

AZ Community Facilities Districts: Purpose, Structure and Governance



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What is a Community Facilities District?

- A.R.S. §48-700 et seq.
- A.R.S. §48-708(B) – “On its formation, the district is a special purpose district for purposes of article IX, section 19, Constitution of Arizona, a tax levying public improvement district for the purposes of article XIII, section 7, Constitution of Arizona, and a municipal corporation for all purposes of title 35, chapter 3, articles 3, 3.1, 3.2, 4 and 5. A district that distributes or sells groundwater is a private water company only for purposes of title 45, chapters 2 and 3.1. Except as otherwise provided in this section, a district is considered to be a municipal corporation and political subdivision of this state, separate and apart from the municipality or county.”
- Separate political subdivision with broad powers to tax, lien, issue debt and foreclose.

Eligible Public Infrastructure for CFD Financing

- Highways, streets, roadways and public parking facilities
- Landscaping
- Sewer and drainage
- Flood control
- Street lights and signals
- Pedestrian malls, parks, recreation facilities (other than stadiums) and related open space areas for assembly or entertainment use
- Lighting systems
- Civic buildings

CFD Financing Options

- General Obligation Bonds
- Special Assessment Revenue Bonds
- Utility Revenue Bonds
- Ad Valorem Property Tax for Operations and Maintenance (\$0.30 per \$100 assessed valuation)

CFD Financing Options (continued)

- What are we financing?
- Construction transaction vs. acquisition transaction?
- When was construction completed?

CFD Financing Options (continued)

- General Obligation Bonds
- Full faith and credit pledge of secondary property taxes
- Target tax rates (\$3.85 per \$100 assessed valuation)

CFD Financing Options (continued)

- Special Assessment Revenue Bonds
- Specific real property is assessed, bonds are repaid through installment payments by the property owner
 - The lien stays with the land

CFD Statutory Activity Recap

- 2017 SB1480 – enacted into law, but technical issues (always call your bond attorney)
 - Introduces “hybrid” board with “two additional members” designated by the Developer
 - Website requirements, word searchable
 - “Overleveraging” provisions added to A.R.S. 48-726
 - Acceptance of completed infrastructure on an expedited timeline
 - Operation and maintenance obligation

CFD Statutory Activity Recap (continued)

- 2018 SB1499 – enacted into law (corrects technical issues from SB1480)
 - Fixes to A.R.S. 48-702, 705, 708 and 711
 - Clarifies designation of additional two board members, including replacement upon resignation or death
 - Also enables the applicant to design the designation process until development is complete (even if the applicant is no longer the largest private landowner)

CFD Board Composition

- SB1480 altered the composition of CFD Boards for CFDs formed after the law was enacted
 - Governing body, ex officio, with two additional member who are designated initially by the owner who owns the largest amount of privately owned acreage in the proposed district and who are appointed by the governing body, OR
 - Five directors appointed by the governing body

AZ CFDs After SB 1480 and SB 1499

- STEP 1: Cities to update CFD Policy and Application Guidelines
- Mesa completed in December 2018

CFD Financing Recent Updates

- Refunding Bonds
 - Work with financial advisors and investment bankers to determine potential interest expense savings through the issuance of refunding debt
 - Impact of 2017 tax law changes – no advance refundings
 - Statutory change in 2016 facilitating refunding CFD special assessment revenue bonds

CFD Operations

- Budget Law Compliance
 - Annual meetings to review preliminary and final budgets
 - Review estimated assessed value for upcoming fiscal year and modify secondary tax levy accordingly (e.g. target tax rates and Development Agreements)

CFD Operations (continued)

- Assessment District Management
 - Invoicing and Collection/ County Treasurer collection agreement
 - Assessment prepayments; bond early redemptions
 - Modifications upon revised plats or changes to real property

CFD Operations (continued)

- Bond debt service
 - Work with trustees, bond registrars and paying agents
 - Manage debt service reserve fund balances
 - Coordinate any timing issues between property tax due dates and bond payment dates
 - Work with financial advisors and investment bankers to determine potential interest expense savings by refunding bonds

Conclusion and Q&A