



TOWN OF PRESCOTT VALLEY STAFF REPORT

DATE: November 14, 2024

TO: Mayor & Town Council

THROUGH: Gilbert Davidson, Town Manager

FROM: Neil Wadsworth, Utilities Director

DEPARTMENT: Utilities

AGENDA TYPE: Consent Agenda

SUBJECT: Possible Funding Authorization, Water/Wastewater Projects – Consideration & Possible Action (Authorize Signature) [Neil Wadsworth, Utilities Director]

VISION 2024 FOCUS AREA: Responsible planning for sustainable water management and land conservation.

SUMMARY/BACKGROUND:

Town staff has previously identified capital projects related to water and wastewater infrastructure that, due to their high cost, will need to be funded from a combination of sources (potentially including loans and/or bonds). The projects (part of the Town's Capital Improvement Program) were included in the 2023 Water and Sewer Rate Study performed by Willdan Financial Services. The projects involved approximately \$31.6M in water projects and \$23M in wastewater (sewer) projects (for a total of \$54.6m in combined projects).

The water projects include the PFAS Treatment and Mitigation (\$8M), new Viewpoint Water Tanks (\$5M), Summit Tank Water Line (\$2M) and Duplex Booster Station (\$4.7M), in addition to various other projects totaling the remaining \$11.9M.

The wastewater projects include such things as Wastewater Treatment Plant Upgrades (\$8M), Section 2 Sewer and Roundup Drive Upsizing (\$6M), and a new Ranger Road Trunk Sewer (\$2M), in addition to various other projects totaling the remaining \$7M.

The following tentative funding sources were identified in the 2023 Rate Study:

Funding Source	Water	Wastewater	Total
Water Capacity Fees	\$12.4M		\$12.4M
Wastewater Capacity Fees		\$17.5M	\$17.5M
Water Resources Fees	\$3.2M		\$3.2M
Grants	\$1.0M	\$0.5M	\$1.5M
Loans or Bonds (Debt Service Payments Funded by User Rates)	\$15.0M	\$5.0M	\$20.0M
Totals	\$31.6M	\$23.0M	\$54.6M

The Study anticipated that approximately \$12M in debt would be issued in FY2024, with an anticipated allocation of Wastewater (\$5M) and Water (\$7M). The Study also anticipated an additional \$8M of debt being issued in FY2025 for Water.

Based on current needs, staff propose that management begin the process of potentially obtaining loans and/or issuing bonds. To begin the initial application and evaluation process, staff must obtain initial authorization from the Town Council. Such authorization will allow staff to submit preliminary applications and begin to obtain information from the lenders listed below about possible bond/loan terms (including number of years and interest rates).

Water Infrastructure Finance Authority (WIFA) loans

WIFA is the state agency that manages the State Revolving Fund for Arizona. Typically, WIFA provides low interest loans and small grants that are used exclusively for water and wastewater projects. In addition, many of its low interest loans contain allowances of forgivable principal (in essence, grants from the federal government). As such, they involve requirements related to Davis-Bacon Wages and the Buy American Act.

Greater Arizona Development Agency (GADA) loans

GADA issues its own bonds in groups or bundles that individual municipalities may then participate in through loans. This can be very advantageous. However, there are some restrictions: (1) the underlying bonds are issued at a single bond rating, so municipalities that have a rating lower than the issuance must purchase “insurance” to help back the bonds; and (2) each municipality must agree to commit excise tax revenues and State Shared Revenues as the sources of loan repayment. This can be a challenge if the municipality already has debt that is funded from these revenue sources.

Private Placement Bonds

Prescott Valley previously used this option to fund initial construction of the wastewater treatment and collection system in 1993. With a Private Placement Sale, bonds are sold directly to institutional or private investors, rather than through a public offering. Issuers often require investors purchasing privately placed bonds to agree to restrictions as to resale through the use of a signed agreement. This is the same as a direct placement or a direct

purchase. Private Placements may also involve the direct sale of a bond or other obligation to a commercial bank.

As part of exploring these three options, it is proposed that the Town Council authorize the Mayor to sign three separate resolutions: (1) the WIFA loan resolution would allow staff to make an initial loan application for WIFA to determine funding conditions (including what amounts it would be willing to fund, the interest rate, and any forgivable principal amount); (2) the GADA bond resolution would authorize Town representatives to apply for assistance from GADA. If the pledge of excise taxes and State Shared Revenues as the source of repayment is determined to make sense, a final agreement would be brought back to the Council for consideration; and (3) the Reimbursement resolution would allow the Town to reimburse itself from bond proceeds for any funds spent ahead of time on the intended capital projects.

Authorizing the Mayor to sign the attached resolutions does not obligate the Town to any specific funding path at this time. It simply allows staff to continue to explore each. Any bond issuance and/or loan agreement will require future Town Council action.

RECOMMENDED MOTION:

(1) Motion to authorize the Mayor to sign Resolution No. 2024-2395 authorizing Town representatives to apply to GADA for up to \$10 million in bond funding for water and wastewater related projects. VOTE.

(2) Motion to authorize the Mayor to sign Resolution No. 2024-2396 authorizing staff to submit an initial application to WIFA for up to \$10 million in loan funding for water and wastewater related projects. VOTE.

(3) Motion to authorize the Mayor to sign Resolution No. 2024-2397 authorizing reimbursement of up front Town expenditures from any Bond proceeds up to \$10 million for water and wastewater related projects. VOTE

STAFF RECOMMENDATION:

Staff recommends authorizing signature of each of the above Resolutions in order to permit Town staff and representatives to investigate possible funding options for the listed water and wastewater related projects.

FISCAL ANALYSIS:

Total Cost this Request: N/A - Request for authorization to proceed with application and analysis of funding options

Funding Source: N/A - Request for authorization to proceed with application and analysis of funding options

Budget Impact: Bond and/or loan funding for approximately \$20 million was included in the 2023 Water and Sewer Rate Study prepared by Willdan Financial Services. Those rates went into effect in February 2024. Specific projects and funding sources have also been set forth in the FY 2024/25 Town Budget.

Purchasing Method and Results: N/A - Request for authorization to proceed with application and analysis of funding options

Council Action at the Meeting:

ATTACHMENTS: Yes