

# 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 Property Tax Levy

### Purpose

This action approves the FY 2015-16 property tax levy for the Eastmark No. 1 Community Facilities District. Arizona law (ARS 48-723) requires that community facilities districts levy property tax on or before the deadline for approval of the city's annual budget, which is August 3 in 2015.

The resolution includes a FY 2015/16 property tax levy of \$819,403 and a property tax rate estimated at \$4.15 per \$100 of assessed value.

### 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.

### Discussion

Property tax is calculated as follows:

$$\text{value} * \text{rate} = \text{levy}$$

A property's value is determined by the County Assessor or State Department of Revenue. The property tax rate is set by governing bodies as a dollar amount per \$100 of assessed value. The property tax levy is the value multiplied by the rate, and is the dollar amount of property tax owed.

The Eastmark CFD property tax has two components:

- (1) a rate of up to \$0.30 to fund operations costs

The CFD pays for accounting, budget, clerk, engineering, legal, and treasurer staff time. In addition, it pays for publishing costs, audit work, and software license costs incurred by the district. Operating costs not funded by the \$0.30 property tax rate are reimbursed by the Eastmark developer, DMB Associates, Inc. (DMB).

- (2) a levy or rate sufficient to pay the debt service on general obligation bonds issued by the CFD to pay for infrastructure.

The CFD uses bond proceeds to reimburse the Eastmark developer, DMB Associates, Inc., for the cost of eligible infrastructure. The debt service (principal and interest) on these bonds is funded by a secondary property tax levy on property in the district. The targeted rate for this portion of the property tax has historically been \$3.00 per \$100 of assessed value. However, due a change in how property tax is calculated in Arizona beginning in FY 2015/16, the FY 2015/16 rate is anticipated to be \$3.85 (see additional detail below).

### 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 property tax levy includes these adjustments as directed.

Table 1. FY 2015/16 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

Table 2 below shows the estimated annual cost of each method at several property sale prices.

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 must adopt a property tax levy sufficient to pay principal and interest on existing general obligation bonds sold by the Eastmark CFD in 2014. Existing bonds would require a levy of around \$250,080 and a rate of around \$1.27. At this minimal levy and rate, additional general obligation bonds could not be issued in 2015.
- The Board could choose to maintain a \$3.00 property tax rate and reduce the amount of general obligation bonds issued in 2015 to correspond with the lower property tax revenue generated on the lower property value used in the new property tax methodology.