Eastmark Community Facilities District No. 1

Board Report

Date: June 29, 2017

To: Eastmark Community Facilities District No. 1 Board

Through: Michael Kennington, Treasurer
Candace Cannistraro, Budget Director

From: Ryan Wimmer, Deputy Budget Director

Subject: FY 2017-18 Eastmark Community Facilities District No. 1 Budget

Purpose

This action approves the FY 2017-18 final budget for the Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) (the "District"). This action is the final step in the approval process for the District's FY 2017-18 budget. Arizona law (ARS 48-716) requires that, on or before October 1 of each year, community facilities districts hold a public hearing on the budget and approve a final budget for the upcoming fiscal year.

Background

On April 2, 2012, the Mesa City Council formed the District. The District issues general obligation bonds in order to finance the cost of eligible public infrastructure (streets, water lines, wastewater lines, parks, etc.) within the geographical boundaries of the District. The principal of and interest on these general obligation bonds is paid for with revenue generated by the levy of an annual ad valorem property tax on taxable property in the District. The issuance of additional general obligation bonds in FY 2017-18 is under consideration and therefore such issuance is included in the District budget for FY 2017-18, but the District has no obligation to issue any such bonds.

The District also issues special assessment bonds secured by special assessments on residential lots within certain designated Special Assessment Districts ("SADs" and each a "SAD"). SADs 1 through 6 have been formed and special assessment bonds have been issued to finance local infrastructure within each of such SADs. The special assessment amounts on residential lots within SADs 1 through 6 do not exceed $3,500 on each residential lot within the particular SAD. SADs 7 through 9 may, at the District's discretion, be formed in FY 2017-18. Special assessment bond issuances for SADs 7 through 9 are therefore included in the District budget for FY 2017-18, but the District has no obligation to issue any such bonds.

Discussion

The FY 2017-18 District budget includes spending for three purposes: (1) operations, (2) capital, and (3) debt service.

(1) Operations

a. Expenditures

The District 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. Funding Sources

State law (ARS 48-723) allows for up to a $0.30 per $100 of assessed valuation ad valorem property tax to fund the operating and maintenance costs of the District (the "O&M tax"). Operating and maintenance costs not funded by the O&M tax are reimbursed by the District's master developer, DMB Associates ("DMB").

(2) Capital

a. Expenditures

The District uses bond proceeds to reimburse DMB for the cost of eligible public infrastructure. The FY 2017-18 District budget includes a potential general obligation bond issuance of $8.2 million. To accurately size a FY 2017-18 bond issuance, District staff plans to wait to receive final (August) FY 2017-18 property values from the County before considering the issuance of general obligation bonds. These general obligation bonds would reimburse DMB for portions of The Great Park, Signal Butte Road, and East Point Twenty-Two Boulevard. Issuance of general obligation bonds is at the District's discretion.

The District may also issue special assessment bonds for SADs 7, 8, and 9 in FY 2017-18. SADs 7, 8 and 9 have not been formed. These SAD special assessment bond issuances would reimburse DMB for street improvements on Eastmark Parkway (SAD 7) and other street improvements to be determined (SAD 8 and SAD 9). Formation of SADs 7 through 9 and issuance of the related special assessment bonds is at the discretion of the District.

b. Funding Sources

Proceeds from general obligation bonds and special assessment bonds are the source of District payments made to DMB. The FY 2017-18 District budget includes a contingency for budget capacity to provide flexibility in how the general obligation bonds are structured and in case final property values are higher than anticipated.

(3) Debt Service

a. Expenditures

The FY 2017-18 District budget includes debt service (principal and interest) for the District bonds that have already been issued, as well as for bond issuances that are being considered for FY 2017-18.

b. Funding Sources

There are two funding sources for District bond debt service, depending on the type of bond: (1) the District's general obligation bonds are secured by the levy of a secondary ad valorem property tax on taxable property in the District, and the planned secondary tax rate for FY 2017-18 debt service on such general obligation bonds is $3.85 per $100 of assessed valuation of taxable property, and (2) the District's special assessment bonds are secured by special assessments on residential lots within a designated SAD in an assessment amount not greater than $10,000 per residential lot. The amount of the special assessment that may be levied on a residential lot is limited by the value of the property in each SAD; assessments from SADs 1 through 6 have ranged from $2,000 to $3,500. Payment of the special assessments can be made in annual installments over the life of the SAD bonds, which is typically 25 years. Owners of residential lots may prepay the special assessments at any time.

Property Tax

The valuation of real property in the District 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"). The annual increase in LPV is restricted to 5%; FCV does not have an annual increase restriction. A property's LPV cannot exceed its FCV. The District's property tax levy is a secondary property tax. Pursuant to recent changes in Arizona law, both primary and secondary property taxes are levied against the net assessed LPV of a property, which is a percentage of the property's LPV calculated in accordance with statutory guidelines.

Due to a voter-approved change in property tax methodology, in FY 2015-16 the District increased the targeted property tax rate from $3.00 per $100 of net assessed valuation to $3.85 per $100 of net assessed valuation for the debt service portion of the property tax rate to offset the change in property valuation and to generate the same levy. The same tax rate of $4.15 per $100 of net assessed valuation ($3.85 for debt service and $0.30 for operating and maintenance) is targeted in FY 2017-18.

Table 1. Eastmark CFD No. 1 - FY 2017-18 Property Tax Rate and Levy

Purpose	Tax Rate (per $100 of NAV)	Tax Levy
Operations	$0.30	$ 111,418
Debt Service	$3.85	$1,429,858
Total	**$4.15**	**$1,541,276**

<u>Impact to Property Owners</u>

The owner of the average (mean) value residential property in the District would pay $899 of District property taxes in FY 2017-18, in addition to $237 of City property taxes.

<u>Additional Information</u>

The property tax levy amount is included in the FY 2017-18 District budget to create budget capacity, but does not obligate the Board to any specific course of action with regards to the property tax rate and levy.

Alternatives

The Board may also choose to postpone approval of the final District budget until as late as October 1, 2017, to make any adjustments.