

Cadence Community Facilities District

Board Report

Date: May 30, 2019
To: Cadence Community Facilities District Board of Directors
Through: Michael Kennington, Treasurer
From: Ryan Wimmer, Deputy Budget Director
Subject: FY 2019-20 Cadence Community Facilities District Budget

Purpose

This action tentatively approves the FY 2019-20 proposed budget for the Cadence Community Facilities District (City of Mesa, Arizona) (the "District") and calls a public hearing on the budget for June 27, 2019. These actions are the first steps in the approval process for the District's FY 2019-20 budget. Arizona law ([ARS 48-716](#) and [ARS 48-723](#)) requires that, on or before July 15 of each year, community facilities districts approve a proposed budget and call a public hearing on the budget for the upcoming fiscal year.

Background

On November 12, 2015, the Mesa City Council formed the District. The District issues general obligation bonds to finance the cost of eligible public infrastructure within the geographical boundaries of the District. The principal of and interest on the District's general obligation bonds is paid for with revenue generated by the levy of an annual ad valorem property tax on taxable property within the District.

The District also issues special assessment bonds secured by special assessments on residential lots within designated Special Assessment Districts ("SADs", and each a "SAD") within the District. SAD 1 has been formed and the issuance of special assessment bonds is pending. The formation of SAD 2 is pending. Special assessment bond issuances for SAD 3 and 4 are included in the FY 2019-20 proposed District budget.

Discussion

The FY 2019-20 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 services provided from City staff time. In addition, the District

pays for publishing costs, audit work, outside legal counsel, and software license costs incurred by the District.

b. Funding Sources

Upon initial formation of the District, property owners approved 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") per Arizona law ([ARS 48-723](#)). Operating and maintenance costs not funded by the O&M tax are reimbursed by the District's master developer, Harvard Investments ("Harvard") per an agreement among the City, the District, and Harvard.

(2) Capital

a. Expenditures

The District uses bond proceeds to reimburse Harvard for the cost of eligible public infrastructure. The FY 2019-20 District budget includes an estimated general obligation bond issuance of \$1,020,000. Final (August) FY 2019-20 property values will be used in considering the issuance of general obligation bonds. Proceeds from general obligation bonds would reimburse Harvard for street improvements and other eligible public infrastructure within the District. Whether or not to issue general obligation bonds is at the District Board's discretion.

The FY 2019-20 budget includes the issuance of special assessment bonds for SAD 3 & SAD 4. Proceeds from the special assessment bonds would reimburse Harvard for local street improvements. Formation of SAD 3 & SAD 4 and issuance of the related special assessment bonds is at the discretion of the District Board.

Each bond sale includes costs of issuance such as legal counsel, financial advice, and other transaction costs that are paid from bond proceeds.

b. Funding Sources

Proceeds from general obligation bonds and special assessment bonds are the source of District payments made to Harvard. The FY 2019-20 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 2019-20 District budget includes debt service (principal and interest) for District bond issuances. It is anticipated that the first District general obligation bond issuance will close in May 2019. A general obligation bond issuance is included in the District's FY 2019-20

proposed budget.

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 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 2019-20 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 secured by special assessments on residential lots within a designated SAD in an assessment amount not greater than \$3,500 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. 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, which is levied against the net assessed LPV of a property.

A combined tax rate of \$4.15 per \$100 of net assessed valuation (\$3.85 for debt service and \$0.30 for operations) is targeted in FY 2019-20.

Table 1. Cadence CFD - FY 2019-20 Property Tax Rate and Levy

Purpose	Tax Rate (per \$100 of NAV)	Tax Levy
Operations	\$0.30	\$ 7,368
Debt Service	\$3.85	\$ 94,553
Total	\$4.15	\$101,921

Impact to Property Owners

The owner of the average (mean) value residential property in the District would pay \$144 of District property taxes in FY 2019-20, in addition to \$41 of City property taxes.

Additional Information

The property tax levy amount is included in the FY 2019-20 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.

Budget Adoption - Next Steps

On June 27, 2019, the Board is scheduled to (1) hold a public hearing on the District budget, (2) approve the final District budget, and (3) approve the levy of the property tax on taxable property in the District, which would complete the FY 2019-20 District budget process.

Alternatives

The Board may also choose to postpone tentative approval of the proposed District budget until as late as July 15, 2019, to make any desired adjustments.