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 Financial Services Department and Public Works Department in conjunction with the Assistant City Manager. They are updated annually to reflect changes in the economic environment.

Although only the first year of the plan is appropriated, 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 next 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 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. The DMP was updated in early FY 2012 and presented to City Council in January 2012. For the purposes of this discussion, portions of the DMP are reflected below.

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 essential 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 mentioned above and discussed in more detail in the material following this section, 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 ensure stable credit ratings.

The city has instituted a conservative plan of finance for 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), Glendale's dedicated transportation sales tax or Glendale's general fund excise taxes. 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, landfill, many transportation-related projects and professional sports-related facilities such as the Jobing.com Arena, home of the Phoenix Coyotes, and Camelback Ranch, spring training home of the Chicago White Sox and the Los Angeles Dodgers. 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, which the city has experienced beginning with FY 2010, 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, 2011. 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)

General Municipal Purpose Bonds		Water, Sewer, Flood Control, Light, Parks and Open Space	
6% Limitation[1]	$78,813	20% Limitation[1,2]	$262,712
Less Direct Bonded Debt to be Outstanding	$16,949	Less Direct Bonded Debt to be Outstanding	$184,731
Unused 6% Borrowing Capacity	$61,864	Unused 20% Borrowing Capacity	$77,981

[1] Based on 2012 secondary assessed value of $1,313,557,625
[2] Public safety, streets/parking and transportation facilities debt prior to Prop. 104 is included in the 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 Remaining Capacity" show the amount of additional G.O. bonds that could be sold without violating the state constitutional limits. Note that the "Projected Remaining Capacity" 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 2013 secondary assessed valuation figure in Table 2-2 shows a 12.5% decline in secondary assessed valuation from the prior FY and reflects the 2010 real estate market. The FY 2013 valuation figure is the final figure from the Maricopa County Assessor's Office. The FY 2014 figure reflects an additional 8.2% decline from FY 2013 and is a projection based on the preliminary valuation notices that the county assessor's office mailed to property owners in February 2012.

These significant valuation 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 52.5% over five consecutive years. Preliminary data from the Maricopa County Assessor's Office also indicate that the median value of commercial property continues to decline. The median full cash value of commercial property is down 49.2% since 2009.

These declines in secondary assessed valuation result in lower debt limitation figures (column A) in FY 2013 through FY 2017 than those shown in Table 2-1 (above). The decline in property valuation significantly limits the city's ability to take on new debt. For this reason, no new general obligation bond sales are planned in the first five years of the capital plan. Therefore the table simply reflects the impact of outstanding debt on the city's borrowing capacity. The remaining borrowing capacity is shown in the last column of Table 2-2 below.

Table 2-2
Projected G.O. Debt Capacity
(All Dollar in Thousands)

Fiscal Year	Projected[1] Secondary Assessed Value	Limitation (A)		Outstanding Debt[2] (B)		Projected Remaining Capacity (A-B)	
		6%	20%	6%	20%	6%	20%
FY 2013	$1,149,265	$68,956	$229,853	$12,634	$172,861	$56,322	$56,992
FY 2014	$1,055,429	$63,326	$211,086	$8,194	$160,451	$55,131	$50,635
FY 2015	$1,055,429	$63,326	$211,086	$2,880	$149,425	$60,446	$61,661
FY 2016	$1,097,646	$65,859	$219,529	$0	$132,235	$65,859	$87,294
FY 2017	$1,141,552	$68,493	$228,310	$0	$113,760	$68,493	$114,550

[1]FY 2013 figure reflects actual secondary assessed valuation.
[2]Outstanding 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, a 20.1% increase from FY 2008 and on top of a 33.3% increase from FY 2007 to FY 2008. The FY 2009 valuation reflected the 2006 real estate market. The FY 2009 secondary assessed valuation reflected commercial valuation comprising 29.0% of the total, residential comprising 66.8% and the remaining 4.2% included, but was not limited to vacant land, agriculture, railroad and historical property.

In FY 2010, Glendale's secondary assessed valuation was approximately $2.1 billion, a 2.9% decline from the prior FY. The FY 2010 valuation reflected the 2007 real estate market when property valuations began to slip. Commercial properties comprised 33.6% of the FY 2010 total, residential property comprised 61.8% and the remaining 4.6% included, but was not limited to vacant land, agriculture, railroad and historical property.

Glendale's FY 2011 secondary assessed valuation was approximately $1.8 billion, a 17.7% decline from the prior FY. The FY 2011 valuation reflected the 2008 real estate market when property valuations tumbled downward at an accelerated pace.

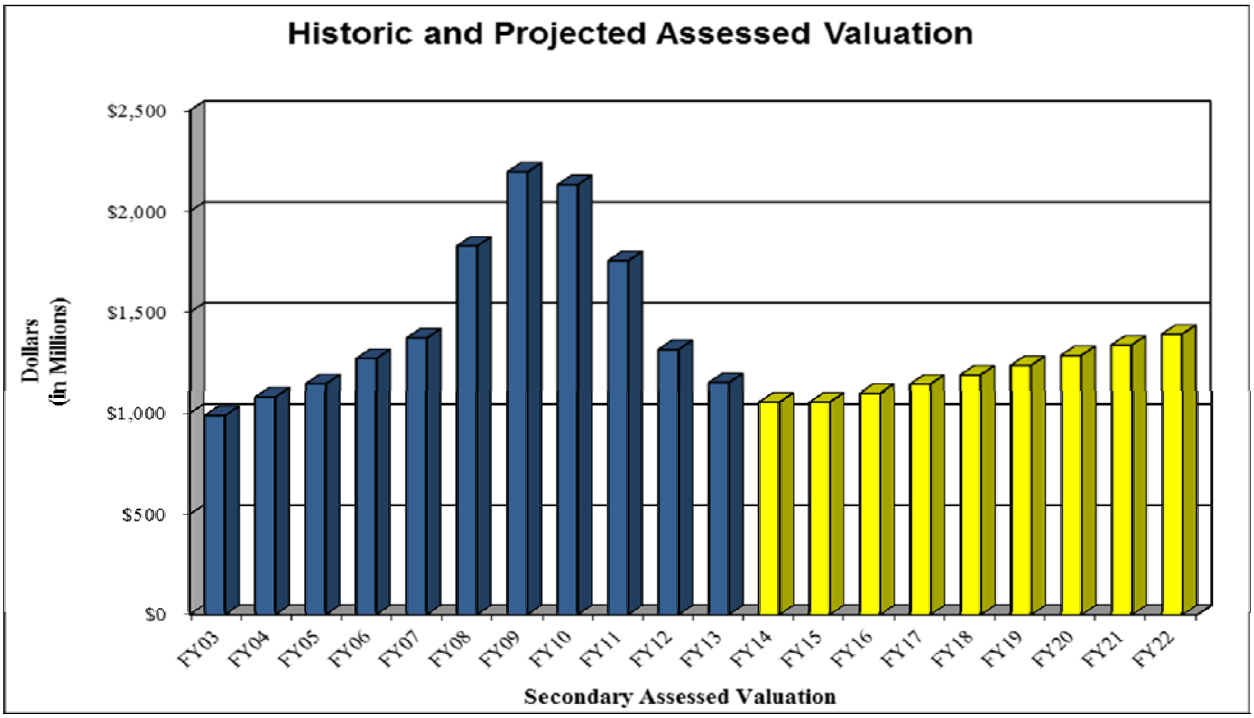
Glendale's secondary assessed valuation in FY 2012 was approximately $1.3 billion, representing a 25.1% decline from the FY 2011 secondary assessed value. The FY 2012 valuation reflects the 2009 real estate market when property values experienced the most significant plunge.

For FY 2013, Glendale's secondary assessed valuation is $1.1 billion, a 12.5% decline from FY 2012. The FY 2013 valuation is based on the 2010 real estate market, when property values continued to fall but at a slower rate. Approximately 56.6% of the FY 2013 valuation is attributable to residential property, 39.8% is attributable to commercial property and the remaining 3.6% includes, but is not limited to vacant land, agriculture, railroad and historical property.

A fifth consecutive year of valuation decline – an additional 8.2% – is expected with the FY 2014 valuation. The FY 2014 estimate is based on the preliminary valuation notices that the county assessor's office mailed to property owners in February 2012 and reflects the 2011 real estate market.

These astonishing declines are in contrast to the fact 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. However, the latest assessed valuation information means the decline in Glendale property values equates to a loss of over one-half of the city's secondary assessed valuation – from a peak of nearly $2.2 billion in FY 2009 to a projection under $1.1 billion for FY 2014.

For the future, it is assumed that Glendale's secondary assessed valuation will bottom out with no change in FY 2015 and conservative growth of 4% starting in FY 2016. These are conservative valuation 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 run up in property values. The following chart provides a graphical view of Glendale's secondary assessed valuation changes between FY 2003 and FY 2013 as well as the projected valuations for FY 2014 through FY 2022.



The impact of the steep valuation decline on the city's secondary property tax revenue stream directly affects the city's capacity to support debt service on existing G.O. bonds, as well as the city's ability to support additional debt service for new capital projects. The impact and the city's plan to address the impact are discussed in the next section.

Capital Plan Implications for Secondary Property Tax Rate

Table 2-3 (below) summarizes annual debt service requirements for existing bonds outstanding. No new G.O. bond issuances are shown per the previous discussion for Table 2-2. You will see that the secondary assessed valuation figures reflect the declines discussed previously in this capital section.

The FY 2013 capital budget provides for a path to improved financial stability for the general obligation (G.O.) bond program that includes a secondary property tax rate increase of 0.3054 for FY 2013. This increase follows a period of 18 consecutive years where the total property rate tax was either held flat or reduced since FY 1995.

As presented to City Council during the April 23, 2012, budget workshop and in the City Manager's Recommended FY 2013-22 Capital Improvement Plan memo, the FY 2013 secondary property tax rate increase of 0.3054 is step one of a two-step rate increase that will be staggered over two FYs, with step two being implemented for FY 2014 after Council's review.

The higher secondary rates are expected to be in effect through FY 2017 based on the most current information available about future assessed valuation for property within Glendale's corporate limits. These higher rates are required to pay for existing debt service for the G.O. bond program; no new G.O. bond sales are planned through FY 2017.

This rate change means the city's secondary rate will increase from $1.3699/$100 of assessed valuation to $1.6753; the city's primary property tax rate will remain unchanged at $0.2252/$100 of assessed valuation. The city's total property tax rate will change from $1.5951 to $1.9005/$100 of assessed valuation.

Table 2-3 also reflects the Build America Bond (BAB) subsidy related to the G.O. bonds sold in 2010 and the DIF Citywide Recreation Facilities Fund (Fund 1480) debt service contributions related to the Foothills Recreation and Aquatic Center which was funded with proceeds from the 2004 G.O. bond sale. The BAB subsidy and DIF debt service contributions directly reduce the debt service to be covered by secondary property tax revenue and will help address the shortfall between the annual debt service requirements and secondary property tax revenue. The current G.O. debt is documented in *Schedule 7* of this budget book.

Table 2-3
General Obligation Property Tax Bonds
(All Dollars in Thousands with Exception of Tax Rate)

Fiscal Year	Secondary Assessed Valuation	Estimated Secondary Property Tax Rate	Estimated Secondary Property Tax Rev.[1]	Existing Debt Service[2]	Less Build America Bond Subsidy	Less Fund 1480 DIF Contribution	Proposed Debt Service	Total Debt Service
FY 2013	$1,149,265	$1.6753	$19,404	$25,555	($659)	($209)	$0	$24,687
FY 2014	$1,055,429	$1.9807	$21,055	$24,311	($647)	($209)	$0	$23,455
FY 2015	$1,055,429	$1.9807	$21,055	$26,483	($633)	($210)	$0	$25,640
FY 2016	$1,097,646	$1.9807	$21,891	$24,361	($618)	($211)	$0	$23,532
FY 2017	$1,141,552	$1.9807	$22,761	$23,814	($593)	($211)	$0	$23,009

[1]Includes esimated SRP In-Lieu revenue of $150,000 per fiscal year

[2]Existing debt service includes HURF debt service in FY's 2013-2016 and repayment to the General Fund through FY 2021 for an interfund loan that occurred in FY 2011

Existing G.O. debt service addresses bonds issued over the last several years to pay for numerous capital projects such as the Emergency Operations Center, Public Safety Training Facility, the downtown parking garage, fire stations 159 and 151, the Glendale Adult Center, the Foothills Recreation and Aquatic Center, the Rose Lane Pool Aquatic Center, various flood control projects such as the Bethany Home Outfall Channel, and the downtown plaza and civic center annex.

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 resulting in voters approving $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 2-4 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 2-4
Projected Remaining G.O. Bond Voter Authorization
(All Dollars in Thousands)

Category	FY 2012[1]	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Public Safety	$104,473	$104,473	$104,473	$104,473	$104,473	$104,473
Landfill	$15,540	$15,540	$15,540	$15,540	$15,540	$15,540
Library	$17,096	$17,096	$17,096	$17,096	$17,096	$17,096
Streets/Parking[2,3]	$67,238	$67,238	$67,238	$67,238	$67,238	$67,238
Cultural/Historical[2]	$13,721	$13,721	$13,721	$13,721	$13,721	$13,721
Transit[2]	$6,750	$6,750	$6,750	$6,750	$6,750	$6,750
Econ. Development	$32,627	$32,627	$32,627	$32,627	$32,627	$32,627
Govt. Facilities[2]	$30,200	$30,200	$30,200	$30,200	$30,200	$30,200
Open Space/Trails	$50,525	$50,525	$50,525	$50,525	$50,525	$50,525
Parks	$14,637	$14,637	$14,637	$14,637	$14,637	$14,637
Flood Control	$10,522	$10,522	$10,522	$10,522	$10,522	$10,522

[1] Remaining authorization as of June 30, 2012
[2] Bonds can be issued as G. O. Bonds, Revenue Bonds or both.
[3] 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 in FY 2009 through FY 2012.

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 2-5 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 2013 through FY 2017. The HURF revenue figures assume the state will continue with the reduced distribution approach in place in FY 2009 through FY 2012. Consequently, HURF revenue will cover only $1.4M of the HURF debt service, while the remaining revenue will be used to pay street operating costs in FY 2013. The remaining $3.3M in 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 2-5
Street Revenue Bonds
(All Dollars in Throusands)

Fiscal Year	Highway User Tax Revenues*	Existing Debt Service	Proposed Debt Service	Total Debt Service	Annual Coverage	Debt Service to Prev. Year Revenue %
FY 2012	$10,550	$4,706	$0	$4,706	N/A	N/A
FY 2013	$12,759	$4,709	$0	$4,709	2.71	45%
FY 2014	$12,791	$4,696	$0	$4,696	2.72	37%
FY 2015	$12,823	$1,958	$0	$1,958	6.55	15%
FY 2016	$12,855	$1,976	$0	$1,976	6.51	15%
FY 2017	$12,887	$0	$0	$0	N/A	0%

*FY 2012 estimated revenue; FY 2013-2017 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 that became effective January 1, 2002. The revenues are dedicated to funding the implementation of the *Glendale Onboard! (GO) Transportation Plan*. 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 2-6 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 2-6
Transportation Revenue Bonds
(All Dollars in Thousands)

Fiscal Year	Transportation Sales Tax Revenue	Bond Sales	Existing Debt Service	Proposed Debt Service	Total Debt Service	Annual Coverage
FY 2013	$20,862	$0	$7,326	$0	$7,326	2.85
FY 2014	$21,856	$26,000	$7,326	$1,938	$9,264	2.36
FY 2015	$22,402	$0	$7,326	$1,938	$9,264	2.42
FY 2016	$23,298	$10,000	$7,326	$2,684	$10,010	2.33
FY 2017	$24,347	$0	$7,327	$2,684	$10,011	2.43

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 2-7
Water/Sewer Planned Bonds & Coverage Ratios
(All Dollars in Thousands)

Fiscal Year	Bond Sales	Annual Coverage Ratio
FY 2013	$0	1.27
FY 2014	$29,400	1.21
FY 2015	$0	1.20
FY 2016	$30,900	1.21
FY 2017	$0	1.33

Table 2-7 displays projected water/sewer bond sales and coverage ratios. FY 2013-17 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. The FY 2013 rate recommendation for the water/sewer enterprise fund is for no change to the rates currently in effect. This recommendation is based on the annual update of the individual rate models for each of the enterprise funds that are used to develop a balanced capital plan for each operation. As a result of the payoff of senior lien bonds (WIFA) during FY 2012, the reserve fund of retained earnings and cash totaling approximately $11M is freed up allowing for a refunding that eliminates the need for a rate increase in 2013.

Overall, this rate recommendation is the result of:

- The prepayment and/or restructuring of water/sewer debt
- The deferral of non-essential growth-related capital projects
- Continuation of critical repair, maintenance and replacement of existing capital assets such as underground pipes
- Continuation of capital projects that ensure compliance with applicable federal, state and county regulations
- Ongoing improvements in operational efficiencies to minimize cost increases related to fuel, equipment and electricity.

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, 2011, 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 (debt is retired),
- 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 2-8 shows the current amount of MPC principal debt outstanding as of July 1, 2012. 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. It should be noted that the city intends to refund or otherwise restructure one or more MPC issuances during FY 2013 if good market conditions prevail. The current MPC debt is documented in *Schedule 7* of this budget book.

Table 2-8
Outstanding Municipal Property Corportation Bonds

Issue	Year Issued	Principal Balance Outstanding
MPC Bonds - Arena Tax Exempt	2003A	$41,635,000
MPC Bonds - Arena Taxable	2003B	$95,675,000
MPC Bonds - Refund Imp Dist	2004A	$1,865,000
MPC Bonds - GRPSTF/Zanjero	2006A	$25,610,000
MPC Bonds - H/Conv/Media Tax Exempt	2008A	$32,220,000
MPC Bonds - H/Conv/Media Taxable	2008B	$50,605,000
MPC Bonds - H/Conv/Media Taxable	2008C	$3,920,000
AMFP - Arena	2002	$5,055,000
AMFP - Refunding - Arena	2003	$7,250,000
MPC Bonds - Refunding 2003A, 2004A & 2006A	2012A	$8,665,000
TOTAL		$272,500,000

Public Facilities Corporation Bonds: Similar to an MPC, a public facilities corporation (PFC) a non-profit organization that is formed under Arizona State law to secure funding for capital projects. A PFC is also governed by a Council appointed Board of Directors responsible for authorizing debt. The PFC's sole purpose is to finance and construct public facilities for the city. While the PFC is a legally separate entity from the city, the city is responsible for the debt associated with the PFC bonds. The special debt obligations are back by the city's unrestricted excise taxes.

Bonds were issued under the Western Loop 101 PFC in 2008 to be used for the construction of a Spring Training facility to accommodate two Major League Baseball teams as well as construct the infrastructure surrounding the facility. While a majority of the bond proceeds were used for the design and construction of the spring training facility and surrounding infrastructure, a portion of the proceeds were used toward capitalized interest through October 30, 2011.

Table 2-9 shows the current amount of PFC principal debt outstanding as of July 1, 2012. 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. It should be noted that it is the intent of the city to refund or otherwise restructure this issuance during FY 2013. The projected PFC debt after refunding is documented in *Schedule 7* of this budget book.

Table 2-9
Outstanding Public Facilities Corporation Bonds

Issue	Year Issued	Principal Balance Outstanding
PFC - Western Loop 101	2008A	$137,495,000
PFC - Western Loop 101	2008B	$48,670,000
PFC - Western Loop 101	2008C	$13,585,000
TOTAL		$199,750,000

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 2-10 reflects the expected FY 2013 payments for capital leases and notes under contract by the city.

Lease Financing	Year Issued	Original Amount	FY 2013 Scheduled Lease Payment[1]
Equipment Lease	2007	$1,368,800	$77,181
Equipment Lease	2009	$1,189,365	$249,877
Refunding Lease (Hickman/N. Crossing/ADOT)	2011	$11,503,100	$1,099,895
Total Lease Financing			$1,426,953

[1]Includes principal and interest; excludes copier leases

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 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. Specifically, Glendale is the recipient of a $2.3 million allocation through the American Recovery and Reinvestment Act's 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 already completed or under construction at the time this document was prepared 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 2013 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.