



City Council Report

Date: December 10, 2018
To: City Council
Through: Christopher J. Brady, City Manager
From: Michael Kennington, Chief Financial Officer
Subject: Discuss and consider a petition for the formation of the Eastmark Community Facilities District No. 2 and take action on a Resolution forming such District and entering into a Development, Financing Participation, Waiver and Intergovernmental Agreement with such District. (District 6)

Purpose and Recommendation

The purpose of the report is to discuss and consider a Petition received for the formation of the Eastmark (formerly Mesa Proving Grounds) Community Facilities District No. 2 and take action on a Resolution forming such District and entering into a Development, Financing Participation, Waiver and Intergovernmental Agreement with such District.

Staff recommends formation of District and approval of the Agreement.

Background

Community facilities districts ("CFD") 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." CFD's may acquire, construct or renovate items such as:

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

The Eastmark development is a mixed-use master planned community that began construction in 2012 after DMB's acquisition of the northern 3,000+ acres of the former GM Proving Grounds. Formation of the first Eastmark CFD was approved by the City of Mesa on April 2, 2012 upon the request of DMB Mesa Proving Grounds LLC (the "Developer," who is owned by DMB/Brookfield Eastmark LLC). CFD #1 consists of 2,170 acres and is located east of the 202 freeway generally bounded by Elliot Road to the north, Williams Field Road to the south, Ellsworth Road to the west, and Signal Butte Road to the east. As of August 26, 2018, homebuilders have sold approximately 3,030 single family residential units within Eastmark.

Discussion

Because of continued growth in residential development, the developer has submitted an application for the formation of Eastmark CFD #2. CFD #2 is comprised of approximately 227 acres, of which 202 acres is scheduled for residential development. The District is anticipated to include 1,000 residential dwelling units. A full copy of DMB's CFD #2 application is attached to this council item. DMB has multiple properties, across multiple states that utilize CFDs.

Public Improvements to be financed by CFD

DMB proposes that the District will finance public infrastructure that is authorized by the Agreement and is the subject of the Planned Area Development Agreement and Community Plan ("Public Infrastructure"). DMB anticipates that the Public Infrastructure will be constructed over a period of approximately ten years.

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

Listed below is a summary of the Project improvements, including Public Infrastructure, which DMB anticipates requesting to be financed by the District.

Estimated Costs of Project Improvements

Description	Total Project Costs	Costs Eligible For CFD Financing	Costs Not Eligible For CFD Financing
<u>Roadways:</u>			
Ellsworth Road	\$7,234,146	\$6,315,783	\$ 918,363
Signal Butte Road	1,281,629	1,017,997	263,632
Ray Road	1,714,412	1,671,887	42,525
Eastmark Parkway	7,219,368	5,750,249	1,469,119
Inspirian Parkway	10,041,975	8,202,318	1,839,657
Point Twenty-Two Blvd	5,946,197	5,189,119	757,078
Warner Road North	5,032,316	4,228,164	804,152
Other Onsite Arterial and Collector Roadways	6,589,030	5,241,036	1,347,994
Total Roadways	45,059,073	37,616,553	7,442,520
<u>Monumentation</u>			
Primary Entry Monumentation	1,979,959	1,890,406	89,553
Secondary Entry Monumentation	2,900,545	2,610,490	290,055
Total Monumentation	4,880,504	4,500,896	379,608
<u>Amenities, Parks and Trails</u>			
Community Parks	7,928,530	7,489,347	439,183
Central Park	11,251,072	10,607,829	643,243
Total Amenities, Parks and Trails	19,179,602	18,097,176	1,082,426
<u>Other Infrastructure</u>			
Offsite Sewer – Warner Road	1,962,374	1,931,275	31,099
Community Traffic Signals	3,299,410	3,246,810	52,600
Total Other Infrastructure	5,261,784	5,178,085	83,699
Combined Total	\$74,380,963	\$65,392,710	\$8,988,254

Plan of Finance

In response to a petition signed by the owners of all of the land within the District, DMB has requested that the City Council adopt a resolution declaring the District formed. DMB also requests, after formation of the District, that the District governing board will call a general obligation bond election to authorize the issuance of \$70,000,000 of District general obligation bonds in series, over time. It is anticipated that DMB will also request, over time, that the District governing board authorize and levy special assessments and issue special assessment bonds.

DMB has agreed in the Development Agreement that it shall not request in total the issuance of more than \$65,000,000 in general obligation bonds per the DA. 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 secondary assessed valuation or at such time as DMB provides collateral in amounts and type acceptable to the District governing board. This is the same target tax rate in place for Eastmark CFD #1.

The proposed first issue of general obligation bonds is to enable the governing board to levy the \$3.85 tax rate for general obligation bond debt service prior to the first homeowner occupancies, which are expected in 2019. In addition, DMB 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 25 years from the 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 secondary assessed value of the property within the District.

If and when issued, any per lot special assessment amount is expected to average approximately \$3,000-\$5,000 and in no event will exceed \$10,000 per lot.

Homeowner's Obligation

While market pricing and values are difficult to anticipate, DMB 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 DMB's application, will be consistent with, and in some cases, will be less than comparable master-planned communities in the Phoenix Metropolitan area. The following table and related chart provide a comparative analysis of the estimated total debt burden from all taxing jurisdictions for a resident living in these community facilities districts.

**Eastmark Community Facilities District No. 2
Total Debt Burden Comparison**

District	Estimated Annual Debt Burden (a)				Total Burden As a % of Sales Price	
	GO Taxes	Special Assessment	Est. Average Annual HOA Fee	Total Debt Burden		
Eastmark Community Facilities District No. 2	\$3,931	\$ 288	\$1,020	\$5,239	1.50%	(b)
Eastmark Community Facilities District No. 1	3,931	236	1,020	5,188	1.48	(c)
Cadence Community Facilities District	3,931	288	1,500	5,719	1.63	(b)
Estrella Mountain Ranch Community Facilities District	3,265	1,171	1,176	5,612	1.60	(d)
Festival Ranch Community Facilities District	3,199	218	1,536	4,953	1.42	(e)
Palm Valley Community Facilities District No. 3	3,813	N/A	612	4,425	1.26	(f)
Verrado District 1 Community Facilities District	5,041	N/A	1,344	6,385	1.82	(f)
Vistancia West Community Facilities District	3,433	N/A	1,032	4,465	1.28	(f)

(a) Table assumes \$350,000 average home price for all Districts.

(b) Assumes \$3,500 per lot assessment over 25 years at 6.50%

(c) Based on actual \$3,500 per lot assessment.

(d) Based on actual \$11,135 per lot assessment for Golf Village Assessment District No. 2.

(e) Based on actual \$2,000 per lot assessment.

(f) Districts do not expect to issue assessment bonds.

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Overlapping Jurisdiction	2018/19 Primary Tax Rate	2018/19 Secondary Tax Rate	2018/19 Total Tax Rate
Maricopa County	\$1.8750	\$0.6796	\$2.5546
Maricopa County Community College District	1.1708	0.2049	1.3754
East Valley Institute of Technology (EVIT)	0.0000	0.0500	0.0500
Queen Creek Unified School District No. 95	4.2277	3.3858	7.6135
City of Mesa	0.0000	1.0201	1.0201
Eastmark Community Facilities District No. 2 (a)	0.0000	4.1500	4.1500
	<u>\$7.2735</u>	<u>\$9.4901</u>	<u>\$16.7636</u>

- (a) The tax rate for Eastmark Community Facilities District No. 2 is not levied for Fiscal Year 2018/19 and is shown for illustrative purposes only.

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.

Council will sit as District Board

If the Council does approve the Development Agreement and formation, the District will be governed by the City Council along with two additional members who are initially designated by the owner, DMB. Sally Harrison and David Short have been proposed as the two additional members on the District Board.

Fiscal Impact

The cost of staff and outside counsel to review, negotiate and prepare for the possible formation of the District is paid by DMB 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 fee up to 0.30 per \$100 assessed value ad valorem tax upon the taxable property within the District. While it is expected that the O&M tax revenue will eventually cover the administrative and operational expenses, it is unlikely that the maintenance costs related to CFD constructed and City accepted infrastructure will be completely covered. It is anticipated that remaining O&M costs will be funded through similar means to other City infrastructure.

Coordinated With

These agreements have been coordinated with Engineering, Development Services, Office of City Attorney and the City Manager's Office.