

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 Property Tax Levy

Purpose

This action approves the FY 2017-18 property tax levy for the Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) (the "District"). Arizona law ([ARS 48-723](#)) requires that community facilities districts levy property taxes on or before the deadline for approval of the city's annual budget, which is August 7 in 2017.

The resolution for this item includes approval of the District FY 2017-18 property tax levy of \$1,541,276 and a property tax rate of \$4.15 per \$100 of assessed valuation subject to taxation.

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.

State law also allows for a portion of the property tax levy to support the operational costs of administering the District.

Discussion

Property tax is calculated as follows:

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

A property's value is determined annually by either the County Assessor or State

Department of Revenue. The property tax rate is set by governing bodies as a dollar amount per \$100 of net assessed valuation. The property tax levy is the property value multiplied by the tax rate, and is the dollar amount of property tax owed.

The District's ad valorem property tax has two components:

- (1) a rate of up to \$0.30 per \$100 of net assessed valuation to fund the operating and maintenance costs of the District (the "O&M tax").

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. Operating and maintenance costs not funded by the O&M tax are reimbursed by the District's master developer, DMB Associates ("DMB").

- (2) a levy/rate sufficient to pay the debt service on general obligation bonds issued by the District to pay for public infrastructure reimbursement.

The District uses general obligation bond proceeds to reimburse the DMB for the cost of eligible public infrastructure. The debt service (principal and interest) on these general obligation bonds is funded by a secondary property tax levy on taxable property in the District. The target for the debt service portion of the property tax rate has been \$3.85 per \$100 of net assessed valuation.

Property Tax

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 the above-mentioned changes 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 estimated change in property valuation and to generate the same levy. The same tax rate of \$4.15 per \$100 of assessed valuation (\$3.85 for debt service and \$0.30 for operations) is targeted in FY 2017-18.

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

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

Impact to Property Owners

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.

Alternatives

The Board must adopt a property tax levy sufficient to pay the principal of and interest on existing general obligation bonds sold by the District in calendar years 2014 and 2015. These existing bonds would require a levy of \$753,000 and a rate of \$2.03 per \$100 of assessed valuation. At this minimal levy and rate, new general obligation bonds could not be issued in FY 2017-18.