



# City Council Report

**Date:** November 11, 2015  
**To:** City Council  
**Through:** Christopher J. Brady, City Manager  
**From:** Mike Kennington, Chief Financial Officer

**Subject:** Discuss and consider a petition for the formation of the Cadence Community Facilities District and take action on a Resolution forming such District and entering into a Development, Financing Participation, Waiver and Intergovernmental Agreement with such District.

## Strategic Initiatives



## Purpose and Recommendation

The purpose of the report is to discuss and consider a Petition received for the formation of the Cadence Community Facilities District and take action on a Resolution forming such District and entering into a Development, Financing Participation, Waiver and Intergovernmental Agreement (the "Agreement") with such District.

## Background

Community facilities districts ("CFDs") provide a funding mechanism for the construction, operation, and maintenance of public infrastructure within the boundaries of the community facilities district and to better enable the City to provide municipal services within the boundaries of the district. As such, CFDs are often referred to as, "cities within a city." CFDs may acquire, construct or renovate items such as:

- Water
- Wastewater
- Roadways, parking
- Storm drains
- Parks
- Pathways
- Public buildings
- Landscaping
- Traffic control systems

## Discussion

The proposed Cadence CFD is primarily centered on residential development. The District is comprised of 403 acres scheduled for residential development. Harvard Investments, Inc., the developer of the District, projects an estimated 2,100 residential units will be constructed within the District. The remaining 58 acres of the project is planned for commercial development, which may also include churches, police, fire, school and library facilities. A full copy of Harvard's CFD application is attached to this council report.

### Public Improvements to be financed by CFD

Harvard proposes that the District will finance public infrastructure that is authorized by the Agreement and is the subject of the Pre-Annexation Development Agreement and Community Plan ("Public Infrastructure"). Listed below is a summary of the Project improvements, including Public Infrastructure, which Harvard anticipates requesting to be financed by the District.

| Cadence<br>Community Facilities District<br>Estimated Public Infrastructure Phasing Timetable (1) |                    |                               |                    |          |                              |
|---|--------------------|-------------------------------|--------------------|----------|------------------------------|
| Descriptions  | Estimated<br>Costs | Eligible For<br>CFD Financing | Anticipated Timing |          | Anticipated<br>Bond Type (2) |
|   |                    |                               | Start              | Complete |                              |
| <b><u>PHASE I</u></b>   |                    |                               |                    |          |                              |
| Cadence Parkway Phase 1-A   | \$ 1,683,276       | \$ -                          | Q4-2015            | Q2-2017  |                              |
| Cadence Parkway Phase 1-B   | 6,350,543          | 6,291,074                     | Q4-2015            | Q2-2017  | SA/GO                        |
| Cadence Parkway Phase 1-C   | 1,630,253          | 1,614,045                     | Q4-2015            | Q2-2017  | SA/GO                        |
| Ellsworth Road  | 2,600,722          | -                             | Q4-2015            | Q2-2017  |                              |
| Crimson Road Phase One  | 1,177,130          | 1,166,330                     | Q4-2015            | Q2-2017  | GO                           |
| Monumentation Structure   | 953,275            | -                             | Q4-2015            | Q2-2017  |                              |
| Monumentation Grade & Landscape   | 659,323            | -                             | Q4-2015            | Q2-2017  |                              |
| Phase One Tertiary Entry Monument   | 3,802,086          | -                             | Q4-2015            | Q2-2017  |                              |
| Recreation Center (7.6 Acres) Pool/Building/Amenities   | 16,262,178         | -                             | Q4-2015            | Q2-2017  |                              |
| Community Parks Phase One - HOA Controlled  | 3,395,210          | -                             | Q4-2015            | Q2-2017  |                              |
| Freeway Paseo Phase One (3.35 Acres)  | 1,425,024          | -                             | Q4-2015            | Q2-2017  |                              |
| Master Drainage   | 774,249            | -                             | Q4-2015            | Q2-2017  |                              |
| Master Improvements   | 8,320,794          | -                             | Q4-2015            | Q2-2017  |                              |
| In-Tract Lot Improvements   | 31,916,202         | -                             | Q4-2015            | Q2-2017  |                              |
| Sub-Total Phase One   | \$ 80,950,264      | \$ 9,071,449                  |                    |          |                              |
| <b><u>PHASE II</u></b>  |                    |                               |                    |          |                              |
| Well Site (.52 acres)   | \$ 114,920         | \$ -                          | Q4-2017            | Q2-2019  |                              |
| Cadence Pkwy Phase 2-A  | 1,863,146          | 1,845,465                     | Q4-2017            | Q2-2019  | SA/GO                        |
| Cadence Pkwy Phase 2-B  | 1,863,146          | 1,845,465                     | Q4-2017            | Q2-2019  | SA/GO                        |
| Crimson Road Phase 2-A  | 4,373,089          | 2,942,018                     | Q4-2017            | Q2-2019  | GO                           |
| Crimson Road Phase 2-B  | 1,431,071          | -                             | Q4-2017            | Q2-2019  |                              |
| Monumentation Structure   | 634,525            | -                             | Q4-2017            | Q2-2019  |                              |
| Monumentation Grade & Landscape   | 389,614            | -                             | Q4-2017            | Q2-2019  |                              |
| Phase Two Tertiary Entry Monument   | 1,702,256          | -                             | Q4-2017            | Q2-2019  |                              |
| Community Parks Phase 2 - HOA Controlled  | 4,233,829          | -                             | Q4-2017            | Q2-2019  |                              |
| Community Park - HOA Controlled (3)   | 4,954,549          | -                             | Q4-2017            | Q2-2019  |                              |
| Freeway Paseo Phase Two (4.05 Acres)  | 2,188,274          | -                             | Q4-2017            | Q2-2019  |                              |
| Master Drainage   | 453,646            | -                             | Q4-2017            | Q2-2019  |                              |
| Master Improvements   | 4,875,295          | -                             | Q4-2017            | Q2-2019  |                              |
| In-Tract Lot Improvements   | 22,212,905         | -                             | Q4-2017            | Q2-2019  |                              |
| Sub-Total Phase Two   | \$ 51,290,264      | \$ 6,632,948                  |                    |          |                              |

| Descriptions                             | Estimated                    | Eligible For                | Anticipated Timing |          | Anticipated   |
|--|------------------------------|-----------------------------|--------------------|----------|---------------|
|  | Costs                        | CFD Financing               | Start              | Complete | Bond Type (2) |
| <b><u>PHASE III</u></b>                  |                              |                             |                    |          |               |
| Cadence Parkway Phase 3                  | \$ 2,918,167                 | \$ 2,898,167                | Q4-2019            | Q2-2021  | SA/GO         |
| Williams Field Road Phase 3-A            | 1,202,947                    | 1,202,947                   | Q4-2019            | Q2-2021  | GO            |
| Williams Field Road Phase 3-B            | 929,550                      | -                           | Q4-2019            | Q2-2021  |               |
| Crimson Road Phase 3                     | 918,714                      | -                           | Q4-2019            | Q2-2021  |               |
| Monumentation Structure                  | 634,525                      | -                           | Q4-2019            | Q2-2021  |               |
| Monumentation Grade & Landscape          | 389,614                      | -                           | Q4-2019            | Q2-2021  |               |
| Phase Three Tertiary Entry Monumentation | 1,702,256                    | -                           | Q4-2019            | Q2-2021  |               |
| Community Park - HOA (4 acres)           | 1,353,413                    | -                           | Q4-2019            | Q2-2021  |               |
| Master Drainage                          | 356,407                      | -                           | Q4-2019            | Q2-2021  |               |
| Master Improvements                      | 4,355,886                    | -                           | Q4-2019            | Q2-2021  |               |
| In-Tract Lot Improvements                | 18,427,282                   | -                           | Q4-2019            | Q2-2021  |               |
| Sub-Total Phase Three                    | <u>\$ 33,188,760</u>         | <u>\$ 4,101,114</u>         |                    |          |               |
| <b>Total - All Phases</b>                | <b><u>\$ 165,429,288</u></b> | <b><u>\$ 19,805,511</u></b> |                    |          |               |

Source: Silver Fern Companies, LLC.

**Footnotes:**

- (1) Estimate: Improvement costs are expressed in terms of 2015 dollars and are likely to increase over time.  
(2) Represents the anticipated Bond types which may be used to finance the construction/acquisition of the indicated Public Infrastructure (where "SA/GO", indicates one or the other Bond type).  
(3) In the event the City desires the community park to be public, costs may be eligible for CFD financing.

Harvard anticipates that the Public Infrastructure will be constructed over a period of approximately six years.

In order to qualify for District reimbursement, Harvard must publicly bid all eligible Public Infrastructure in accordance with Title 34 and the City's public bidding provisions.

**Plan of Finance**

In response to a petition signed by the owners of all of the land within the District, Harvard has requested that the City Council adopt a resolution declaring the District formed in November 2015. Harvard also requests, after formation of the District, that the District governing board will call a general obligation bond election to authorize up to the issuance of \$45,000,000 of District general obligation bonds in multiple series, over time. It is anticipated that Harvard will also request, over time, that the District governing board authorize and levy special assessments and issue special assessment bonds.

The general obligation bonds would be issued in series over time when the secondary assessed value of the property within the District is sufficient to support bond debt service given a target tax rate of \$3.85 per \$100 of net assessed valuation or at such time as Harvard provides collateral in amounts and type acceptable to the District governing board. In addition, Harvard anticipates the levy of assessments and issuance of special assessment lien bonds, over time, based on the phasing of the Project.

**Terms of the Bonds**

The general obligation and special assessment bonds will have final maturities of no greater than 25 years from the respective dates of issuance. The general obligation bonds will be sized such that the ad valorem tax rate required to pay debt service is

not expected to exceed a target tax rate of \$3.85 per \$100 of net assessed value of the property within the District.

If and when issued, any per lot special assessment amount is not expected to exceed \$3,500 per lot.

#### Homeowner's Obligation

While market pricing and values are difficult to anticipate, Harvard is respectful to Council's concern regarding the tax burden that the CFD will add to a homeowner's obligation. The anticipated debt burden on homeowners living within the District, according to Harvard's application, will be consistent with comparable master-planned communities in the Phoenix Metropolitan area.

#### Disclosure of CFD to Homebuyers

State law requires the disclosure of all property taxes to be paid by the homeowner in the Subdivision Public Report. Prior to a home sale, each homebuyer must be supplied a Subdivision Public Report, and the homebuyer must acknowledge by signature that they have read and accepted the Subdivision Public Report. In addition, each homebuyer will receive a form detailing the existence of the District, the tax rate and its financial impact and receipt of the form will be acknowledged in writing by the homebuyer.

#### Development Agreement

Harvard and the City staff have come to agreement on the terms and conditions that will govern Cadence CFD. The Agreement covers such items as:

- Establishes the not to exceed bond authorization of \$45,000,000
- Established that Harvard agrees not to seek the issuance of general obligation bonds in excess of \$40,500,000
- Establishes standards of indemnification of the District, District Board and District Administration
- Sets a 10 year reimbursement eligibility window for each eligible CFD financed, constructed and City accepted public improvement.
- After first paying District Expenses, the DA establishes the priority of disbursement of remaining available Operation and Maintenance (O&M) tax proceeds
- In the event during any year of the initial 15 years of the Agreement the O&M tax funds are insufficient to pay for the annual District Insurance Expense, Harvard agrees to fund up \$50K of the District's insurance expense
- That the Developer agrees that only the District and District Board has the, "sole, absolute and unfettered discretion to issue and or approve the sale of District Bonds or levy of District taxes or assessments and that nothing in this agreement obligates the District to issue or continue to issue any District Bonds or levies."
- The City shall be paid by the District for its costs and expenses relating to the District and the infrastructure financed by the District

### Council will sit as District Board

If the Council does approve the Development Agreement and formation of the District, the Council will sit as the District Board. If approved, the first meeting of the District Board will be November 19, 2015. The District Board will discuss and consider Harvard's application as well as this Development Agreement.

### **Alternatives**

If Council does not approve the Development Agreement as drafted and recommended, they may choose one of the alternatives listed below.

Not Approve Development Agreement: The Council could choose to not approve the DA. If the Council chooses not to approve the DA, the CFD application will not move forward and it is likely that the Cadence Development may be significantly delayed and or altered.

Direct Staff to Modify the Development Agreement: Council could direct staff to modify the Agreement. The impact is unknown except for a likely project delay while parties return to negotiate.

Take No Action: The Council could choose to take no action or table an item until a future date. This would likely result in a delay in the project.

### **Fiscal Impact**

The cost of staff and outside counsel to review, negotiate and prepare for the possible formation of the District is paid by Harvard per the City's CFD policy.

Operation and Maintenance: In an effort to have the CFD be self-supporting for its administrative, operation and maintenance expenses, the City and the CFD may impose a tax up to \$0.30 per \$100 net assessed value ad valorem tax upon the taxable property within the District. However, it is unlikely that this tax will generate sufficient revenues to fully cover both District administrative and O&M costs related to CFD constructed and City accepted public infrastructure. It is anticipated that any O&M costs not covered with this tax will be funded through similar means to other City infrastructure.

### **Coordinated With**

These agreements have been coordinated with Engineering, Economic Development, Planning, Management and Budget, Development Services, Parks Recreation and Commercial Services, and the City Manager's Office.