Eastmark No. 1 Community Facilities District

Board Report

Date: July 1, 2015

To: Eastmark No. 1 Community Facilities District Board

Through: Mike Kennington, Treasurer
Candace Cannistraro, Budget Director

From: Ryan Wimmer, Deputy Budget Director

Subject: FY 2015/16 Eastmark No. 1 Community Facilities District Final Budget

Purpose

This action approves the final FY 2015-16 budget for the Eastmark No. 1 Community Facilities District. Arizona law (ARS 48-716) requires that community facilities districts approve a final budget prior to October 1 of each year.

Background

On April 2, 2012 the Mesa City Council formed the Eastmark No. 1 Community Facilities District (CFD). The Eastmark CFD issues bonds in order to finance the cost of eligible infrastructure (streets, water lines, wastewater lines, parks) in the district. The principal and interest on these bonds is paid for with revenue generated by an annual property tax levy on taxable property in the district as well as a one-time tax assessment of from $2,500 to $3,500 on each property sold.

The Eastmark No. 1 Community Facilities District is divided into sub-units know as Special Assessment Districts (SADs). Special Assessment Districts #1, #2, #3, and #4 have been formed. Depending on how rapidly development takes place, Special Assessment Districts #5, #6, and #7 could potentially be formed during FY 2015/16 and are therefore included in the final budget.

Discussion

The Eastmark CFD budget includes three main areas: (1) operations, (2) capital, and (3) debt service.

(1) Operations

a. Expenses

The CFD pays for accounting, budget, clerk, engineering, legal, and treasurer staff time. In addition, publishing costs, audit work, and software license costs incurred by the district.

b. Revenue

State law allows for up to a $0.30 property tax rate to fund the operating costs of the District. Operating costs not funded by the $0.30 property tax rate are reimbursed by the Eastmark developer, DMB Associates, Inc (DMB).

(2) Capital

a. Expenses

The CFD uses bond proceeds to reimburse the Eastmark developer, DMB Associates, Inc., for the cost of eligible infrastructure. Because property values increased more rapidly than anticipated in prior years, the FY14/15 Eastmark CFD budget did not include sufficient capacity to issue the full amount of general obligation bonds that could be funded by estimated property tax revenue. As a result, the 2015 general obligation bond issuance was pushed back one month from June 2015 (FY14/15) to July 2015 (FY15/16) and included in the FY15/16 budget. Therefore the FY15/16 budget includes two general obligation (GO) bond issuances, 11 months apart. These GO bond issuances would reimburse DMB for infrastructure such as portions of Ray Road, portions of Signal Butte Road, and the Great Park.

Bond sales for Special Assessment Districts #4 and #5 are likely in FY15/16, while bond sales for SADs #6 and #7 are possible. These Special Assessment District bond issuances would reimburse DMB for portions of Crismon Road and other street improvements.

b. Revenue

Bond proceeds are the source of CFD payments made to DMB. The FY15/16 budget includes contingency of $3 million for budget capacity in case future property values appreciate more than anticipated.

(3) Debt Service

a. Expenses

The FY15/16 budget includes debt service (principal and interest) for the Eastmark CFD bonds that have already been issued, as well as for bond issuances that are planned for or that may occur during FY15/16.

b. Revenue

There are two funding sources for CFD debt service, (1) a secondary property tax levy on all taxable property in the district to service the debt on general obligation bonds, and (2) a $2,500 to $3,500 one-time assessment on each parcel when sold by the developer which services the debt on Special Assessment District bonds.

Property Tax Changes

The value of each property in the CFD is determined annually by either Maricopa

County or the State of Arizona. Property is assigned a full cash value (FCV) and a limited property value (LPV). Limited property value is restricted in how much it can increase each year, full cash value is not. A property's limited property value cannot exceed its full cash value. The Eastmark CFD property tax levy is a secondary property tax.

Historically, limited property value has been used to levy primary property tax and full cash value has been used to levy secondary property tax. In November 2012, Arizona voters approved an amendment to the state constitution regarding property valuation. As a result, beginning in FY15/16, all property tax is based on the limited property value and that value can only increase by 5% per year (this is more restrictive than the prior limit).

To offset the change in property tax methodology, the CFD Board provided direction (in its June 15, 2015 meeting) to plan to adjust the debt service portion of the FY15/16 property tax rate from $3.00 to $3.85 per $100 of net assessed value in order to generate the same levy that would have been generated under the prior methodology (see Table 1 below). The FY15/16 Final budget includes these adjustments as directed.

Table 1. FY15/16 Eastmark No. 1 CFD Property Tax

		Prior Method	New Method	FY15/16 Budget
Property Value	Secondary NAV	25,337,098		
	Primary NAV		19,763,210	19,763,210
Property Tax Rate (per $100 of NAV)	For Operations	$ 0.30	$ 0.30	$ 0.30
	For Debt Service	$ 3.00	$ 3.00	$ 3.85
	Total	$ 3.30	$ 3.30	$ 4.15
Property Tax Levy	For Operations	$ 76,011	$ 59,290	$ 59,290
	For Debt Service	$ 760,113	$ 592,896	$ 760,113
	Total	$ 836,124	$ 652,186	$ 819,403

The estimated annual cost of each method at several property sale prices is shown in Table 2 below.

Table 2. Eastmark CFD Property Tax Annual Cost

	Property Sale Price	Prior Method	New Method	FY15/16 Budget
Annual Cost to Homeowner	**$ 300,000**	$ 812	$ 633	$ 796
	$ 400,000	$ 1,082	$ 844	$ 1,062
	$ 500,000	$ 1,353	$ 1,055	$ 1,327
	$ 600,000	$ 1,624	$ 1,266	$ 1,593

Alternatives

The Board may postpone final approval of a final Eastmark CFD budget until as late as September 30, 2015, in order to make changes or allow time for more consideration.