

SUBMITTED BY: Alejandro Martinez, Finance Director

MANAGEMENT TEAM REVIEW: Ana Urquijo, City Manager

FOCUS AREA: Infrastructure

ORGANIZATIONAL IMPROVEMENTS: N/A

SUBJECT: **FIRST 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 **PLEGGED 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.

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, an interest rate cap of 8%, and a maturity date no later than 2040. This approach provides flexibility as the city solicits bids for financing.

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 PLACEMENT OF ORDINANCE NO. 24-1205, ON ITS FIRST READING BY NUMBER AND TITLE ONLY.”

“...I MOVE THAT THE MAYOR AND COUNCIL APPROVE THE FIRST READING OF ORDINANCE NO. 24-1205 AND TO PLACE IT ON SECOND READING BY NUMBER AND TITLE ONLY.”