

**SUBMITTED BY:** Alejandro Martinez, Finance Director

**MANAGEMENT TEAM REVIEW:** Ana Urquijo, City Manager

**FOCUS AREA:** Infrastructure

**ORGANIZATIONAL IMPROVEMENTS:** N/A

**SUBJECT:** **SECOND READING OF ORDINANCE NO. 24-1205**, an Ordinance of the Mayor and Council of the City of Douglas, Cochise County, Arizona, (1) **APPROVING the SALE, EXECUTION and DELIVERY of PLEDGED REVENUE OBLIGATIONS, SERIES 2025**, evidencing all the interest of the owner thereof in a **PURCHASE AGREEMENT**; (2) **APPROVING the FORM, AUTHORIZING the EXECUTION and DELIVERY of NECESSARY AGREEMENTS, INSTRUMENTS and DOCUMENTS** related to the **SALE, EXECUTION and DELIVERY** of such obligations; (3) **ADOPTING POST-ISSUANCE TAX COMPLIANCE PROCEDURES** in connection with issuance of obligations of the city; (4) **DELEGATING AUTHORITY** to the Mayor, the City Manager, the Deputy City Manager and the Finance Director to determine certain matters and terms with respect to the foregoing; and (5) **AUTHORIZING the taking of all other actions necessary to the consummation of the transactions contemplated by this ordinance; establishing severability of components of Ordinance; and establishing an effective date thereof.**

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#### **EXECUTIVE SUMMARY:**

This ordinance allows for the issuance of Pledged Revenue Obligations, Taxable Series 2025, for the purpose of financing acquisition of an asphalt plant and appurtenances. Such ordinance is required by the City Charter ARTICLE VII – ORDINANCES AND RESOLUTIONS, Section 5 - WHEN ACTIONS TO BE TAKEN BY ORDINANCE.

#### **BACKGROUND**

On June 12, 2024, the Mayor and Council approved paying off the call center loan using the unrestricted fund balance. The purpose of this decision was to redirect the debt service budget allocation of \$462,000 (for fiscal year 2025) toward financing the acquisition of a new asphalt plant and related equipment. Owning an asphalt plant is expected to bring substantial benefits, including significant cost reductions in road maintenance and construction. By producing asphalt in-house, the city will no longer need to rely on external suppliers, resulting in long-term savings. Furthermore, having control over asphalt production will enable the city to complete more projects efficiently, without delays caused by dependence on external providers.

This ordinance is being presented for authorization of this financing mechanism and comes with the staff's recommendation for approval. While the final terms cannot be determined until the request for proposal (RFP) process is completed, the ordinance includes not-to-exceed parameters. These parameters set a maximum total amount of ~~\$4,000,000~~ \$500,000, an interest rate cap of 8%, and a maturity date no later than ~~2040~~ 2045. This approach provides flexibility as the city solicits bids for financing. This amendment to the first reading is due to project being above the \$4,000,000 original amount due changes in the scope and added costs like transportation, land preparation among others.

The recommended/desired financial terms, based on the guidance of our Financial Advisors and considering the annual debt service capacity of \$462,000, suggest a loan term of 10 years with an estimated interest rate of 4.5%. Providing caps at interest rate, term and amount provides us with enough flexibility and latitude to extend terms that align with our debt capacity amount of \$462,000 per year. More specific and finalized terms are anticipated to be included in the second reading of the ordinance.

At their November 20, 2024, meeting, the Finance Committee received a presentation on the acquisition of the asphalt plant and did not voice any concerns. The proposed contract for the acquisition is now under review by the City Attorney.

**DISCUSSION:**

Staff recommends approval.

**FISCAL IMPACT:**

New debt. Annual debt service budgeted.

**Fiscal Year:** 2025

**Amount Requested:**

**Budgeted:** Y / N

**Account (s):**

**“...I MOVE THAT THE MAYOR AND COUNCIL APPROVE THE SECOND READING OF ORDINANCE NO. 24-1205 BY NUMBER AND TITLE ONLY WITH MODIFICATIONS AS PRESENTED.”**