O. projects in the 6% category are

- Economic development,
- Historic preservation and cultural facilities,
- General government facilities, and
- Libraries.

Previously, the 6% constitutional limitation applied to public safety, streets and transportation facilities, but Arizona voters changed this in the November 2006 election with the passage of Proposition 104.



Table 2-1 reflects the city’s G.O. bond debt limitation as of December 31, 2009. Debt outstanding prior to the passage of Proposition 104 for public safety, streets/parking and transportation facilities is reflected in the 6% category and in the 20% category thereafter. The amount of debt outstanding excludes debt service fund balances.

**Table 2-1**  
**Constitutional Debt Limitation**  
(All Dollars in Thousands)

<b>General Municipal Purpose Bonds</b>		<b>Water, Sewer, Flood Control, Light, Parks and Open Space</b>	
6% Limitation <sup>1</sup>	\$127,854	20% Limitation <sup>1,2</sup>	\$426,181
Less Direct Bonded Debt to be Outstanding	<u>\$35,300</u>	Less Direct Bonded Debt to be Outstanding	<u>\$199,455</u>
Unused 6% Borrowing Capacity	<u>\$92,554</u>	Unused 20% Borrowing Capacity	<u>\$226,726</u>

<sup>1</sup> Based on 2010 secondary assessed value of \$2,130,907,407

<sup>2</sup> Public safety, streets/parking & transportation facilities debt prior to Prop. 104 is included in 6% category

Table 2-2 shows the city’s bond capacity under the state’s constitutional debt limits after accounting for existing bond issuances that are outstanding. Changes between fiscal years in the “Outstanding Debt” columns are the result of outstanding bonds being paid down. The columns labeled “Projected Capacity Before New Debt” show the amount of additional G.O. bonds that could be sold without violating the state constitutional limits. Note that the “Projected Capacity Before New Debt” figures do not reflect the amount of G.O. debt that could be supported by the city’s current and projected secondary property tax revenue.

The FY 2011 secondary assessed valuation figure in Table 2-2 reflects an 18% decline in secondary assessed valuation from FY 2010. The FY 2012 figure reflects an additional 14% decline from FY 2011. (The FY 2012 figure is a projection based on the preliminary valuation notices that the county assessor’s office mailed to property owners in February 2010.) These significant declines are the result of the unprecedented real estate market that dominates urban areas of the southwestern United States. In Maricopa County, where Glendale is located, the median value of single family residential properties dropped an astonishing 44% over three consecutive years. And, for the first time in several decades, the median value of commercial properties declined a surprising 24% in one year. These declines in secondary assessed valuation result in lower debt limitation figures (column A) in FY 2011 through FY 2015 than those shown in Table 2-1 (above).

**Table 2-2**  
**Projected G.O. Debt Capacity Before New Debt**  
(All Dollars in Thousands)

Fiscal Year	Projected <sup>1</sup> Secondary Assessed Value	Limitation (A)		Outstanding Debt <sup>2</sup> (B)		Projected Capacity Before New Debt (A-B)	
		6%	20%	6%	20%	6%	20%
<b>FY 2011</b>	\$1,753,569	\$105,214	\$350,714	\$25,650	\$193,775	\$79,564	\$156,939
<b>FY 2012</b>	\$1,508,070	\$90,484	\$301,614	\$16,960	\$185,285	\$73,524	\$116,329
<b>FY 2013</b>	\$1,508,070	\$90,484	\$301,614	\$11,905	\$172,495	\$78,579	\$129,119
<b>FY 2014</b>	\$1,523,150	\$91,389	\$304,630	\$7,465	\$158,355	\$83,924	\$146,275
<b>FY 2015</b>	\$1,584,076	\$95,045	\$316,815	\$2,880	\$143,570	\$92,165	\$173,245

<sup>1</sup>FY 2011 figure reflects actual secondary assessed valuation.

<sup>2</sup>Outstanding debt refers to the debt on the principal balance only.

Table 2-3 shows the anticipated bond sales planned for future years that would be needed for the 6% and 20% categories in order to implement future CIP projects.

**Table 2-3**  
**Projected Bond Sales**  
(All Dollars in Thousands)

Fiscal Year	New Bond Sale	
	6%	20%
<b>FY 2011</b>	\$0	\$0
<b>FY 2012</b>	\$0	\$0
<b>FY 2013</b>	\$0	\$2,005
<b>FY 2014</b>	\$1,760	\$1,920
<b>FY 2015</b>	\$17,096	\$33,660

Table 2-4, on the next page, expands upon Table 2-2 by showing the remaining debt capacity after accounting for the anticipated debt service (principal only) on the projected bond sales shown above in Table 2-3.



**Table 2-4**  
**Projected G.O. Debt Capacity After New Debt**  
(All Dollars in Thousands)

Fiscal Year	Projected Capacity Before New Debt (A)		New Debt <sup>1</sup> on Planned Future Sales (B)		Projected Remaining Capacity (A-B)	
	6%	20%	6%	20%	6%	20%
<b>FY 2011</b>	\$79,564	\$156,939	\$0	\$0	\$79,564	\$156,939
<b>FY 2012</b>	\$73,524	\$116,329	\$0	\$0	\$73,524	\$116,329
<b>FY 2013</b>	\$78,579	\$129,119	\$0	\$2,005	\$78,579	\$127,114
<b>FY 2014</b>	\$83,924	\$146,275	\$1,760	\$3,834	\$82,164	\$142,441
<b>FY 2015</b>	\$92,165	\$173,245	\$18,776	\$37,311	\$73,389	\$135,935

<sup>1</sup>New debt refers to the debt on the principal balance only.

### Assessed Valuation

In FY 2009, secondary assessed valuation peaked at just under \$2.2 billion, with commercial valuation comprising 33% of the total and residential comprising 67% of the total.

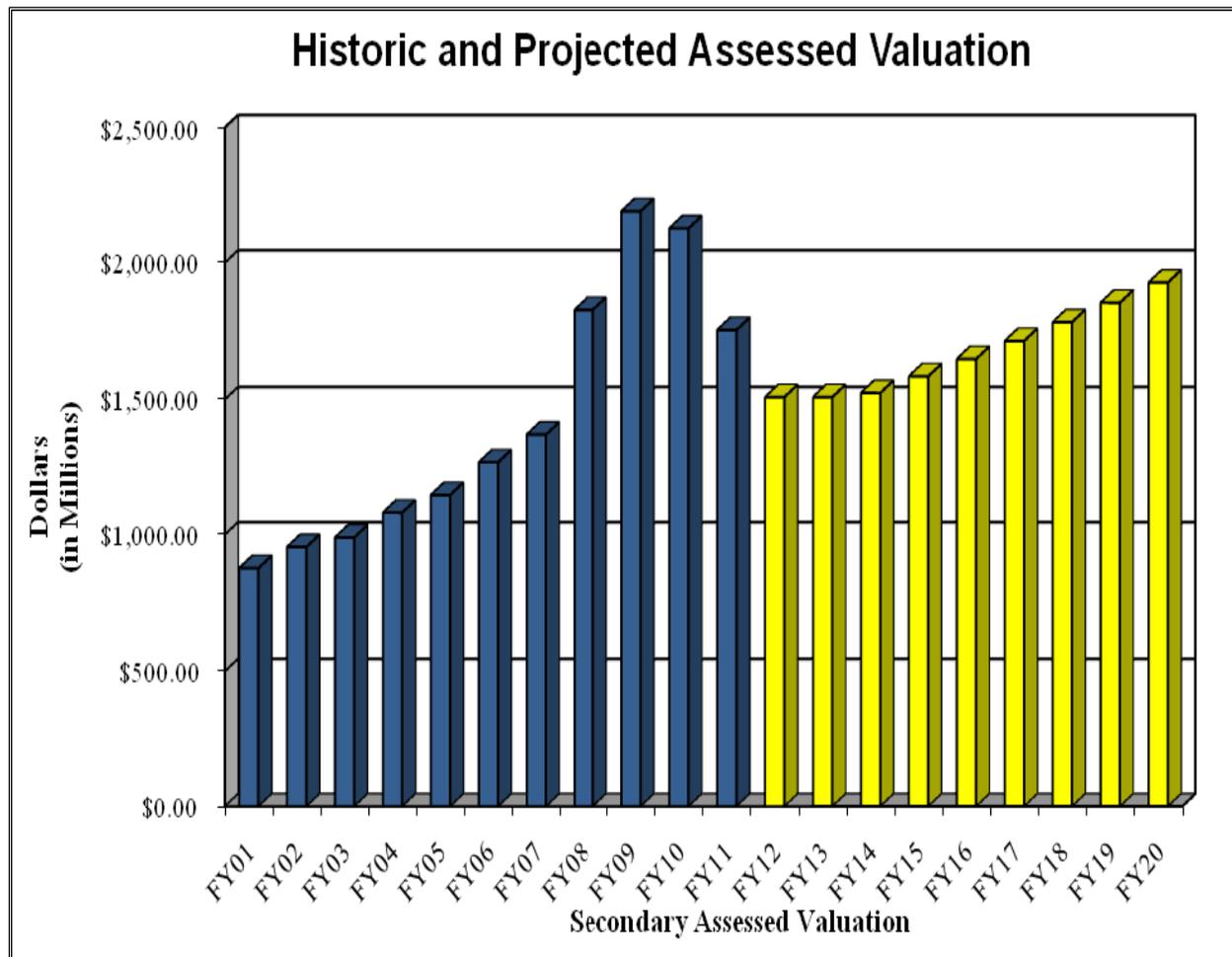
In FY 2010, Glendale's secondary assessed valuation was approximately \$2.1 billion, a 3% decline from FY 2009. Commercial properties comprised 37% of the FY 2010 total while residential property comprised 63% of the total.

For FY 2011, Glendale's secondary assessed valuation is \$1.75 billion, an 18% decline from FY 2010. Approximately 54.7% of the FY 2011 valuation is attributable to residential property while 40.2 % is attributable to commercial property. The remaining 5.1% includes, but is not limited to vacant land, agriculture, railroad and historical property.

As noted previously in this CIP section, the unprecedented real estate market that dominates the Phoenix metropolitan area is expected to result in a third year of valuation decline with an additional 14% drop in FY 2012. The FY 2012 estimate is based on the preliminary valuation notices that the county assessor's office mailed to property owners in February 2010 which reflect the 2009 real estate market.

Three consecutive years of declines represent a significant change for Glendale's assessed valuation given that Glendale's secondary assessed valuation more than doubled between FY 2004 and FY 2009. This growth was the result of the quality economic development investments the city made over the last several years. With the latest assessed valuation information, the decline in Glendale property values equates to a loss of almost one-third of the city's secondary assessed valuation – from a peak at just under \$2.2 billion in FY 2009 to a projected \$1.5 billion for FY 2012.

For the long-term future, we are assuming no change in FY 2013 with conservative growth starting at 1% for FY 2014 and increasing to 4% in FY 2015. We believe these are very conservative growth assumptions. The average annual growth rate in Glendale’s secondary assessed valuation was 8.7% for the 10 year period of 1997 – 2007 – representing the real estate markets of calendar years 1994 through 2004 – prior to the big run up in property values. The following chart provides a graphical view of Glendale’s secondary assessed valuation changes between FY 2001 and FY 2011 as well as the projected valuations for FY 2012 through FY 2020.



The news about a third consecutive decline in secondary assessed valuation prompted changes to the capital plan. Modifications were required because property tax revenue to pay additional general obligation bond debt service would be insufficient in future years had corrective actions not been taken. Therefore, the G.O. component of the FY 2011 – 20 CIP reflects the following changes from the plan adopted as part of the FY 2010 budget: construction of the new Municipal Court facility was moved from FY 2011 to FY 2015, and construction of the new West Area Library building was moved from FY 2014 to FY 2015.



## Capital Plan Implications for Secondary Property Tax Rate

Capital projects are staged over time so new debt is issued for projects as existing debt is paid off and/or as new development and property appreciation increase the tax base. Bonds are typically paid back over 10 to 15 years by taxpayers or ratepayers as the improvement is used. Therefore, the use of municipal bonds partially fulfills the Council's objective of having future users pay their fair share of the cost of improvements from which they will benefit.

Table 2-5 (below) summarizes annual debt service requirements for planned future G.O. bond issuances. You will see that the secondary assessed valuation figures reflect the declines discussed previously in this capital section.

**Table 2-5**  
**General Obligation Property Tax Bonds**  
(All Dollars in Thousands)

<b>Fiscal Year</b>	<b>Secondary Assessed Valuation</b>	<b>Estimated Secondary Property Tax Rev.<sup>1</sup></b>	<b>Existing Debt Service<sup>2</sup></b>	<b>Less Contributions From Other Funds</b>	<b>Proposed Debt Service</b>	<b>Total Debt Service</b>
<b>FY 2011</b>	\$1,753,569	\$24,022	\$29,447	(\$1,760)	\$0	\$27,687
<b>FY 2012</b>	\$1,508,070	\$20,659	\$28,099	(\$1,461)	\$0	\$26,638
<b>FY 2013</b>	\$1,508,070	\$20,659	\$26,760	(\$1,469)	\$0	\$25,291
<b>FY 2014</b>	\$1,523,150	\$20,866	\$26,961	(\$1,471)	\$196	\$25,687
<b>FY 2015</b>	\$1,584,076	\$21,700	\$27,255	(\$1,461)	\$557	\$26,351

<sup>1</sup> Assumes the secondary property tax rate of \$1.3699 remains unchanged through FY 2015

<sup>2</sup> Existing debt service includes transfers of \$4.7M in FY 2010 and \$1.4M in FY 2011 for HURF debt service

The estimated secondary property tax rate assumes no change from the \$1.3699 that will be adopted for FY 2011. This is in contrast to prior capital plans that assumed a portion of the primary property tax rate would move to the secondary rate each fiscal year, with the total rate remaining unchanged. This change in assumption was required because the economic downturn is having an adverse impact on primary property tax revenue that is used in the operating budget. Given the city's financial policy regarding property tax rate stabilization, no changes are assumed to either the secondary or primary property tax rates.

Table 2-5 also reflects the contributions expected from other funds to help pay the annual G.O. debt service. (Details about these contributions are provided in Table 2-6, G.O Debt Service Contributions from Other Funds.) The contributions from other funds will help address the shortfall between the revenue generated from the secondary property tax rate and the annual debt service requirements. The remaining shortfall will be covered by fund balance within the General Obligation Bond Debt Fund. Even with the planned draw down in G.O. debt service



fund balance, the plan maintains a fund balance through FY 2015 that exceeds the required minimum of 10% of the prior year’s debt service. The current G.O. debt is documented in *Schedule 7* of this budget book.

Table 2-6 (below) is new. It provides detailed information about the contributions from other funds that are planned for the payment of G.O. debt service. Contributions from development impact fee (DIF) fund balances will be used to pay debt service for projects eligible for the identified impact fees. For example, the fire and police DIF contributions in FY 2011 will be used to pay for the debt service on the joint public safety facility located at Maryland and 83<sup>rd</sup> Avenues. The recreation facility DIF contributions in FY 2011 through 2015 will be used to pay part of the debt service on the Foothills Recreation and Aquatic Center.

**Table 2-6**  
**G.O. Debt Service Contributions from Other Funds**  
 (All Dollar in Thousands)

Fiscal Year	Fund 1380 Water/Sewer	DIF Contributions			Total Contributions
		Fund 1420 Fire	Fund 1440 Police	Fund 1480 Rec Fac.	
<b>FY 2011</b>	\$1,253	\$161	\$214	\$132	<b>\$1,760</b>
<b>FY 2012</b>	\$1,253	\$0	\$0	\$209	<b>\$1,461</b>
<b>FY 2013</b>	\$1,261	\$0	\$0	\$209	<b>\$1,469</b>
<b>FY 2014</b>	\$1,262	\$0	\$0	\$209	<b>\$1,471</b>
<b>FY 2015</b>	\$1,251	\$0	\$0	\$210	<b>\$1,461</b>

### **Voter Authorization**

Under Arizona State law, cities can obtain long-term financing through the use of G.O. bonds only with the approval of voters. On November 2, 1999, the City Council placed on the ballot a variety of proposed capital improvements recommended by the Citizen Bond Election Committee and the Management Team, resulting in voters approving all \$411.5 million of bonds requested.

In 2006, City Council established an Ad-Hoc Citizens Bond Election Committee to consider whether additional authorization was needed to support the Council approved FY 2007-16 CIP. On May 15, 2007, voters approved \$218 million of the \$270 million bond request recommended by the 2006 Ad-Hoc Citizen Bond Election Committee.

The time between a bond election varies depending on how much the voters approve in a given election and how many capital projects are initiated. Bond sale proceeds must be used for the purposes specified in the bond authorization election. Remaining bond funds in one bond category may not be used to fund projects in another bond category.



Table 2-7 shows the projected remaining voter authorization for G.O. bonds by authorization category. The remaining authorization numbers reflect unused authorization from the October 1981, March 1987, November 1999 and May 2007 bond elections.

**Table 2-7**  
**Projected Remaining G.O. Bond Voter Authorization**  
(All Dollars in Thousands)

Category	FY 2010 <sup>1</sup>	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Public Safety</b>	\$104,473	\$104,473	\$104,473	\$103,043	\$103,043	\$69,383
<b>Landfill</b>	\$15,540	\$15,540	\$15,540	\$15,540	\$15,540	\$15,540
<b>Library</b>	\$17,096	\$17,096	\$17,096	\$17,096	\$17,096	\$0
<b>Streets/Parking<sup>2,3</sup></b>	\$67,238	\$67,238	\$67,238	\$67,238	\$67,238	\$67,238
<b>Cultural/Historical<sup>2</sup></b>	\$13,721	\$13,721	\$13,721	\$13,721	\$13,721	\$13,721
<b>Transit<sup>2</sup></b>	\$6,750	\$6,750	\$6,750	\$6,750	\$6,750	\$6,750
<b>Econ. Development</b>	\$32,627	\$32,627	\$32,627	\$32,627	\$32,627	\$32,627
<b>Govt. Facilities<sup>2</sup></b>	\$30,200	\$30,200	\$30,200	\$30,200	\$28,795	\$28,795
<b>Open Space/Trails</b>	\$50,525	\$50,525	\$50,525	\$50,525	\$50,525	\$50,525
<b>Parks</b>	\$14,637	\$14,637	\$14,637	\$14,637	\$12,717	\$12,717
<b>Flood Control</b>	\$10,032	\$10,032	\$10,032	\$10,032	\$10,032	\$10,032

<sup>1</sup> Remaining authorization as of June 30, 2010

<sup>2</sup> Bonds can be issued as G. O. Bonds, Revenue Bonds or both.

<sup>3</sup> Streets/Parking voter authorization can be used for Street Revenue Bonds that are repaid with HURF revenue

## Revenue Bonds

The City of Glendale can currently make use of four types of revenue bonds: HURF, transportation, water/sewer (utilities) and landfill. The principal and interest on these bonds will be paid from future revenue derived from state highway user revenue fees, the city's transportation sales tax, and user fees for water, sewer and landfill services. Although revenue bonds may incur slightly higher interest costs than G.O. bonds, revenue bonds do not affect the city's debt limitation. However revenue bonds do require voter authorization unless an alternative form of financing is chosen.

**Street Revenue Bonds:** The State of Arizona shares with cities a portion of the revenues it collects from highway user fees. This revenue is tracked in the Streets Fund (Fund 1340) and is known as HURF revenue. The Arizona State Constitution restricts the use of HURF revenue to street and highway purposes such as right-of-way acquisition, construction, reconstruction, maintenance, repair and the payment of the interest and principal on HURF bonds.



HURF often is called the gas tax even though there are several other transportation-related fees, including a portion of the vehicle license tax, that comprise this revenue source. Much of this revenue source is based on the volume of fuel sold rather than the price of fuel. In the past, the Arizona Legislature has altered, and may in the future alter, (1) the type and/or rate of taxes, fees and charges to be deposited into the Arizona Highway Revenue Fund and (2) the allocation of such monies among the Arizona Department of Transportation, Arizona cities and counties and other purposes. In fact, the Arizona Legislature reduced the amount of funds allocated to cities for FY 2009, FY 2010 and FY 2011. It is expected that this change to the amount distributed to cities will continue for the future.

HURF bond-funded projects require voter authorization (either HURF voter authorization or streets/parking G.O. voter authorization) but do not affect the city's debt limitation. By state law, when a city sells this type of bond, the maximum projected annual total debt service payment cannot exceed one-half of the previous year's revenue allocation. Because of the volatility of highway user revenues, the City Council directed staff to cap the street bond debt service to total highway user revenue ratio slightly below the state limit of .50. The city's target for CIP purposes is to remain at or near a .45 debt service to revenue ratio. Table 2-8 summarizes the debt service to revenue ratio for HURF bonds. The current HURF debt service is documented in *Schedule 7*.

There are no HURF bond sales planned for FY 2011 through FY 2015. The HURF revenue figures assume the state will continue with the reduced distribution approach in place in FY 2009 through FY 2011. Consequently, the city of Glendale will use HURF revenue only to pay street operating costs in FY 2011. Annual HURF debt service will be paid by contributions from the roadway development impact fee fund, the transportation sales tax fund and the general obligation debt service fund balance.

**Table 2-8**  
**Street Revenue Bonds**  
 (All Dollars in Thousands)

<b>Fiscal Year</b>	<b>Highway User Tax Revenues*</b>	<b>Existing Debt Service</b>	<b>Proposed Debt Service</b>	<b>Total Debt Service</b>	<b>Annual Coverage</b>	<b>Debt Service to Prev. Year Revenue %</b>
<b>FY 2010</b>	\$13,200	\$4,709	\$0	\$4,709	N/A	N/A
<b>FY 2011</b>	\$13,500	\$4,700	\$0	\$4,700	2.87	36%
<b>FY 2012</b>	\$13,500	\$4,706	\$0	\$4,706	2.87	35%
<b>FY 2013</b>	\$13,500	\$4,709	\$0	\$4,709	2.87	35%
<b>FY 2014</b>	\$13,500	\$4,696	\$0	\$4,696	2.87	35%
<b>FY 2015</b>	\$13,500	\$1,958	\$0	\$1,958	6.89	15%

\*FY 2010 estimated revenue; FY 2011-2015 projected revenues



**Transportation Sales Tax Revenue Bonds:** On November 6, 2001, Glendale held a special election where voters passed a new half-cent sales tax to fund a new transportation plan. The transportation plan was created to improve service for all modes of transportation, including public transit, motorized vehicle, bicycle, pedestrian and aviation. Of the 13,019 ballots cast for this proposition, 64% were in favor and 36% were in opposition. By their votes, Glendale residents indicated that having transportation choices and being connected to regional activities and employment centers were important to maintaining Glendale’s high quality of life.

Everyone who shops in Glendale pays the half-cent sales tax, which became effective January 1, 2002. The revenues are dedicated to funding the implementation of the *Glendale Onboard! (GO) Transportation Plan*. The sales tax will fund about 78% of the plan and about 12% will come from federal, state and regional sources. The remaining 10% will come from other sources such as fare box revenues and the general fund. The sales tax has no termination date because it will be used for future transit operating costs that are ongoing. The transportation capital and operating budgets are balanced yearly.

Table 2-9 displays proposed revenue bond sales to support capital projects in the transportation sales tax program. The table summarizes annual revenue expected from the designated sales tax, future bond sale amounts, the corresponding debt service, and the resulting coverage ratio. The minimum debt coverage ratio that was established for the FY 2008 transportation sales tax revenue bond issuance is 2.0. Please see the *Glendale Onboard Annual Report* for more information.

**Table 2-9**  
**Transportation Revenue Bonds**  
(All Dollars in Thousands)

<b>Fiscal Year</b>	<b>Transportation Sales Tax Revenue</b>	<b>Bond Sales</b>	<b>Existing Debt Service</b>	<b>Proposed Debt Service</b>	<b>Total Debt Service</b>	<b>Annual Coverage</b>
<b>FY 2011</b>	\$18,500	\$24,000	\$7,328	\$1,789	\$9,117	2.03
<b>FY 2012</b>	\$19,244	\$0	\$7,327	\$1,789	\$9,116	2.11
<b>FY 2013</b>	\$20,645	\$0	\$7,326	\$1,789	\$9,115	2.26
<b>FY 2014</b>	\$22,086	\$0	\$7,326	\$1,789	\$9,115	2.42
<b>FY 2015</b>	\$22,729	\$0	\$7,326	\$1,789	\$9,115	2.49

**Water/Sewer Revenue Bonds:** The city can sell bonds that pledge water/sewer utility revenues as payment for bond debt service. Water/sewer revenue bond sales are limited by Ordinance 1323 New Series (adopted in 1984) and Ordinance 1784 New Series (adopted in 1993). Glendale’s bond covenant states that net utility revenue (i.e. revenues less operating costs) will be at least 1.2 times the maximum debt service due in any succeeding fiscal year; this is the bond debt service coverage ratio. Adjustments in net revenue may be made in some circumstances;



restatement of debt service on variable rate and certain other types of debt is permitted; and refunding and compound interest bonds may be issued under different tests.

In December 2003, the city entered into a trust agreement and issued subordinate lien obligations. Subordinate lien obligations are not bonds; they are junior and subordinate to the lien on water/sewer system revenues from existing city revenue bonds. Obligations offer the city the ability to take advantage of historically low interest rates at a time when adequate bond authorization is unavailable.

Table 2-10 displays projected water/sewer bond sales and coverage ratios. FY 2011-15 CIP projects for the water and sewer system will be funded with one of the financing sources described above. The current water/sewer debt is documented in *Schedule 7* of this budget book.

**Table 2-10**  
**Water/Sewer Planned Bonds & Coverage Ratios**  
(All Dollars in Thousands)

Fiscal Year	Bond Sales	Annual Coverage Ratio
FY 2011	\$20,000	1.32
FY 2012	\$8,500	1.46
FY 2013	\$21,500	1.54
FY 2014	\$43,000	1.54
FY 2015	\$49,000	1.53

**Landfill Revenue Bonds:** Landfill revenue bonds fund environmental improvements required by federal and state law as well as improvements relating to constructing, extending, improving and repairing the Glendale Municipal Landfill. Users of the Glendale Municipal Landfill include both outside haulers and the city's residential and commercial solid waste operations. Landfill CIP projects will be funded from operating revenues over the next few years. The voter authorization for landfill revenue bonds as of June 30, 2010, was \$15.5 million.

### Other Capital Financing Options

**Local Improvement District Bonds:** Local improvement districts (LIDs) are legally designated geographic areas in which a majority of the affected property owners agree to pay for one or more capital improvements through a supplemental assessment. This financing approach ties the repayment of debt to those property owners who most directly benefit from the improvements financed. The city's most recent LID was formed in 1993 to finance the construction of improvements on Bell Road, from 67th Avenue to 83rd Avenue, and the Arrowhead Mall area.

There are several financial and practical constraints that can limit the formation of such districts. While LID bonds are not subject to specific debt limits, LID debt appears in the city's financial statements as an obligation of the city, and therefore can affect the city's bond ratings. In addition, it may be difficult to obtain the consent of the number of property owners needed to create a LID. Residential property owners and business property owners in the same area may have different concerns, priorities and financial assets. Finally, a LID usually is not a viable option in lower-income areas.

For capital plan purposes, it is assumed that any new LIDs either will be fully funded by private property owners or the city's financial participation will be limited to a small "general city contribution" for the share of improvements that benefits property owners outside the district. The formation of a LID can affect the CIP positively by accelerating the completion of a capital improvement already in the CIP or negatively by delaying other scheduled projects in order to finance the city's LID contribution.

**Municipal Property Corporation Bonds:** A city may form a Municipal Property Corporation (MPC) to finance a large capital project. An MPC is a non-profit organization over which the city exercises oversight authority, including the appointment of its governing board. This mechanism allows the city to finance a needed capital improvement and then purchase the improvement from the corporation over a period of years.

In order for the MPC to market the bonds, a city will typically pledge unrestricted excise taxes. Unrestricted excise taxes are generally all excise, transaction privilege, franchise and income taxes. In fact, MPC debt service is paid with General Fund operating dollars and this is a serious limitation of this financing option. (The General Fund operating budget contribution is reflected as a transfer from the General Fund to the MPC debt service fund in Schedule 4 of this document). While the city has potential MPC bond capacity, a large issuance of MPC bonds could place a significant strain on the overall General Fund operating budget.

Before entering into a purchase agreement with the MPC, the city also will pledge that actual annual excise tax collections will be at least three times the maximum annual debt service payment for all senior MPC bonds. The city has formed and entered into agreements to sell MPC bonds to fund several construction projects, including the following:

- Glendale Municipal Office Complex,
- Jobing.com Arena,
- Glendale Media Center and Expo Hall, Convention Center and Parking Garage adjacent to the Westgate development in west Glendale,
- a portion of the Glendale Regional Public Safety Training Facility, and
- infrastructure for the Zanjero development.

Table 2-11 shows the current amount of MPC principal debt outstanding as of July 1, 2010. It is anticipated that the debt service on these obligations will be paid by the undesignated portion of city sales tax receipts from the projects that benefit from the capital improvements, with any shortfalls addressed by the General Fund transfer. The current MPC debt is documented in *Schedule 7* of this budget book.



**Table 2-11**  
**Outstanding Municipal Property Bonds**  
 (as of July 1, 2010)

Issue	Year Issued	Principal Balance Outstanding
MPC Bonds - Arena Tax Exempt	2003A	\$45,730,000
MPC Bonds - Arena Taxable	2003B	\$96,370,000
MPC Bonds - Refund Imp Dist	2004A	\$6,860,000
MPC Bonds – Glendale Regional Public Safety Training Facility/Zanjero	2006A	\$29,620,000
MPC Bonds – Media Center/Convention Center/Parking Garage	2008A	\$32,315,000
MPC Bonds – Media Center/Convention Center/Parking Garage	2008B	\$51,285,000
MPC Bonds – Media Center/Convention Center/Parking Garage	2008C	\$7,435,000
AMFP Series 14 - Arena	2002	\$5,055,000
AMFP Refunding Series 16 - Arena	2003	\$7,250,000
<b>TOTAL</b>		<b>\$281,920,000</b>

**Lease Financing:** Lease financing provides long-term financing for the purchase of equipment or other capital improvements and does not affect the city’s G.O. bond capacity and does not require voter approval. In a lease transaction, the asset being financed can include new capital needs, assets under existing lease agreements or, in some cases, equipment purchased in the past for which the government or municipal unit would prefer to be reimbursed and paid over time. Title to the asset is transferred to the city at the end of the lease term.

Table 2-12 reflects the total outstanding balance of capital leases and notes under contract by the city. The complete lease/note debt is documented in *Schedule 8* of this budget book.



**Table 2-12**  
**Outstanding Capital Leases**  
(as of July 1, 2010)

Lease Financing	Year Issued	Original Amount	Total Balance Outstanding <sup>1</sup>	Year Matures
LaSalle Lease	2000	\$24,614,627	\$264,910	2011
Equipment Lease	2003	\$1,240,330	\$29,836	2011
Hickman/Motorola Lease	2003	\$10,800,000	\$7,670,000	2012
Equipment Lease	2006	\$1,370,300	\$303,612	2011
Equipment Lease	2007	\$1,368,800	\$722,044	2016
Equipment Lease	2009	\$1,189,365	\$999,508	2014
Total Lease Financing			\$9,989,910	
<b>Notes<sup>2</sup></b>				
Northern Crossing Note	2002	\$14,500,000	\$4,870,416	2013
Total Note Financing			\$4,870,416	
<b>Grant Total</b>			<b>\$14,860,326</b>	

<sup>1</sup> Includes principal and interest.

<sup>2</sup> Excludes Wastewater Management Authority of Arizona loan agreements which are included in the outstanding water and sewer revenue bonded debt.

**Grants:** The majority of Glendale’s grants for capital projects come from the federal or state government. There are two major types of grants. Open, competitive grant programs usually offer a great deal of latitude in developing a proposal and grants are awarded through a competitive review process. The existing Arizona Heritage Fund grants for parks and historic preservation capital projects are an example of competitive grants.

Entitlement or categorical grants are allocated to qualified governmental entities based on a formula basis (e.g., by population, income levels, etc.). Entitlement funds must be used for a specific grantor-defined purpose. Community Development Block Grants (CDBG) are considered entitlement grants and typically must benefit low-moderate income residents.

A new entitlement grant was awarded to the city during FY 2010 that will move forward several energy efficiency capital projects are moving forward. Specifically, Glendale is the recipient of a \$2.3 million allocation through the American Recovery and Reinvestment Act’s (ARRA) Energy Efficiency and Conservation Block Grant. This grant funding will allow for capital projects to be completed that otherwise may not be completed for several years. Some of the capital projects to be completed include:

- replacement of outdated lighting systems at the public safety/court facility, the main library and sport courts in the city's parks with energy efficient lighting systems;
- an upgrade to the ultraviolet disinfection system at the Arrowhead Wastewater Reclamation Facility; and
- completion of the LED conversion program for the remaining 30 (of 190) signalized intersections.

It is important to note that most federal and state grant programs, with the exception of some public housing programs, require the applicant to contribute to the cost of the project. The required contribution, referred to as local match, can vary from 5% to 75%. Federal Transportation Administration grants for public transit improvements and Federal Aviation Administration grants for airport projects are examples of capital improvement grants for which local matching requirements will come from the city's operating budget and/or the city's transportation sales tax.

Many federal and state grant programs specifically prohibit the applicant from using other government grants as match, and require that the match be cash rather than donated services. Therefore, matching funds usually come from General Fund department operating budgets, G.O. bonds or development impact fees.

There is always a possibility that some of the grant-funded projects will be delayed or not completed if government grants fail to materialize. CIP projects adversely affected by changes in the availability of grants may be postponed until the needed grant funds are acquired, the project is modified to reduce costs, or the project is funded using alternative means.

**Operating Budget - Pay-As-You-Go:** Many capital improvements and purchases of large pieces of equipment are included in the operating budget on a pay-as-you-go basis. The city's FY 2010 operating budget also provides for the maintenance of capital assets and expenses associated with the growth and depreciation of city facilities and equipment.

A vehicle replacement fund for most city vehicles, including police patrol cars, and a technology replacement fund for desktop computers, servers, optical scanning equipment, and other related technology are included in the operating budget. Typically, each department pays annually into each fund based on the equipment in its inventory and the expected life span and value of the equipment.

Specialized vehicles such as street sweepers, and recurring maintenance costs such as asphalt repairs and sealcoating, are also funded from the operating budget. Some capital improvements are paid for on a cash basis in order to avoid the interest costs incurred with other financing mechanisms.

## Other Financing Alternatives

The City of Glendale's ongoing challenge to balance the service and infrastructure needs of its current residents with those of its future residents is not unique. Every city that experiences prolonged periods of growth is looking for ways to more equitably distribute the cost of capital improvements based on usage levels and derived benefit.

**Forming New Utilities:** Some cities form a utility to finance and maintain infrastructure for a specific purpose. Examples include streetlights and storm sewers. Rates for these services might be set according to the expected level of facility usage. For example, monthly storm sewer billing rates could be set according to the amount of runoff typically generated by different types and sizes of property.

One advantage of usage-based rates is that some of the cost burden is redistributed from the low-end user (i.e. the residential sector) to the high-end user (i.e. the commercial sector). For example, a shopping center generates more runoff per acre than a residential dwelling, and would pay a proportionately higher storm water utility bill. Currently, the city does not use this method.

**Community Facilities Districts:** Community facilities districts (CFDs), enabled by the Arizona Legislature, can provide another mechanism for targeting the funding of capital improvements to the specific area or population that benefits from the improvement. The CFD is conceptually similar to LID's, but a CFD is given much broader authority in the type of tax or fee implemented and the use of the revenue. As an example, a CFD can levy a tax or fee for the ongoing maintenance of a capital improvement. Currently, the city does not have any CFDs established.