

DEBT MANAGEMENT POLICY

This policy is a component of the adopted Comprehensive Financial Policies. It has been developed to provide guidelines for the issuance of bonds and other forms of indebtedness to finance necessary land acquisitions, capital construction, equipment, and other items for the City and post-closing follow-up with respect to such financings.

The debt policy is to be used in conjunction with the Adopted Budget, the CIP, and other financial policies as directed by Mayor and Council. It will assist the City in determining appropriate uses of debt financing, establish debt management goals, provide guidelines resulting in the lowest cost of borrowing for each transaction, and assist the City in maintaining its current credit ratings, while assuming a prudent level of financial risk and preserving the City's flexibility to finance future capital programs and requirements.

The City of Tucson uses a variety of financing mechanisms to meet the long-term capital needs of the community. In determining an appropriate indebtedness program for the City, consideration is given to the following:

- Operating and maintenance costs associated with the Capital Improvement Program
- Federal and state laws and regulations, Tucson City Charter, and the Tucson Code
- Current outstanding debt requirements
- Source of debt repayment consistent with the capital project being financed
- Life of the capital project is equal to or greater than the term of the financing
- Proposed debt will not cause extraordinary tax or fee increases
- Proposed debt will not result in limiting the City's ability for future indebtedness

In all cases, the City aggressively manages the debt program, with the assistance of a financial advisor and bond counsel. Restructuring, refinancing, and advance bond refunding are used to limit the City's debt service costs and to provide maximum future borrowing flexibility. The City's debt program includes the following financing mechanisms.

General Obligation (GO) Bonds

Bond proceeds are used to finance capital projects for police, fire, parks and recreation, drainage, and other purposes. State law limits the amount of general obligation bonds that may be outstanding to 20% of assessed valuation for utility, open space, public safety, and transportation purposes and 6% of assessed valuation for all other purposes.

GO bonds are backed by the full-faith and credit of the City and are secured by secondary property tax. The Tucson City Charter currently sets an upper primary and secondary property tax limit of \$1.75 per \$100 of assessed valuation as a condition upon the City's continuing ability to impose and collect transaction privilege taxes. Therefore, state laws notwithstanding, the City will not levy a combined primary and secondary property tax that exceeds \$1.75. The City generally issues general obligation bonds with 20 year maturities.

Street and Highway Revenue Bonds

Bond proceeds are used to finance street improvement projects as defined by state law. State law limits the amount of bonds that can be sold. Prior fiscal year highway user revenue receipts, which are used to pay the bonds, must be equal to at least twice the highest annual debt service requirements for senior lien bonds and at least one and one-half times for junior lien bonds. Street and highway revenue bonds generally have a 20 year maturity.

Water Revenue Bonds and Obligations

Bond proceeds are used to finance capital improvements to the water system. By bond covenant, the City is limited to issuing bonds only if net revenues after operations are equal to at least 120% of the maximum future annual debt service requirement. To maintain a high credit rating and thus decrease borrowing costs, the City maintains 150% - 200% debt service coverage. Water revenue bonds and obligations are generally issued with 20 - 30 year maturities.

Water Infrastructure Finance Authority (WIFA) Loans

In 1997, Arizona State Legislation increased the powers of the Wastewater Management Authority created in 1989 and permitted additional types of borrowers to access funds through the establishment of the WIFA. A part of this legislation provides WIFA the power to issue bonds to provide low interest rate loans to local governments related to the Clean Water Act. WIFA's funding source includes both Federal and State sources. In order to participate in the WIFA loan program, local governments must have existing bond authorization equal to the loan amount.

Clean Renewable Energy Bonds (CREBs)

In July 2005, Congress passed the Energy Tax Incentives Act of 2005 (the "Act"). Among a number of other tax incentives, the Act permits state and local governments, cooperative electric companies, clean renewable energy bond lenders and Indian tribal governments to issue CREBs to finance certain renewable energy and clean coal facilities.

CREBs are a form of tax credit bond in which interest on the bonds is paid in the form of federal tax credits by the United States government in lieu of interest paid by the issuer. CREBs, therefore, provide qualified issuers/qualified borrowers with the ability to borrow at a 0% interest rate. The federal tax benefit to the holder of a CREB is greater than the benefit derived from tax-exempt municipal bonds in that the tax credit derived from a CREB can be used to offset on a dollar-for-dollar basis.

The City began issuing CREBs in Fiscal Year 2009 and 2011, using this financing mechanism to fund the purchase and installation of solar panels for use on city buildings. The bond principal is being repaid from the electricity savings and rebates from Tucson Electric Power.

Non-Bond Debt: Lease Purchases and Certificates of Participation

These financing mechanisms are used when the projects involved are unsuitable for traditional bonding or a determination is made that alternative financing has advantages over bonding. The debt requirements for these financing mechanisms are payable from the City's recurring revenues and are subject to annual appropriation by the Mayor and Council. To minimize borrowing costs, the City generally purchases financing insurance and pledges collateral towards the debt repayment. Maturities for these debts range from 1 - 20 years, depending upon the nature of the project being financed.

As of July 1, 2022

Issue Type	Principal Outstanding	% of Total
Governmental Activities:		
General Obligation Bonds	\$ 110,905,000	8.78 %
Highway Revenue Bonds	-	-%
Certificates of Participation	83,930,578	6.64 %
Clean Renewable Energy Bonds	3,609,300	0.29 %
Capital Leases	7,646,401	0.61 %
Pension Obligations COPs	642,045,000	50.82 %
Total	\$ 848,136,279	67.13 %
Business-Type Activities:		
Water System Revenue Bonds	\$ 381,392,059	30.19 %
Certificates of Participation	33,689,422	2.67 %
Capital Leases	126,292	0.01 %
Total	\$ 415,207,773	32.87 %
Total Indebtedness	\$ 1,263,344,052	100.00 %

Bond Sales

2012 Bond Authorization Sales - In November 2012, the voters approved \$100,000,000 of General Obligation bonds for a five-year program to restore, repair, and resurface streets inside Tucson City limits. In this year's budget, Mayor and Council appropriated \$1,041,170.

2018 Bond Authorization Sales - In November 2018, the voters approved \$225,000,000 of General Obligation bonds for Parks and Connectivity projects within Tucson City limits. On June 30, 2020, Mayor and Council authorized up to \$57,000,000 in General Obligation Bonds for this purpose. On August 19, 2020, \$57,000,000 of General Obligation Bonds were sold. The interest cost was 0.92%.

Water System Revenue Obligations, Series 2020 - On June 30, 2020, Mayor and Council authorized up to \$57,000,000 for the proposal of acquiring, construction and improvement utility systems for the City. On August 19, 2020, \$57,000,000 of Water Revenue Obligation were issued and resulted with an interest rate of 1.63%.

Certificates of Participation, Refunding Series 2020 - On October 6, 2020, Mayor and Council authorized up to \$16,960,000 of taxable refunding Certificates of Participation and authorized the potential to issue up to \$50,000,000 of new taxable Certificates of Participation for the City.

Certificates of Participation, Pension Obligation

On November 4, 2020, Mayor and Council authorized to prepare for Pension Obligation bond sales, structured as Certificates of Participation. City of Tucson Public Safety Pension Trust (section 115 Trust) was created in Fiscal Year 2021, via Certificate of Participation or "Pension Bonds". The City uses this financing mechanism to fund the PSPRS liability arising from the retirement benefits provided to elected officials and sworn public safety personnel. The

Pension Trust debt is pledged by City assets, primarily public safety, giving bondholders the right to foreclose pledged assets. The annual debt service for Pension Bonds is not an allowable expense for the Section 115 Trust and therefore is assumed by the General Fund. The Trust will pay for the management, investment and advisor fees created by the Trust. The Board of Trustees will recommend the annual payment from the Trust to PSPRS.

Repayment Impact of Bond Sales

General Obligation Bond Debt Service - General obligation bond debt is paid off from the secondary property tax rate, which is determined each year by the levy required to meet the annual debt service divided by the City’s projected secondary assessed valuation. For Fiscal Year 2022/23, the required levy to cover outstanding bonds is estimated at \$37,598,880, an increase of \$3,150,280 from the Fiscal Year 2021/22 levy. The Fiscal Year 2022/23 secondary property rate is estimated at \$0.9048 per \$100 of assessed valuation that is higher based on the final secondary assessed valuation set by Pima County in the summer of 2021.

Street and Highway Revenue Bond Debt Service - Street and highway revenue bonds are repaid from state-shared Highway User Revenue Fund receipts. The debt services payments were paid off in Fiscal Year 2021/22. There are no outstanding debt service payments for this fiscal year.

Enterprise Funds Debt Service - Enterprise Fund revenue bonds and other long-term obligations are payable solely from fees, charges for services, or rents paid by users of the service provided.

DEBT SERVICE BY SOURCE OF FUNDS PRINCIPAL AND INTEREST

	FY 2021/22	FY 2022/23
General Government Funds¹		
General Fund	\$ 57,820,630	\$ 56,895,970
Park Tucson Fund	1,756,050	1,682,300
Highway User Revenue Fund	1,451,440	1,557,410
Mass Transit Fund - Sun Link	1,509,520	1,581,120
General Obligation Bond Debt Fund	34,549,350	33,738,350
Street and Highway Revenue Bond Debt Fund	11,145,750	-
Total General Government Funds	\$ 108,232,740	\$ 95,455,150
Enterprise Funds²		
Environmental Services Fund	\$ 1,241,730	\$ 1,329,720
Public Housing Section 8 Fund	68,590	-
Tucson City Golf Fund	20,570	20,570
Tucson Water Utility Fund	58,398,630	58,266,640
Total Enterprise Funds	\$ 59,660,930	\$ 59,616,930
Total Indebtedness	\$ 167,893,670	\$ 155,072,080

¹ General Government Funds debt service payments are budgeted in General Governmental

² Enterprise Funds debt service payments are budgeted in their respective departments.