



EASTMARK COMMUNITY FACILITIES DISTRICT NO. 1 BOARD

January 26, 2017

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 26, 2017 at 7:33 a.m.

BOARD PRESENT

John Giles, Chairman
Mark Freeman
Christopher Glover
David Luna*
Kevin Thompson
Jeremy Whittaker
Ryan Winkle

BOARD ABSENT

None

OFFICERS PRESENT

Christopher Brady
Jim Smith
Dee Ann Mickelsen

(*Boardmember Luna participated in the meeting through the use of telephonic equipment.)

1. Items from citizens present.

There were no items from citizens present.

2. Approval of minutes from the July 5, 2016 meeting.

It was moved by Boardmember Thompson, seconded by Boardmember Glover, that the minutes from the July 5, 2016 Eastmark Community Facilities District No. 1 Board meeting be approved.

Carried unanimously.

3-a. Hear a presentation and discuss the purpose, structure, and governance for the Community Facilities District.

Eastmark Community Facilities District Treasurer Mike Kennington introduced Scott Ruby, from Gust Rosenfeld Law as the outside counsel for the Community Facilities District (CFD).

Mr. Ruby displayed a PowerPoint presentation and provided an overview of a Community Facilities District (CFD). **(See Attachment 1)** He explained that a CFD is a political subdivision of the state within the corporate limits of a city and has city powers with a few exceptions. He noted that in other states, such as Florida, that CFDs are more robust in their exercise of political power. He clarified that currently in Arizona, CFDs have only been used as a financing technique for infrastructure. He explained that the infrastructure is built and benefits a particular area within the CFD.

Mr. Ruby stated that CFDs are financed by bonds issued by that CFD. He highlighted the following types of bonds that may be issued:

- General Obligation Bonds
- Revenue Bonds
- Special Assessment Bonds

Mr. Ruby emphasized the importance of monitoring the activities of the legislature. He stated that last year, a bill was introduced that would have changed the character of CFDs, in the context of who governs them. He explained that the bill provided that for any area of 640 acres or more, a developer could request an independent board that could exercise all of the powers that the statute granted. He explained that the independent board would be comprised of two members appointed by City Council, two members appointed by the developer, and a third tie-breaking member appointed by the City Council from a list of candidates suggested by the developer. He stated that the bill drew concern from the League of Arizona Cities and Towns, other cities and home builders, who agreed that an independent board may not be as prudent when establishing the tax levies and assessments within the district.

Mr. Ruby stated that the bill was vetoed by the Governor, due to the feedback received from home builders. He advised that this year, legislation will be introduced on the same issue, as well as competing bills from the home builders and development community. He encouraged the Council to be prepared to choose a position on this major legislative issue.

In response to a question from Chairman Giles, Mr. Ruby clarified that the bill presented last year would not allow City Council the discretion to create a CFD. He stated that the bill would require the City to install an independent board and issue debt if certain criteria was met. He noted that he is unsure how the new proposed bill will read.

Mr. Kennington pointed out that the proposed bill from last year would force City staff to administer the CFD and take on liabilities.

City Attorney Jim Smith requested that Mr. Ruby explain more about the Special Assessment Districts and General Obligation bond issuances, and concepts of what may be seen in the future.

Mr. Ruby highlighted the process of establishing a CFD and how they are used in Arizona. He stated that Revenue Bonds are not used and that General Obligation (G.O.) bonds are supported by an ad-valorem property tax, which is levied against all taxable property within the district. He noted that another tax levied by the district is an Operation and Maintenance (O&M) tax that cannot exceed thirty cents (\$0.30), as well as a debt tax set by the City. (See Pages 2 and 3 of Attachment 1)

Mr. Ruby reported that G.O. bonds were issued for Eastmark, as well as an ad-valorem tax and a thirty cent (\$0.30) tax. He indicated that the developer has signed a development agreement agreeing to contribute to the budget in case of fund deficits. He briefly explained the CFD bond issue process as it relates to G.O. bonds. (See Page 5 of Attachment 1)

Mr. Ruby gave a brief synopsis of the CFD bond issue process as it relates to Assessment bonds. (See Page 4 of Attachment 1) He explained that Assessment bonds are supported by a lien on the property itself (i.e., if a deal is \$100,000 and it has 100 lots, then each home is assessed \$100.) He noted that Eastmark attempts to regulate the assessments by affixing a set amount on each lot and tries to maintain that consistency across all of their assessments.

Mr. Ruby stated that this proposed project is the sixth assessment deal in Eastmark and noted that each Assessment bond is supported by an assessment of one particular area within the CFD. He pointed out that the feasibility report illustrates that the project is a portion of road that benefits the properties along that road more than others in the same subdivision. He noted that if the aggregate dollars do not fully pay for the improvement, then the developer covers the difference.

Mr. Kennington informed the Board that Special Assessment District No. 6 (SAD 6) includes 250 properties to be assessed \$2000 each.

Mr. Ruby advised that each lot is imposed with a \$2000 lien and it is important that a lien never exceeds 1/4 of the value of the land, in order to guarantee that a foreclosed property is purchasable. He briefly reviewed the process of the items on the agenda.

Chairman Giles thanked Mr. Ruby for his presentation and asked about possible reasons the Board would not want to support another CFD.

Mr. Ruby replied that there are no legal requirements or obligations for the City to support CFD bonds. He explained that overlapping debt issued in areas in our community causes a greater debt burden than other areas. He indicated that too many CFDs may be bad from a market perspective. He suggested that every resident has a certain level of tax tolerance, meaning that if they already have a levied tax through a CFD that they may be less likely to support other G.O. bond taxes proposed to support other City projects.

In response to a question from Chairman Giles, City Attorney Jim Smith clarified that there were currently no requests for additional CFDs.

Mr. Ruby stated that Mesa has been diligent on the use of CFDs. He pointed out that Cadence and Eastmark are in close proximity to each other and are in an area of the City that is focused on job-growth and development.

City Manager Christopher Brady explained that forming a CFD consumes a lot of time from staff and outside consultants, due to the complexity of the process. He noted that although it helps that Eastmark and Cadence have seasoned developers, City staff is still required to give a lot of time to those specific areas.

In response to a question from Boardmember Luna relating to homebuyers being informed of the tax levies of a CFD, Mr. Ruby advised that they do their best at disclosing the CFD requirements to the original homeowners and that they are required to sign a disclosure form. He added that future homeowners may have to rely on the title report that will show CFD assessment liens.

In response to a question from Boardmember Winkle, Mr. Ruby outlined various CFDs throughout Arizona and added that there have been CFD defaults due to the housing market crash in 2008. He explained that G.O. bonds are based on the assessed property value (APV), and as that value decreases, the amount of tax collected decreases, and the developer must then subsidize that amount. He added that if the developers fail to subsidize the tax payment, then the tax rates must be increased in order to reach the necessary amount.

In response to a question from Boardmember Freeman, Mr. Brady stated that the City has outside financial advisors and Bond Council to assist staff with preparing the bonds.

Mr. Kennington added that City staff time includes assessing bonds, coordinating with the County prior to any deadlines, tax billing and payment tracking, bond payments and due diligence calls, etc.

Mr. Ruby explained the enhanced workload of various City departments, such as the Engineering Department and City Clerk. He noted that Assessment bonds are much more labor intensive from all levels compared to G.O. bonds.

Mr. Brady commented that the City tries to reserve the CFD tool to developers proposing unique subdivisions that make a statement of quality and create a distinctive opportunity in Mesa, rather than a standard subdivision. He added that this process allows for a higher level of development that is unique and marketable for Mesa.

In response to a question from Chairman Giles, Mr. Brady explained that staff does analyze all CFD requests that come before the Board. He also added that staff holds the developers accountable to the quality levels expected.

Mr. Ruby pointed out that the Eastmark and Cadence CFDs were formed due to their close proximity to the airport. He stated that the City wanted dynamic housing in that region to support a work force. He indicated that it is not all about aesthetics, but also economic incentives for that region to develop into the quality area expected.

Chairman Giles indicated his support for CFDs and asked if the CFDs would retire after the infrastructure is paid.

Mr. Ruby stated that bonds have a maturity of 20-25 years, although some CFDs have been created for an unlimited duration in order to cover future maintenance of the infrastructure.

Boardmember Thompson affirmed that staff and Council spent an intense amount of time on Cadence, analyzing the details to be sure it was not a typical subdivision prior to issuing any bonds.

Chairman Giles thanked Mr. Ruby and Mr. Kennington for their presentation.

4. Conduct a public hearing on the following Feasibility Report:

- 4-a. Conduct a public hearing on and to 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. 6.

Chairman Giles announced that this is the time and place for a public hearing regarding the proposed project to be financed by the issuance of special assessment revenue bonds of the Eastmark Community Facilities District No. 1 – Assessment District No. 6.

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

5. Take action on the following resolutions:

- 5-a. Approving the feasibility report relating to the acquisition and financing of certain improvements within the Eastmark Community Facilities District No. 1; declaring its intention to acquire certain public infrastructure improvements described in the feasibility report; forming a special assessment District No. 6; 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. 6; and ordering the public infrastructure projects be acquired and performed within the Eastmark Community Facilities District No. 1.

It was moved by Boardmember Glover, seconded by Boardmember Thompson that Resolution No. CFD EM1 RES 38 be adopted.

Carried unanimously.

- 5-b. Approving an assessment diagram and the levying of an assessment within Eastmark Community Facilities District No. 1, Assessment District No. 6.

It was moved by Boardmember Glover, seconded by Boardmember Thompson that Resolution No. CFD EM1 RES 39 be adopted.

Carried unanimously.

- 5-c. Approving the form of, and authorizing the execution of, the waiver and development agreement relating to a future assessment district.

It was moved by Boardmember Freeman, seconded by Boardmember Glover, that Resolution No. CFD EM1 RES 40 be adopted.

Carried unanimously.

6. Adjournment.

Without objection, the Eastmark Community Facilities District No. 1 Board meeting adjourned at 8:22 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 26th day of January 2017. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, DISTRICT CLERK

hm
(Attachment – 1)

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