



# EASTMARK COMMUNITY FACILITIES DISTRICT NO. 2 BOARD

February 28, 2019

The Eastmark Community Facilities District No. 2 Board met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 28, 2019 at 7:30 a.m.

## BOARD PRESENT

John Giles, Chairman  
Jennifer Duff  
Mark Freeman  
Sally Harrison  
Francisco Heredia  
David Luna  
David Short  
Kevin Thompson  
Jeremy Whittaker

## BOARD ABSENT

None

## OFFICERS PRESENT

Christopher Brady  
Dee Ann Mickelsen  
Jim Smith

### 1. Items from citizens present.

There were no items from citizens present.

### 2. Hear a presentation and discuss the purpose, structure, and governance for the Community Facilities District.

Chief Financial Officer Michael Kennington introduced Bond and Special District Counsel Zach Sakas and displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Sakas described a Community Facilities District (CFD). He explained that a CFD is a separate political subdivision and special taxing district established under Arizona law. He added a CFD is separate from the City and is a self-supporting district where City funds are not used for the CFD. (See Page 2 of Attachment 1)

Mr. Sakas detailed the eligible public infrastructure for CFD financing. He stated no CFD financing is for private infrastructure that benefits private landowners. He commented that most municipalities will have a CFD finance regular infrastructure, however the City's policies state "a CFD plan must include regional public amenities and it must be of a unique and high-quality nature including design standards, architectural design, landscaping, and building materials." (See page 3 of Attachment 1)

Mr. Sakas presented the CFD financing options. He pointed out that Eastmark CFD No. 2 will not be using revenue bonds backed by a new utility being formed because the City already has an established utility service program. He reported an election is required for the General Obligation Bonds and Ad Valorem Property Tax and the Board will be asked to approve calling an election within the boundaries of Eastmark CFD No. 2 for voters to approve General Obligation Bond authorization and the ongoing property tax for operations and maintenance. He added there are no registered voters currently living in Eastmark CFD No. 2, therefore a landowner election will occur and will be weighted by acreage. (See Page 4 of Attachment 1)

Mr. Sakas discussed construction transaction versus acquisition transaction. He explained bond financing can be provided up front, in which a developer would use those funds to construct the infrastructure (construction transaction). He advised the alternative would be the developer takes the risk of construction and once the project has been completed the CFD would sell the bonds and reimburse the developer (acquisition transaction). He reported the City's policy for CFD does state "all bond financing described herein shall be acquisition or reimbursement financings where the developer pays for public infrastructure and is subsequently reimbursed from CFD bond proceeds." (See Page 5 of Attachment 1)

Mr. Sakas provided additional information regarding General Obligation Bonds and Special Assessment Revenue Bonds. He advised the initial General Obligation Bond issuance will be very small as to avoid "sticker shock" for residents, and as the assessed value of the property increases the bond issuance will grow. He reported Special Assessment Revenue Bonds is an assessment per lot and the Special Assessment Lien stays with the land. (See Pages 6 and 7 of Attachment 1)

Mr. Sakas reviewed recent statutory changes. He reported the board composition for a CFD is different than a City board and statutory revisions from 2017 now state the largest private landowner designates the process for appointing the two additional Boardmembers that will sit with City Council. He explained once the master developer has completed construction the homeowners association will take responsibility for appointing the Boardmembers. He commented the benefit of this is that residents living within the CFD will have a chance to become Boardmembers and have a voice regarding taxation of the property they own. (See Pages 8 and 9 of Attachment 1)

In response to a question posed by Boardmember Freeman, Mr. Sakas advised at no point would City funds be used to assist the CFD should a recession occur and the City would not be obligated to purchase the land. He added there are reserve funds available in the event a market fluctuation occurs to ensure no bond payments are missed to investors.

City Manager Christopher Brady advised a CFD is another way for developers to finance projects and it is expected that the public infrastructure will have significant amenities and add value to the development.

In response to a question posed by Chairman Giles, Mr. Brady advised at a future Council meeting staff can present the development package to ensure the quality of the project meets the standards of the City.

In response to a question posed by Chairman Giles, Ms. Sakas reported disclosures and notices are included to potential CFD homeowners detailing the homeowner's responsibility when purchasing a home within the CFD.

Mr. Kennington stated Exhibit E in the agreement (**Attachment 2**) is an example of a disclosure statement that will be provided to potential buyers.

In response to a question posed by Chairman Giles, Mr. Kennington advised, per accounting and reporting rules, because the governing board of Eastmark CFD No. 2 is made up of City Councilmembers the CFD's finances must be reported on the City's Comprehensive Annual Financial Report.

In response to a question posed by Boardmember Whittaker, Mr. Sakas advised the General Obligation Bond Authorization is for \$70 million to build infrastructure within the CFD. He added once the \$70 million has been used another election would need to be called for more General Obligation Bonds to be issued.

Chairman Giles thanked Mr. Sakas and Mr. Kennington for the presentation.

3. Take action on the following resolutions:

- 3-a. Appointing District officers, approving the General Plan, taking certain other actions with regard to organization of the District; calling a special bond and operation and maintenance tax election for the District; and entering into a Development, Financing Participation, Waiver and Intergovernmental Agreement with the City of Mesa and the landowners of the real property within the boundaries of Eastmark Community Facilities District No. 2.

It was moved by Boardmember Thompson, seconded by Boardmember Freeman, that Resolution No. CFD EM2 Res 1 be adopted.

Upon tabulation of votes, it showed:

AYES – Giles-Duff-Freeman-Harrison-Heredia-Luna-Short-Thompson-Whittaker  
NAYS – None

Carried unanimously.

5. Adjournment.

Without objection, the Eastmark Community Facilities District No. 2 Board meeting adjourned at 8:07 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. 2 Board meeting of the City of Mesa, Arizona, held on the 28<sup>th</sup> day of February, 2019. I further certify that the meeting was duly called and held and that a quorum was present.

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DEE ANN MICKELSEN, CITY CLERK

# AZ Community Facilities Districts: Purpose, Structure and Governance



**Zach Sakas**

Gust Rosenfeld P.L.C.

Eastmark CFD No. 2

Board Meeting

February 28, 2019

## 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 SB 1480 – 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 SB 1499 – enacted into law (corrects technical issues from SB 1480)
  - 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

**EXHIBIT E**  
**FORM OF DISCLOSURE STATEMENT**  
**EASTMARK COMMUNITY FACILITIES DISTRICT**  
**NO. 2**  
**DISCLOSURE STATEMENT**

DEVELOPER Mesa Proving Grounds LLC, a Delaware limited liability company (“**Developer**”), in conjunction with the City of Mesa, Arizona (the “**City**”), have established a community facilities district (the “**CFD**”) within the planned community development known as Eastmark®. The CFD has financed and, in the future, will finance certain public infrastructure improvements, which will result in a property tax liability and a separate special assessment lien liability for each residential property owner in Eastmark.

**HOW THE CFD WORKS**

On \_\_\_\_\_, 2019, the Mayor and Council of the City formed the CFD consisting of approximately \_\_\_\_ acres of land in Eastmark. An election was held on \_\_\_\_\_, 2019, at which time the owners of the property within the CFD voted to authorize up to \$70,000,000 of *ad valorem* tax bonds to be issued over time by the CFD to finance the acquisition or construction of public infrastructure improvements benefitting principally land within the CFD. The proceeds of separate special assessment lien bonds will be used to finance acquisition or construction of public infrastructure improvements benefitting principally designated areas within the CFD. Such improvements have been or will be dedicated to the City upon acquisition or construction of such public infrastructure by the CFD. The City will operate and maintain such improvements.

**WHAT WILL BE FINANCED?**

The CFD has been established to finance, at the request of Developer, not more than \$\_\_\_\_,000,000 in public infrastructure improvements within the CFD, including financing costs related to such improvements, through *ad valorem* tax bonds to be issued to finance the acquisition and construction of public infrastructure benefitting principally land within the CFD. [ The CFD issued \$\_\_\_\_,000 of its General Obligation Bond Series 201\_ on \_\_\_\_\_, 201\_.

In addition, a special assessment bond has been issued in the amount of \$\_\_\_\_,000 to finance the acquisition of completed public infrastructure, consisting of roadway, sewer, water, storm drain, signage, street light, landscape and related improvements benefitting principally the land area depicted on Attachment 1 hereto (“**Assessment Area** \_\_”). The lot and residence for which this Disclosure Statement is provided is located in Assessment Area \_\_\_\_.

Developer may be reimbursed from CFD bond proceeds for eligible public infrastructure improvements for up to ten (10) years after the date of acceptance of such infrastructure by the City.

### **PROPERTY OWNERS' TAX AND ASSESSMENT LIABILITY**

The obligation to retire the *ad valorem* tax bonds will become the responsibility of all property owners in the CFD through the payment of *ad valorem* property taxes collected by the Maricopa County Treasurer in addition to all other property tax payments. The CFD has levied a \$3.85 per

\$100.00 of net assessed limited property value tax rate for the District's current fiscal year 2017- 2018 to provide for repayment of the *ad valorem* tax bonds. The CFD has also levied a \$0.30 per

\$100.00 of net assessed limited property value tax rate to provide for the payment of certain administrative expenses and operation and maintenance of the public infrastructure improvements financed by the CFD ("**O/M Tax**").

Although the *ad valorem* tax rate levied by the CFD to retire the *ad valorem* tax bonds is not limited by law, beginning this fiscal year, the rate of the *ad valorem* tax is not expected to exceed a rate of \$3.85 per \$100.00 of net assessed limited property value for as long as any *ad valorem* tax bonds are outstanding. However, in the event of declining assessed values or significant delinquencies in the collection of *ad valorem* taxes, the *ad valorem* tax rate could increase above the rate that would generate the same levy as would have been generated under a rate of \$3.85 per

\$100.00 of net assessed limited property value. **Accordingly, there can be no guarantee *ad valorem* tax rates will not be increased to provide for repayment of such *ad valorem* tax bonds in the future.**

The obligation to retire the special assessment bonds issued to finance the acquisition of the completed public infrastructure benefitting principally Assessment Area \_ will be the responsibility of all property owners in Assessment Area \_ through the collection of installments of assessment liens of \$\_,\_00 per lot levied by the CFD. It is anticipated that such assessment lien will be collected by the Maricopa County Treasurer through its standard *ad valorem* property tax collection process.

### **IMPACT OF ADDITIONAL CFD PROPERTY TAX AND ASSESSMENTS**

The following illustrates the estimated additional annual *ad valorem* tax liability imposed by the CFD, based on a range of residential values within Eastmark and a combined \$4.15 tax rate for the current fiscal year 20\_\_-20\_\_ (the \$3.85 tax rate to retire the *ad valorem* tax bonds plus the \$0.30 O/M Tax rate):

<b>Assumed Value of Residence</b>	<b>Estimated Annual Additional CFD Tax Liability*</b>
\$ __,000	\$
\$ __,000	
\$ __,000	
\$ __,000	
\$ __,000	
\$ __,000	
\$ __,000	

**\*Assumptions:**

1. *Improved residential property assessment ratio will remain at 10%.*
2. *The estimated total ad valorem tax amount is computed by multiplying the \$4.15 per \$100 of assessed limited property value times the estimated limited tax rate of property value times the improved residential property assessment ratio. The actual limited property value is determined by the Maricopa County Assessor.*

The estimated annual assessment lien liability imposed by the CFD in the Assessment Area, in addition to the *ad valorem* tax liability described above, is \$\_\_.

Additional information regarding the description of public infrastructure improvements to be financed by the CFD, bond issue public disclosure documents and other documents and agreements (including a copy of this Disclosure Statement) are available for review in the City of Mesa City Clerk's office.

Your signature below acknowledges that you have read this Disclosure Statement at the time you made your decision to purchase property at Eastmark and signed your purchase contract and that you understand the property you are purchasing will be taxed and separately assessed to pay the CFD bonds described above and issued in the future and taxed to pay the CFD operation, administration and maintenance expenses.

\_\_\_\_\_  
 Home Buyer Signature/Date

\_\_\_\_\_  
 Home Buyer Printed Name

***IF PURCHASING JOINTLY OR OTHERWISE WITH ANOTHER PARTY:***

\_\_\_\_\_  
 Home Buyer Signature/Date

\_\_\_\_\_  
 Home Buyer Printed Name

Builder Name: \_\_\_\_\_

Parcel No. \_\_\_\_\_

Lot No. \_\_\_\_\_

**UPON EXECUTION, MAIL DIRECTLY  
TO: CFD DISTRICT CLERK, CITY OF  
MESA  
20 E. MAIN STREET  
MESA, AZ 85201**