Eastmark Community Facilities District No. 1

Board Report

Date: June 9, 2016

To: Eastmark Community Facilities District No. 1 Board

Through: Mike Kennington, Treasurer
Candace Cannistraro, Budget Director

From: Ryan Wimmer, Deputy Budget Director

Subject: FY 2016-17 Eastmark Community Facilities District No. 1 Budget

Purpose

This action approves a FY 2016-17 proposed (Tentative) budget for the Eastmark Community Facilities District No. 1 and calls a public hearing on the budget for July 5, 2016. These actions are the first steps in the approval process for the Eastmark Community Facilities District No. 1 FY 2016-17 budget. Arizona law (ARS 48-716) requires that, on or before July 15 of each year, community facilities districts approve a proposed budget and call a public hearing on the budget for the upcoming fiscal year.

Background

On April 2, 2012 the Mesa City Council formed the Eastmark Community Facilities District (CFD) No. 1. The Eastmark CFD issues bonds in order to finance the cost of eligible infrastructure (streets, water lines, wastewater lines, parks, etc.) in the geographical boundaries of 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 $3,500 on each property sold.

The Eastmark Community Facilities District No. 1 is divided into seven sub-units called Special Assessment Districts (SADs). Special Assessment Districts 1, 2, 3, 4, and 5 have been formed and special assessment bonds have been issued to finance infrastructure within each SAD. Special Assessment Districts 6 and 7 are expected to be formed in FY 2016-17 and bond issuances for the new districts are therefore included in the Tentative budget.

Discussion

The Eastmark CFD budget includes three categories of costs: (1) operations, (2) capital, and (3) debt service.

(1) Operations

a. Expenditures

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.

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 up to $0.30 property tax rate are reimbursed by the Eastmark developer, DMB Associates.

(2) Capital

a. Expenses

The CFD uses bond proceeds to reimburse the Eastmark developer, DMB Associates, for the cost of eligible infrastructure. The FY 2016-17 budget includes a General Obligation (GO) bond issuance of $1.3 million. In order to properly size a bond issuance, District staff plans to wait to receive final (August) property values for FY 2016-17 from the County before considering the issuance of GO bonds in 2016. These bonds would reimburse DMB for portions of the Great Park.

Bond sales for Special Assessment Districts 6 and 7 are planned for FY 2016-17. These Special Assessment District bond issuances would reimburse DMB for street improvements on Parc Joule and Everton Terrace (SAD 6) and other street improvements (SAD 7).

b. Revenue

Bond proceeds are the source of CFD payments made to DMB Associates. The FY 2016-17 budget includes contingency of $1 million for budget capacity in case property values appreciate more than anticipated.

(3) Debt Service

a. Expenses

The FY 2016-17 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 FY 2016-17.

b. Revenue

There are two funding sources for CFD debt service, (1) a secondary property tax levy on property in the district to service the debt on General Obligation bonds, the planned rate for FY 2016-17 being $3.85 per $100 of net assessed value, and (2) a $3,500 one-time assessment on each parcel when sold by the developer which services the debt on Special Assessment District bonds.

Property Tax

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 to a 5% maximum increase each year; full cash value does not have an annual increase restriction. A property's limited property value cannot exceed its full cash value. The Eastmark CFD property tax levy is a secondary property tax.

Due to the voter-approved change in property tax methodology, in FY 2015-16 the District increased the targeted property tax rate of $3.00 per $100 of net assessed value to $3.85 per $100 for the debt service portion of the property tax rate in order to offset the change in property valuation and to generate the same levy. The same tax rate target of $4.15 ($3.85 for debt service and $0.30 for operations) is recommended in FY 2016-17.

Table 1. Eastmark CFD No. 1 - FY 2016-17 Property Tax Rate and Levy

Purpose	**Rate** (per $100 of NAV)	**Levy**
Operations	$0.30	$ 64,044
Debt Service	$3.85	$821,902
Total	**$4.15**	**$885,947**

Impact to Property Owners

Owners of the average (mean) value residential property in the Eastmark Community Facilities District No. 1 would pay $910 in District property tax in FY 2016-17 in addition to $254 of City property tax.

Additional Information

The property tax levy amount is included in the FY 2016-17 budget in order to create budget capacity, but it does not obligate the Board to any specific course of action with regards to the property tax rate and levy.

Budget Adoption - Next Steps

On July 5, 2016 the Board is scheduled to (1) hold a public hearing on the budget, (2) approve the Final budget, and (3) levy property tax on property in the District, which would complete the FY 2016-17 budget process.

Alternatives

The Board may also choose to postpone approval of a proposed Eastmark CFD No. 1 budget until as late as July 15, 2016 in order to make any adjustments.