Eastmark Community Facilities District No. 1

Board Report

Date: June 30, 2022

To: Eastmark Community Facilities District No. 1 Board of Directors

Through: Michael Kennington, District Treasurer

From: Ryan Wimmer, Financial Services

Subject: Fiscal Year 2022-23 Property Tax Levy

Purpose

This action approves the Fiscal Year 2022-23 property tax rate for the Eastmark Community Facilities District No. 1 (City of Mesa, Arizona) (the "District") as shown in Figure 1 below.

Figure 1. FY 22-23 Property Tax Rate and Corresponding Levy

Purpose	Rate (per $100 of taxable value)	Corresponding Levy
Operations	$0.30	$ 432,546
Debt Service	$3.85	$5,551,001
Total	**$4.15**	**$5,983,547**

Background

On April 2, 2012, the Mesa City Council formed the District. The District issues general obligation bonds in order to finance the cost of eligible public infrastructure (streets, water lines, wastewater lines, parks, etc.) benefitting the land within the geographical boundaries of the District. The principal of and interest on these general obligation bonds is paid for with revenue generated by the levy of an annual ad valorem tax on all taxable property within the District.

State law also allows for a portion of the property tax levy to support the operations and maintenance costs of the District.

Discussion

Property tax is calculated as follows:

property <u>value</u> * tax <u>rate</u> = tax <u>levy</u>

A property's <u>value</u> is determined annually by either the County Assessor or State Department of Revenue. The property tax <u>rate</u> is set by governing bodies as a dollar amount per $100 of taxable value. The property tax levy is the property value multiplied by the tax rate and is the dollar amount of property tax owed.

The District's ad valorem property tax has two components:

(1) a rate of up to $0.30 per $100 of taxable value to fund the operations and maintenance costs of the District.

The District pays for accounting, budget, clerk, engineering, legal, and treasurer staff time. In addition, it pays for publishing costs, audit work, and software license costs incurred by the District. It may also pay for infrastructure maintenance costs in the District. Operations and maintenance costs not funded by the operations and maintenance tax are reimbursed by the District's master developer, DMB Mesa Proving Grounds LLC ("DMB").

(2) a levy/rate sufficient to pay the debt service on general obligation bonds issued by the District to pay for public infrastructure reimbursement.

The District uses general obligation bond proceeds to reimburse DMB for the cost of eligible public infrastructure. The debt service (principal, interest, and administrative costs) on these general obligation bonds is funded by a property tax levy on taxable property in the District. The target for the debt service portion of the property tax rate is $3.85 per $100 of taxable value.

Property Valuation

Property in the District is assigned both a full cash value (FCV) and a limited property value (LPV). The annual increase in a property's 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. Property taxes are levied on the net assessed LPV of a property.

Impact to Property Owners

The owner of the average (mean) value residential property in the District would pay $1,088 of District property taxes in FY 2022-23, in addition to $240 of City property taxes.

Alternatives

To pay existing general obligation bond debt, the District Board must adopt a property tax levy sufficient to pay the principal of and interest on existing bonds sold previously by the District. To pay debt service on the existing general obligation bonds, as well as the operational costs of the District, would require a levy of $5,002,049 (a rate of $3.5043 per $100 of taxable value). At this minimal levy and rate, new general obligation bonds could not be issued in FY 2022-23.