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FY2027 Road Funding Options

FOUNTAIN HILLS

Road Paving Needs & Restrictions

- Streets continue to be a topic of discussion
  - Town is spending about $10 million on road projects this fiscal year:
    - Palomino reconstruction (capital project)
    - Richwood reconstruction
    - Thistle reconstruction
    - Other roads identified by BOSS data (9/2/2025 Council meeting)
  - Based on previous discussions, Town roads need about $30-$50 million of additional roadwork (after $10 million this year)
  - New Town Dashboard shows roadwork completed since 2019

Road Paving Needs & Restrictions

- Streets continue to be a topic of discussion
  - Town Council has continued making key decisions to put more funding into Streets Fund, including $1.5 million this year

  - Finance projects that the Streets Fund will have about $6 million at the end of this fiscal year (after completion of about $10 million of road projects)

  - Expenditure Limitation restricts Town from increasing spending
    - Town staff has taken steps to allow one-time higher spending in the FY2026 budget
    - Other options could increase near-term funding and spending, such as debt that goes out longer than one year
      - Spending debt proceeds and repayment of debt are excludable from the expenditure limitation

Streets Fund – FY25 Actual Activity

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TPT (0.2%)
$1.4M

VLT $1.2M

HURF $1.8M

Investment Earnings + other $0.6M

Transfer in $4.0M

- Road Paving $4.9M, and
- $0.7M for:
  - sidewalk repairs
  - concrete
  - striping, etc.

Other Streets Needs $1.7M
(see next slide)

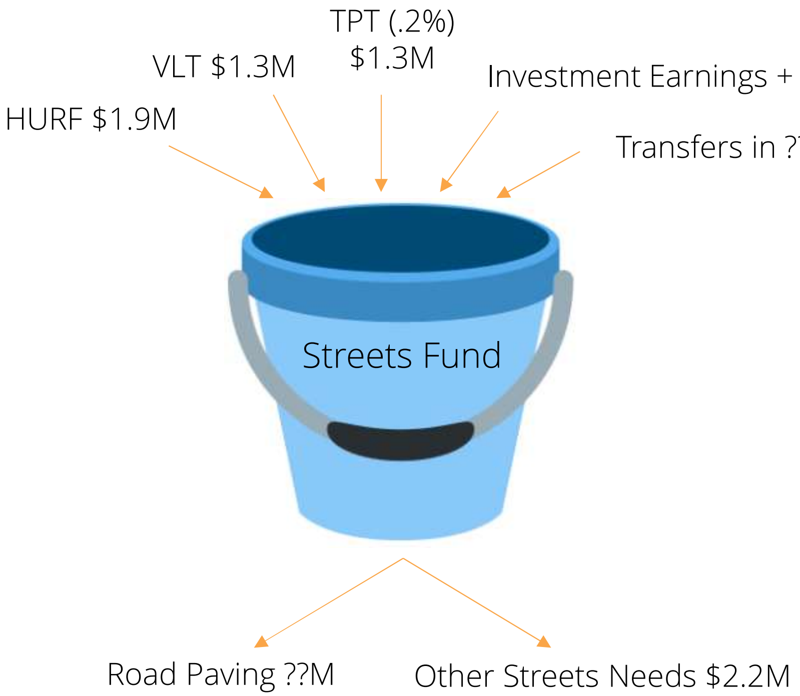
<u>Total Revenues/Transfers $9.2M</u>

<u>Total Expenditures $7.3M</u>

FY25 Actual Streets Fund – “Other Streets Needs”

- Streets Fund includes other expenditures:
  - Salaries & Benefits for Streets staff & other contractual services
    - About $1.1 million annually
  - Rights of Way Maintenance
    - About $500,000
  - Street Signs
    - About $60,000
  - Street Vehicle Maintenance
    - About $13,000

Streets Fund – FY27 Projected Revenues

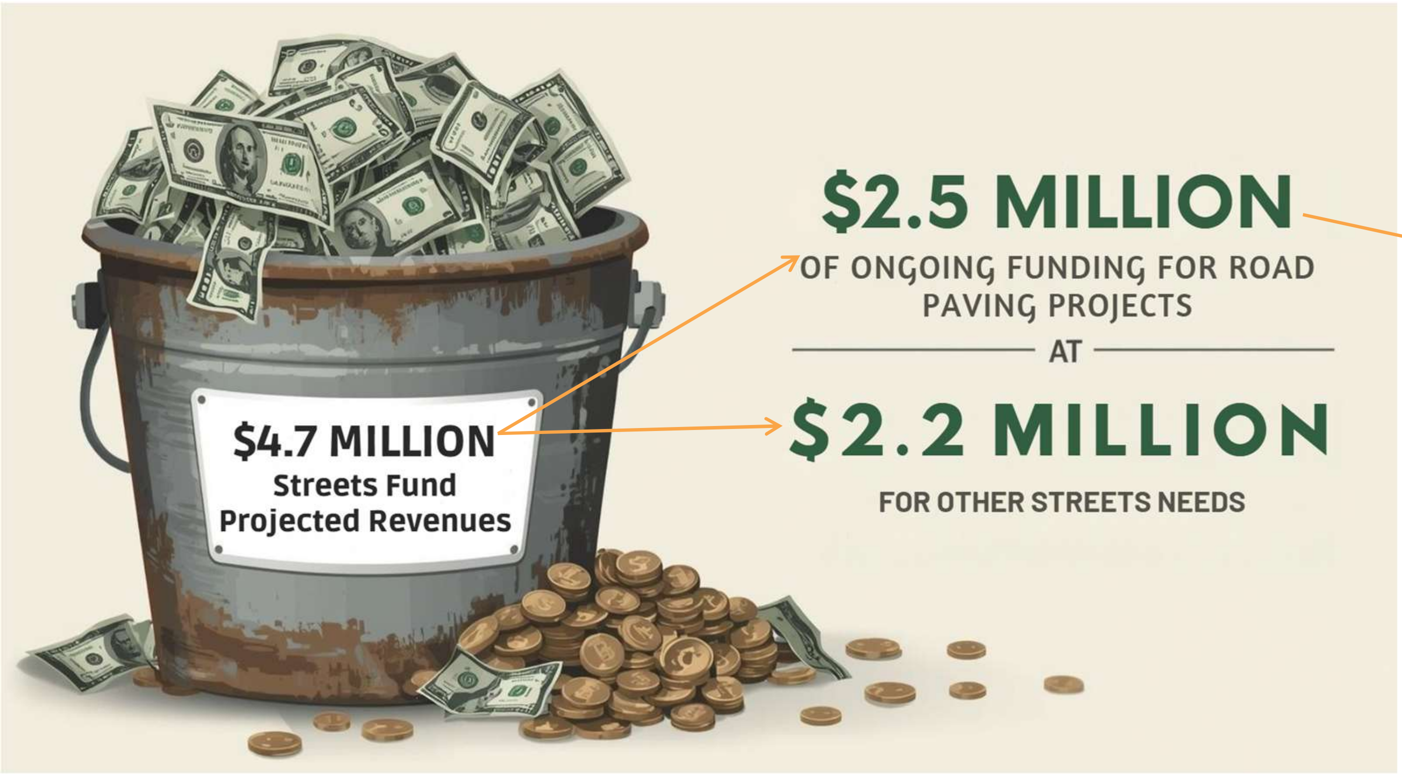


Total Revenues/Transfers $4.7M

Total Expenditures:

- $?? For Road Paving
- $2.2 million for Other

Streets Fund – Ongoing Revenues



The Town has been able to budget more than this base amount because we have accumulated savings in our Streets Fund balance

Projected Streets Fund Balance and Situation

- About $14M of transfers into Streets Fund over past 4 years have helped staff complete more roadwork (including about $10 million this year)
  - $6 million projected fund balance is about 15-20% of what's needed to complete all remaining road paving work.
- As discussed, the Expenditure Limitation restricts how much the Town can budget/spend each year
- Debt does not count toward Expenditure Limitation
  - Town can increase road spending
  - But, Town would pay interest on debt

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Streets Fund – Expenditure Limitation

- Arizona Constitution and statutes require municipalities to spend below the expenditure limitation
- The Town's FY27 preliminary Expenditure Limitation set by the Economic Estimates Commission (EEC) is $38.2M
- EEC adjusts Expenditure Limitation every year based on:
  - Inflation
  - Changes in population

Streets Fund – Expenditure Limitation

- Council has authorized transfers of $12.4M into Streets Fund from General Fund and Capital Projects Fund (FY23 through FY25)
  - Another $1.5M has been transferred from General Fund in FY26

- Some revenue sources (exclusions) do not count towards expenditure limitation
  - Total budget can be higher, but must be below limitation after exclusions are considered
  - Unused excludable revenue can be banked, or carried forward to future years

- HURF is an excludable revenue of about $1.8M per year and Investment Earnings are excludable
  - Staff re-evaluated past 3 years and maximized carryforwards for Streets Fund

Streets Fund – Expenditure Limitation

- Excludable Revenue Sources – Carried Forward
  - Highway User Revenues (Gas taxes) – about $1.8M per year
  - Investment Earnings

Road Funding Options – What are bonds?

- A bond is a type of loan made by an investor to a borrower (or bond issuer)

- Bond issuers (e.g., the Town) pay principal and interest to investors

- Cities and towns across the country issue tax-exempt municipal bonds to finance capital projects (e.g., governmental facilities, infrastructure, etc.)

Road Funding Options – What are bonds?

- Arizona municipal bonds are typically repaid from utility revenues, excise tax revenues, or property taxes (general obligation or "G.O.")

- Generally, the interest income on Arizona municipal bonds is exempt from federal income taxation, and exempt from Arizona income taxation

- Borrowing at "tax-exempt" interest rates enables Arizona cities and towns to have lower interest costs

- In some instances, issuers may also refinance, redeem or defease the bonds to restructure the payments, achieve savings, or pay off the debt early

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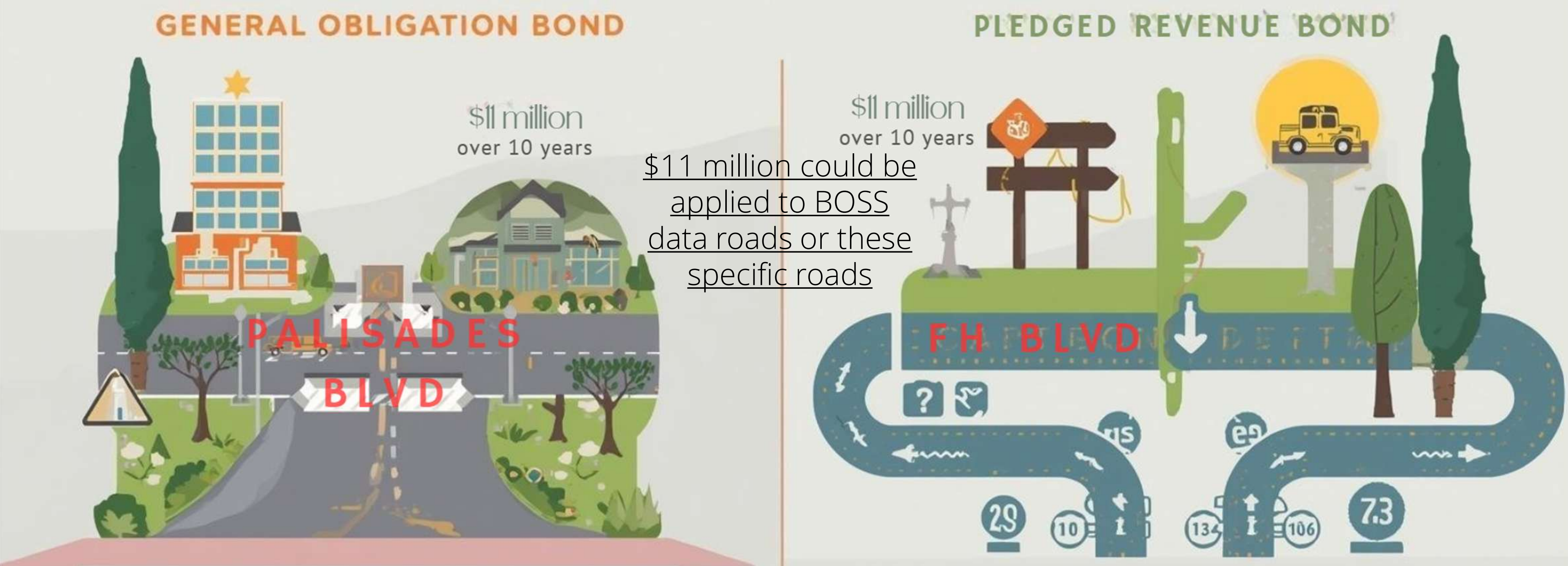
Previous Town Attempts for Road Bonds

- 2011 GO Bond - Failed
  - **For street/transportation-related purposes (broad)**
  - **$29.6 million – Failed at Ballot (44% for the bonds)**
- 2013 GO Bond - Passed
  - **For transportation/street upgrades (including rebuilding Saguaro Blvd) – (more specific)**
  - **Up to $8.2 million – Passed at ballot (about 67% for the bonds)**
  - **GO Bonds issued in FY2015 for $7.6 million and repaid over 5-year period**

Town of Fountain Hills - Road Funding Options for Council Consideration



$11 million could be applied to BOSS data roads or these specific roads

General Obligation Bond

Upon voter approval, the Town would levy a secondary property each year upon residents to pay off the debt until repaid.

Pledged Revenue Bond

No voter approval needed. The Town would restrict future revenues to pay off the debt until repaid. Optional to raise sales taxes to pay off the debt (Council approval or optional voter approval).

Other Important Considerations

- MAG includes Palisades Blvd (between Shea Blvd to Saguaro Blvd) in its future planned Prop 479 Phase IV projects
  - **Between 2041 and 2046, MAG would pay for 70% of the Town's reconstruction costs, up to $17 million**

Option #1

General Obligation Bonds

- Raises additional tax revenues to pay debt through secondary property tax levy
  - Town, by statute, will levy secondary property taxes to pay debt service on “new money” general obligation bonds (A.R.S. §35-458)
- Council approval required to proceed with election
  - Recommended election would take place in November 2027 – Special Election
  - Proceeds could be used starting in Fiscal Year 2028-29 (starting around July 2028)
- Typically, 15-25 years repayment period (10 or 20 years in our realistic scenarios)
- Very strong bondholder security: the borrower is obligated to levy property taxes in an amount sufficient to pay debt service. As a result, G.O. bonds are typically considered more secure than alternative bond types (e.g., revenue bonds), resulting in a lower interest rate for the issuer
- Proceeds and debt service payments do not count toward Expenditure Limitation

FOUNTAIN HILLS

Option #1

General Obligation Bonds – Election Timeline

FOUNTAIN HILLS

Town of Fountain Hills

Bond Election Timetable – November 2026 vs November 2027

This timetable compares placing a GO bond or GO-backed road bond question before voters in the November 2026 General Election versus a November 2027 Special Election.

Recommended timeline

Category	Nov 2026 – General Election	Nov 2027 – Special Election
Election Type	Statewide General Election	Town Special Election
Turnout	Higher	Lower
Cost	Lower (shared)	Higher (Town-funded)
Council Election Call	Early May 2026	Early May 2027
Publicity Pamphlet Final	August 2026	August 2027
Early Voting Begins	October 2026	October 2027
Election Day	Nov 3, 2026	Target Nov 2, 2027

Legal Authority: Arizona Constitution Art. IX §8; A.R.S. §16-204; A.R.S. §35-451-454

Option #1

General Obligation Bonds

- Per Arizona Constitution, the Town may only be indebted up to 26% of its net assessed full cash value
  - 6% category for general municipal purposes **About $62M of borrowing capacity**
  - 20% category for "water, artificial light, or sewers, when the works for supplying such water, light, or sewers are or shall be owned and controlled by the municipality, and for the acquisition and development by the incorporated city or town of land or interests therein for open space preserves, parks, playgrounds and recreational facilities, public safety, law enforcement, fire and emergency services facilities and streets and transportation facilities" **About $206M of borrowing capacity**

Option #1

General Obligation Bonds – Realistic Scenarios

FOUNTAIN HILLS

TOWN OF FOUNTAIN HILLS, ARIZONA

Debt Service Requirements and Projected Impact on the Secondary Tax Rate

After the Issuance of $11,210,000 of (Ad Valorem Supported) General Obligation Bonds

		$11,210,000 General Obligation Bonds Series 2028 Dated: 4/5/2028				Additional	
Fiscal Year	*Projected Net Assessed Limited Property Valuation (a)*	*Principal*	*Estimated Rate*	*Coupon Interest*	*Estimated Debt Service*	*Debt Service*	*Est. Tax Rate (b)*
2026	$649,988,612						
2027	682,488,043						
2028	716,612,445						
2029	752,443,067	$775,000	5.000%	$694,397	1,469,397	$1,469,397	$0.2056
2030	790,065,220	945,000	5.000%	521,750	1,466,750	1,466,750	0.1954
2031	829,568,481	995,000	5.000%	474,500	1,469,500	1,469,500	0.1865
2032	871,046,905	1,045,000	5.000%	424,750	1,469,750	1,469,750	0.1776
2033	871,046,905	1,095,000	5.000%	372,500	1,467,500	1,467,500	0.1773
2034	871,046,905	1,150,000	5.000%	317,750	1,467,750	1,467,750	0.1774
2035	871,046,905	1,205,000	5.000%	260,250	1,465,250	1,465,250	0.1771
2036	871,046,905	1,270,000	5.000%	200,000	1,470,000	1,470,000	0.1776
2037	871,046,905	1,330,000	5.000%	136,500	1,466,500	1,466,500	0.1772
2038	871,046,905	1,400,000	5.000%	70,000	1,470,000	1,470,000	0.1776
		$11,210,000		$3,472,397		$14,682,397	

(a) The Fiscal Year 2025/26 is per the County's February Estimated Net Assessed Limited Property Value (NALPV) and is projected to grow at 5.00% in Fiscal Years 2027 through 2032 and 0% thereafter.

(b) Projected supporting tax rate per $100 of assessed valuation. Projected tax rates assume 5% delinquent tax collections, do not include any adjustment for interest earnings, or an adjustment for rebate (if applicable).

- 10-year repayment period
- Assumes 5% coupon rate
- About $1.47M payment per year
  - $694k interest in first year
  - $70k interest in final year
- $14.7M of total debt service for $11.2M bond

Option #1

General Obligation Bonds – Realistic Scenarios

FOUNTAIN HILLS

TOWN OF FOUNTAIN HILLS, ARIZONA

Debt Service Requirements and Projected Impact on the Secondary Tax Rate

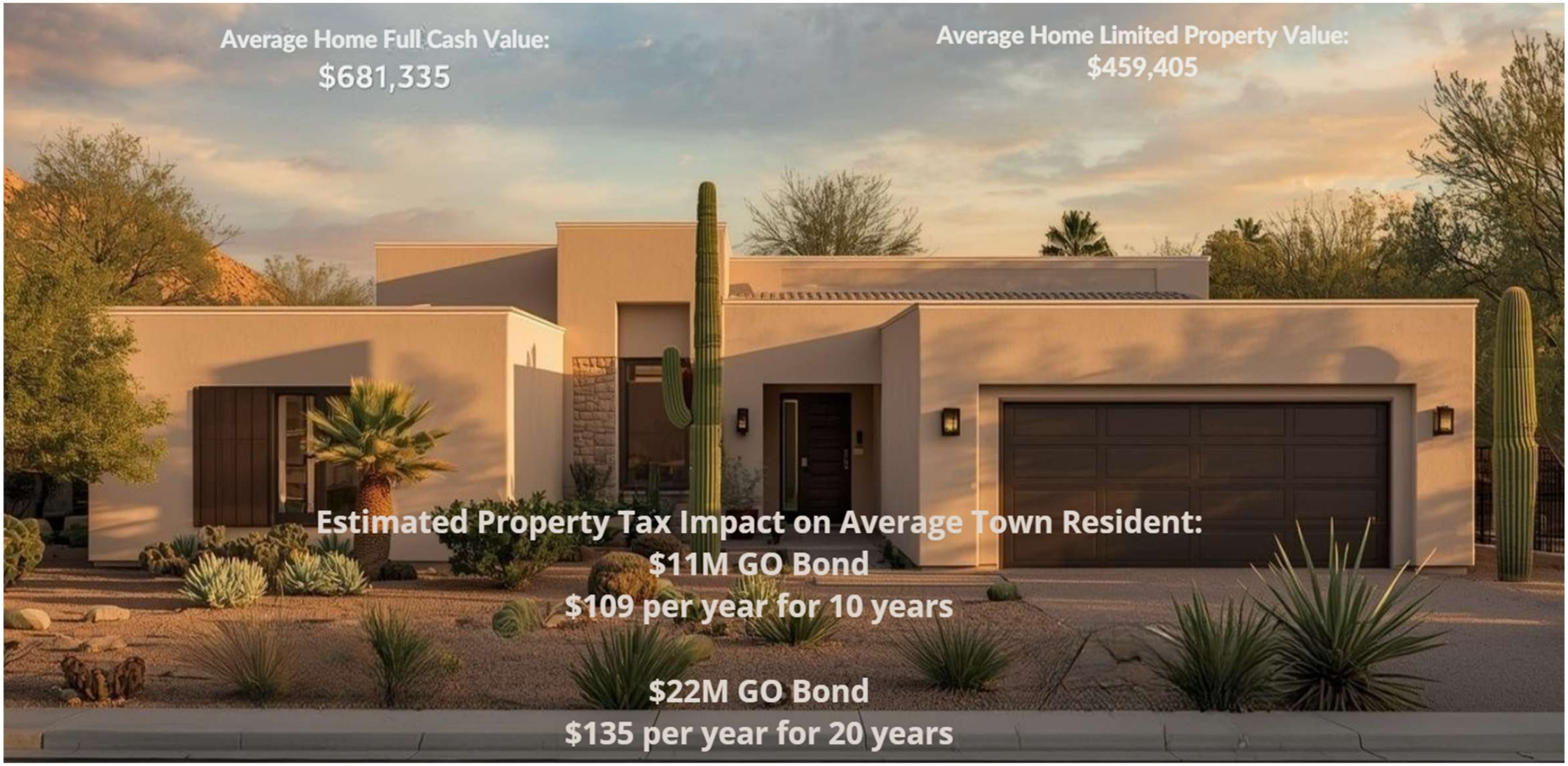
After the Issuance of $22,335,000 of (Ad Valorem Supported) General Obligation Bonds

		$22,335,000 General Obligation Bonds Series 2028 Dated: 4/5/2028				Additional	
Fiscal Year	Projected Net Assessed Limited Property Valuation (a)	Principal	Estimated Rate	Coupon Interest	Estimated Debt Service	Debt Service	Est. Tax Rate (b)
2026	$649,988,612						
2027	682,488,043						
2028	716,612,445						
2029	752,443,067	$430,000	5.000%	$1,383,529	1,813,529	$1,813,529	$0.2537
2030	790,065,220	715,000	5.000%	1,095,250	1,810,250	1,810,250	0.2412
2031	829,568,481	755,000	5.000%	1,059,500	1,814,500	1,814,500	0.2302
2032	871,046,905	790,000	5.000%	1,021,750	1,811,750	1,811,750	0.2189
2033	871,046,905	830,000	5.000%	982,250	1,812,250	1,812,250	0.2190
2034	871,046,905	870,000	5.000%	940,750	1,810,750	1,810,750	0.2188
2035	871,046,905	915,000	5.000%	897,250	1,812,250	1,812,250	0.2190
2036	871,046,905	960,000	5.000%	851,500	1,811,500	1,811,500	0.2189
2037	871,046,905	1,010,000	5.000%	803,500	1,813,500	1,813,500	0.2192
2038	871,046,905	1,060,000	5.000%	753,000	1,813,000	1,813,000	0.2191
2039	871,046,905	1,115,000	5.000%	700,000	1,815,000	1,815,000	0.2193
2040	871,046,905	1,170,000	5.000%	644,250	1,814,250	1,814,250	0.2192
2041	871,046,905	1,225,000	5.000%	585,750	1,810,750	1,810,750	0.2188
2042	871,046,905	1,290,000	5.000%	524,500	1,814,500	1,814,500	0.2193
2043	871,046,905	1,355,000	5.000%	460,000	1,815,000	1,815,000	0.2193
2044	871,046,905	1,420,000	5.000%	392,250	1,812,250	1,812,250	0.2190
2045	871,046,905	1,490,000	5.000%	321,250	1,811,250	1,811,250	0.2189
2046	871,046,905	1,565,000	5.000%	246,750	1,811,750	1,811,750	0.2189
2047	871,046,905	1,645,000	5.000%	168,500	1,813,500	1,813,500	0.2192
2048	871,046,905	1,725,000	5.000%	86,250	1,811,250	1,811,250	0.2189
		$22,335,000		$13,917,779		$36,252,779	

(a) The Fiscal Year 2025/26 is per the County's February Esimated Net Assessed Limited Property Value (NALPV) and is projected to grow at 5.00% in Fiscal Years 2027 through 2032 and 0% thereafter.

(b) Projected supporting tax rate per $100 of assessed valuation. Projected tax rates assume 5% delinquent tax collections, do not include any adjustment for interest earnings, or an adjustment for rebate (if applicable).

- 20-year repayment period
- Assumes 5% coupon rate
- About $1.81M payment per year
    - $1.4M interest in first year
    - $86k interest in final year
- $36.25M of total debt service for $22.3M bond


Average Home Full Cash Value:
$681,335
Average Home Limited Property Value:
$459,405
Estimated Property Tax Impact on Average Town Resident:
$11M GO Bond
$109 per year for 10 years
$22M GO Bond
$135 per year for 20 years

Option #2

Pledged Revenue Obligations – Excise Tax Pledge

- Does not increase Town tax revenues
  - Principal and interest payments are made from existing excise tax revenues that the Town pledged towards repayment of the debt
    - 0.2% of 2.9% TPT = excise tax for Streets Fund
      - About $1.4M per year
  - Town Council may send a local sales tax rate increase to voters (must be in even years), but is not required to do so

- No voter authorization required.
  - Can move forward with Council approval.
  - If accompanied by excise tax increase, November 2026 is next allowable election

- Funds can be available to Town within months
  - Since this financing type does not require voter approval, the financing could be complete as early as July 2027 (FY2027-28)

- Typically, 15-25 years repayment period (10 or 20 years in our realistic scenarios)

- Proceeds and debt service payments do not count toward Expenditure Limitation

Estimated Fees for a Bond Issuance

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$11,210,000.00

Fountain Hills, Arizona

General Obligation Bonds, Series 2028

(10 year amortization)

$22,335,000.00

Fountain Hills, Arizona

General Obligation Bonds, Series 2028

(20 year amortization)

Detail Costs Of Issuance

Dated 04/05/2028 | Delivered 04/05/2028

COSTS OF ISSUANCE DETAIL

	$11,210,000.00 (10 year amortization)	$22,335,000.00 (20 year amortization)
Municipal Advisor	$40,000.00	$50,000.00
Bond Counsel	35,000.00	40,000.00
Trustee Fee	3,000.00	3,000.00
Rating Agency Fee	30,000.00	65,000.00
POS/Official Statement	20,000.00	20,000.00
Miscellaneous	7,000.00	7,000.00
TOTAL	**$135,000.00**	**$185,000.00**

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Council Questions?

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