

NEWS RELEASE

City of Douglas

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City of Douglas Approves Authorization to Issue Debt for Public Safety Pension, Saving a Projected \$18 Million

DOUGLAS, ARIZ. (June 24, 2021) - At the regular Council meeting on Wednesday, June 9, 2021, the City of Douglas Mayor and Council voted unanimously to approve the authorization to issue Taxable Pledged Revenue Obligations (PROs), commonly known as bonds, in order to fund its Police and Fire Public Safety Personnel Retirement System (PSPRS) at or close to 100%. The City is currently only 31% funded creating nearly \$34.317 million of unfunded liability with PSPRS. The City's unfunded pension liability is a debt owed to the retirement system to pay retired and active first responders and had grown since 2003. If left as is, the annual unfunded liability payments to PSPRS through retirement contributions were projected to grow from \$2.4 million in 2022 to \$4.4 million in 2038. The pension system is managed by PSPRS, which is a statewide system where mostly all cities, towns and districts are facing similar unfunded liability challenges.

After Mayor and Council's authorization, on Thursday June 10, 2021, the City successfully sold \$38.885 million in PROs locking in an 18-year interest rate of 2.54%. In order to mitigate future market volatility within PSPRS, the City included \$4.07 million towards a contingency reserve fund that may be used to offset market shortfalls in PSPRS that may bring funding to less than 100%. With this financing structure, the City is projected to achieve net present value savings of \$18.096 million over 18 years.

The City received a favorable credit rating of AA- from both Fitch and S&P Global, moving the City up from an A rating achieved in 2015, representing a two-level increase. PROs are backed by future excise taxes and state-shared revenues.

Issuing PROs will greatly reduce ongoing budgeted retirement contribution annual payments within the police and fire budgets and create a more level annual payment structure through debt service, thus providing greater budget stability for years to come.

"We are taking a proactive approach by taking advantage of a favorable borrowing market to reduce an ongoing liability that will help stabilize the city's finances and prevent future tax increases," said Mayor Donald C. Huish. "It's great that we are taking care of our first responders as they have always taken care of us."

The City adopted its FY 21/22 tentative budget on June 9 as well. It included issuing PROs significantly reducing police and fire's operating budgets, specifically by removing the pension obligation line items and transferring it to a more stable debt service obligation.

The City is scheduled to wire \$34.317 million to PSPRS on July 1, 2021.