Eastmark Community Facilities District No. 1

Board Report

Date: July 5, 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 Property Tax Levy

Purpose

This action approves the FY 2016-17 property tax levy for the Eastmark Community Facilities District No. 1. 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 1 in 2016.

The resolution for this item includes approval of the Eastmark CFD No. 1 FY 2016-17 property tax levy of $885,947 and a property tax rate of $4.15 per $100 of assessed value subject to taxation.

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:

property <u>value</u> * tax <u>rate</u> = tax <u>levy</u>

A property's <u>value</u> is determined annually by either the County Assessor or State Department of Revenue. The property tax <u>rate</u> is set by governing bodies as a dollar amount per $100 of net assessed value. The property tax <u>levy</u> is the property <u>value</u> multiplied by the tax <u>rate</u>, 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 (ARS 48-723(A))

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.

(2) a levy/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, 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 target for the debt service portion of the property tax rate is $3.85.

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 reduced property valuation in order 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 and $254 of City property tax.

Alternatives

The Board must adopt a property tax levy sufficient to pay the principal and interest on existing general obligation bonds sold by the Eastmark CFD in 2014 and 2015. Existing bonds would require a levy of around $755,000 and a rate of $3.72. At this minimal levy and rate, new general obligation bonds could not be issued in 2016.