



EASTMARK COMMUNITY FACILITIES DISTRICT NO. 1 BOARD

January 22, 2015

The Eastmark Community Facilities District No. 1 Board met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 22, 2015 at 7:30 a.m.

BOARD PRESENT

Dennis Kavanaugh, Vice Chairman
Alex Finter
Chris Glover
David Luna
Dave Richins
Kevin Thompson

BOARD ABSENT

John Giles

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Dee Ann Mickelsen

(Vice Chairman Kavanaugh excused Chairman Giles from the entire meeting.)

1. Items from citizens present.

There were no items from citizens present.

2. Approval of minutes of previous meetings as written.

It was moved by Boardmember Glover, seconded by Boardmember Luna, that the minutes from the June 16, 2014 and June 26, 2014 Eastmark Community Facilities District No. 1 Board meetings be approved.

Vice Chairman Kavanaugh declared the motion carried unanimously by those present.

3-a. Hear a presentation and discuss the structure and governance of the Community Facilities District.

Chief Financial Officer Mike Kennington introduced Scott Ruby, an attorney with Gust Rosenfeld, who serves as legal counsel for the Eastmark Community Facilities District No. 1.

Mr. Ruby displayed a PowerPoint presentation (**See Attachment 1**) and reported that the Community Facilities District (CFD) was formed by the City as a financing tool for public infrastructure located within the boundaries of the CFD or benefiting the CFD. He explained that

the CFD is a political subdivision and taxing entity, which is the reason that the City Council sits as an independent Board of Directors.

Mr. Ruby stated that unlike most special districts, the CFD has very broad powers, including the ability to levy fees and charges; impose operational ad valorem taxes; and issue General Obligation (G.O.) bonds, Revenue bonds and Special Assessment bonds. He also noted that the purpose of the CFD is "to allow development to pay for development" in the context of a specific area benefits and therefore pays its burden.

Mr. Ruby remarked that the Board formed the CFD based on a petition of the property owner, DMB. He pointed out that property ownership changes from time to time as parcels are sold to home builders and ultimately to the end users. He also indicated that the formation of the CFD was approved at an election of the property owner. He added that in this particular case, there were no qualified electors (registered voters) to participate in the election.

Mr. Ruby further reported that subsequent to the formation of the CFD, the entity is required to file various documents with the county and the state so that it is recognized as a tax-levying public improvement district. He also commented that the CFD has the authority to construct, acquire, operate and maintain public infrastructure. He reiterated that the primary purpose of the CFD's formation is to finance public infrastructure through the issuance of bonds.

Mr. Ruby, in addition, commented that with respect to the City of Mesa, G.O. bonds typically finance infrastructure that benefits the entire district, while Special Assessment bonds finance infrastructure in a more defined area within the CFD. He also explained that the operation and maintenance of the public infrastructure within the CFD occurs through the G.O. bond tax levy. He added that Special Assessments are an actual lien placed on the benefited properties. He cited, for example, that if a street were paved in front of 15 lots, each lot would bear 1/15th of the cost of the street, with the finite amount levied against the respective parcels.

Mr. Ruby reiterated that the City Council sits as the CFD Board. He noted that if the CFD encompassed more than 600 acres, it would be possible for an independent board to be appointed. He added that the Board must also adhere to the state's Opening Meeting Law.

Mr. Ruby indicated that today, the Board is being asked to consider an item for the CFD related to the issuance of an assessment bond. He explained that DMB has a business model in which it is paying a small portion of the cost of the local infrastructure. He stated that such infrastructure is a roadway that extends through a particular area of the district. He noted that the business model would assess each residential lot no more than \$3,500. He added that the small bond issue would help to finance a portion of the roadway that benefits those lots that will be assessed.

Responding to a question from Boardmember Richins, Mr. Ruby clarified that the \$3,500 is a one-time assessment. He remarked that there was nothing to preclude the Board from levying a future assessment for some other improvements on the same property. He cautioned, however, that he has never seen that occur since it would create a conflict regarding a priority of liens.

Mr. Ruby further explained that each residential lot will be assessed \$3,500, which will begin to require semi-annual interest payments and annual principal payments; that DMB will make such payments until the lots are sold; that such payments will then be assumed by the individual

homeowners; that the assessment, which is billed on the tax roll, is paid over 25 years; and that until the time the resident actually occupies the property, the CFD bills the developer directly for the payments.

Mr. Ruby reported that any bond process for a CFD begins with a Feasibility Report, which summarizes what infrastructure will be financed, the nature of the benefit, what bonds will be issued, the term of the bonds, the expected interest rates and whether a debt service reserve fund has been included.

Mr. Ruby said that the Board is required to hold a public hearing regarding the Feasibility Report, which relates to a small bond issue for Assessment District No. 3. He noted that assuming the Boardmembers approve the Feasibility Report, the Assessment District would be formed. He commented that the Assessment District is a district inside the CFD and has its own distinct boundaries established by which properties benefit from the particular infrastructure being improved.

Mr. Ruby, in addition, remarked that the Board would adopt a resolution which, among other things, would form Assessment District No. 3; order that the work be ordered or acquired; approve the assessment (i.e., aggregate dollar amount); and approve the allocation of such aggregate dollar amount on a per lot basis (i.e. \$3,500). He stated that construction of the roadway has already been completed and added that when the bonds are issued, the developer will be reimbursed for the costs incurred for the project.

Mr. Ruby further explained that the assessment will be recorded, which becomes a lien against the property. He said that at a future meeting, the Board would be asked to adopt a resolution authorizing the sale of the bonds and the amount to finance the infrastructure. He noted, in addition, the Board would hold a public hearing to acknowledge that the construction work has been performed.

Mr. Ruby offered a short synopsis of the CFD bond issue process with respect to G.O. bonds. His comments included, but were not limited to, the following: that the Board cannot issue G.O. bonds until the property owner and the qualified electors conduct an election to approve the bond authorization; that bond authorization was approved by DMB at the time that the CFD was formed; that the property owner authorized a certain dollar amount that can be issued at the Board's discretion over time; that G.O. bonds typically finance the infrastructure that benefits the CFD as a whole; that subsequent to the election, the Board will conduct a public hearing regarding the project and Feasibility Report; that the Board will then adopt a resolution authorizing the issuance and sale of said bonds to finance the infrastructure described in the Feasibility Report; that the bond issue is closed after it is sold; and that the developer will be reimbursed for the costs incurred to complete the project.

In response to a question from Boardmember Thompson, Mr. Ruby highlighted various risks associated with the CFD and its impact on the City and Mesa residents. He stated that the political risk is the creation of a mechanism that imposes a greater tax on a particular segment of the community. He noted that in response to such concerns, certain limits have evolved over the years, such as a CFD will not impose a tax greater than \$3.00 for debt service and \$.30 for the operation and maintenance of the infrastructure. He pointed out that the CFD also mitigates the political risk by giving as much disclosure as possible to the residents when they move into

the Eastmark development. He said that the individuals sign forms acknowledging that they will incur an assessment, a tax on the operation and maintenance, as well as a debt service tax.

Mr. Ruby commented that with respect to the credit risk of a CFD, the assessment bonds are the most risky to issue since they are secured by "the dirt." He indicated that in an assessment context, it is important to consider the value of the land. He stated that in the event the property owners are not paid their assessment, the CFD would foreclose on the land that was assessed in order to ensure that the bondholders are paid. He added that if a property owner declares bankruptcy, the CFD is precluded from foreclosing on the individual's lot until those proceedings are terminated.

Mr. Kennington reported that a Letter of Substantial Completion was issued to DMB yesterday. He noted that 555 lots are included in Assessment District No. 3. He also thanked Mr. Ruby for his efforts and hard work throughout this process.

Vice Chairman Kavanaugh thanked Mr. Ruby and Mr. Kennington for the presentation.

4. Conduct a Public Hearing and consider the following Feasibility Report:

- 4-a. Conduct a public hearing on and consider and review a Feasibility Report relative to a proposed project to be financed by the issuance of Special Assessment Revenue bonds of the Eastmark Community Facilities District No. 1 – Assessment District No. 3.

Vice Chairman Kavanaugh announced that this was the time and place for a public hearing regarding the Feasibility Report relative to a proposed project to be financed by the issuance of Special Assessment Revenue bonds of the Eastmark Community Facilities District 1 – Assessment District No. 3.

There being no citizens present wishing to speak on this issue, the Vice Chairman declared the public hearing closed.

5. Take action on the following resolution:

- 5-a. Adopting a Resolution (1) approving the Feasibility Report relating to the acquisition and financing of certain improvements within the Eastmark Community Facilities District No. 1 (City of Mesa, Arizona); (2) declaring its intention to acquire certain public infrastructure improvements described in the Feasibility Report, forming a Special Assessment District No. 3, determining that Special Assessment Revenue bonds will be issued to finance the costs and expenses thereof, declaring the improvements to be of more than local or ordinary public benefit and that the costs of said improvements will be assessed upon Assessment District No. 3; and (3) ordering the public infrastructure projects be acquired and performed within the Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) – CFD EM1 Res 17.

It was moved by Boardmember Glover, seconded by Boardmember Luna, that CFD EM1 Res 17 be adopted.

Vice Chairman Kavanaugh declared the motion carried unanimously by those present and CFD EM1 Res 17 adopted.

6. Adjournment.

Without objection, the Eastmark Community Facilities District No. 1 Board meeting adjourned at 7:55 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Eastmark Community Facilities District No. 1 Board meeting of the City of Mesa, Arizona, held on the 22nd day of January 2015. I further certify that the meeting was duly called and held and that a quorum was present.



DEE ANN MICKELSEN, DISTRICT CLERK

pag
(attachment – 1)

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What is a Community Facilities District?

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Community Facilities District

- A political subdivision of the State within the corporate limits of a City
- Formed by the City Council
- On petition of property owners
- If approved at an election of:
 - Property owners, and
 - Qualified electors (if any)
- With authority to construct, acquire, operate and maintain public infrastructure (broadly defined)
- Finance construction and acquisition of public infrastructure with:
 - General obligation bonds (following election)
 - Revenue bonds, or
 - Special assessment bonds

Community Facilities District

- Finance operation and maintenance of public infrastructure with:
 - General obligation tax levy (following election)
 - Special assessments, or
 - Operating revenues
- Governed by:
 - The City council sitting as the Board of Directors, or
 - An appointed board (if over 600 acres)
- Operations:
 - Distinct entity from the City
 - Independent meetings, budget, tax levy and bond issues

CFD Bond Issue Process

- Assessment Bonds:
 - Approve project and feasibility report (hearing)
 - Resolution forming the assessment district
 - Resolution ordering the work
 - Resolution approving assessment
 - Perform work (public bidding)
 - Resolution approving sale of bonds
 - Final assessment hearing
 - Close bond issue

CFD Bond Issue Process

- General Obligation Bonds:
 - Election by property owners and qualified electors (if any)
 - Approve project and feasibility report (hearing)
 - Resolution authorizing the issuance and sale of bonds
 - Close bond issue
 - Debt limit 65% of market value of the property in the CFD