

# STIFEL

## PUBLIC FINANCE



**(Arizona Chapter)**

### **Financing Public Infrastructure Utilizing Arizona City/Town Improvement Districts & Community Facilities Districts (CFDs)**

Presented by:

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# Overview of Presentation

<u>Topic</u>	<u>Presenter</u>	<u>Time</u>
Purpose of Session & Speaker Introductions	Woody Scoutten	10 min.
Case Studies: Arizona Improvement Districts (IDs) & Community Facilities Districts (CFDs)	Mark Reader	20 min.
Arizona City/Town/County Financing Alternatives	Mark Reader	5 min.
Formation & Legal Requirements	Tim Stratton	20 min.
Engineering & Construction Aspects	Woody Scoutten	10 min.
Questions / Answers		10 min.
Appendix		

# Purpose of Session and Speaker Introductions

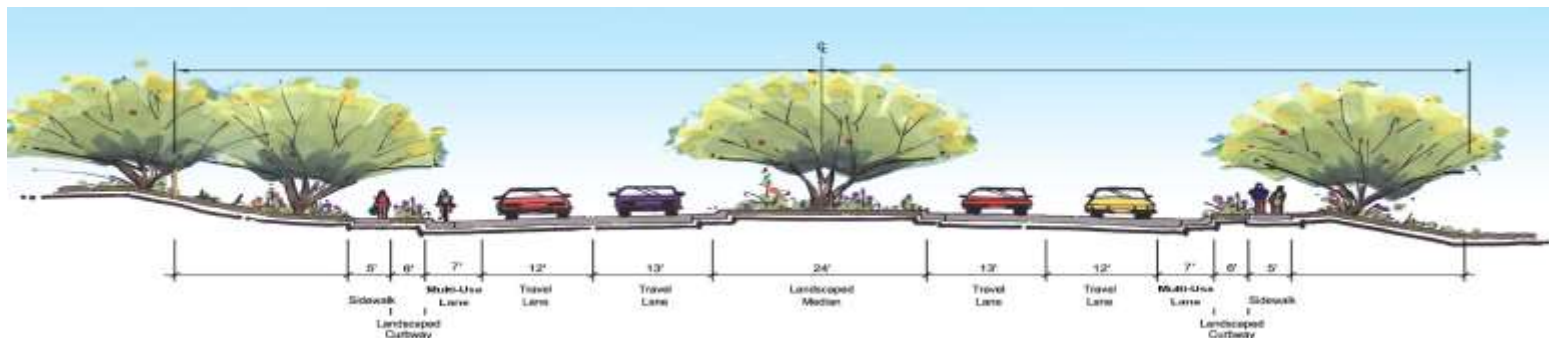
- **Improvement Districts and Community Facilities Districts**
  - Alternative Infrastructure Financing Mechanisms
  - Improve / Replace Basic Infrastructure
  - Enhance Economic Development Opportunities
- **Local Government Capital Improvements Financing**
  - Case Studies
  - Summary of alternatives
- **Formation & Legal Aspects**
- **Engineering & Construction Aspects**
- **Questions**

# Case Studies – Arizona Improvement Districts & Community Facilities Districts

# Tangerine Farms Road ID (Town of Marana, Arizona)

**Project Summary:** Proceeds from the sale of the Bonds will be used for the construction and installation of a divided roadway, sidewalks, medians, street lighting, pedestrian underpass and traffic signal. These improvements will establish approximately 3.8 miles of Tangerine Road and Tangerine Farms Road as a four-lane divided roadway from its intersection with Interstate 10 into the Town.

- **Location:** Marana, Arizona is located one mile north of Tucson, Arizona. The District comprises approximately 1,500 contiguous acres just east of I-10 and north of the Santa Cruz River.
- **Bonds:** \$25,774,000 of Improvement Bonds which are payable from assessments on the 242 different parcels in the District. The bonds have a special redemption feature that allows them to be called at any interest payment date if an assessment is prepaid by the owner of the parcel.
- **S&Y Role:** Underwriter – Worked closely with Town Staff, project consultants, assisted with Rating Agency presentations and prepared detailed materials for determination of the assessment prepayment structure. Although a land secured transaction such as this would normally carry no rating, Stone & Youngberg initiated talks with the rating agencies and assisted the Town in pursuing a rating. After traveling to San Francisco with key Town staff members to meet the rating agencies and share a presentation highlighting the major attributes of the deal, the issue ultimately carried investment grade ratings of Baa1 (Moody's) and BBB+ (Fitch). This enabled our talented underwriting staff to get the Town the lowest interest rates possible.



# Jackrabbit Trail ID (Town of Buckeye, Arizona)

## Jackrabbit Trail Sanitary Sewer Improvement District, Improvement Bonds (Special Assessment Bonds)

- ✓ **Important economic development area for the City**
- ✓ **\$2.5 million Special Assessment Bonds - sewer improvements, engineering, design and construction management**
- ✓ **6% paid assessment in cash - during cash collection period**
- ✓ **660 acre special district (residential and commercial zoning) - located on I-10 and Jackrabbit Trail**
- ✓ **20-year amortization, 6.25% (December 2009), A- Rating**
- ✓ **Bonds callable on any interest payment date - from redemptions, without penalty**
- ✓ **Assessment methodology - EDU's based on acreage**
- ✓ **Special assessments paid by property owners - transfers with the sale or exchange of property**
- ✓ **Value to Lien Requirements: 4:1 minimum generally (most parcels exceeded)**



# Ellsworth Loop Road North of Ocotillo Road





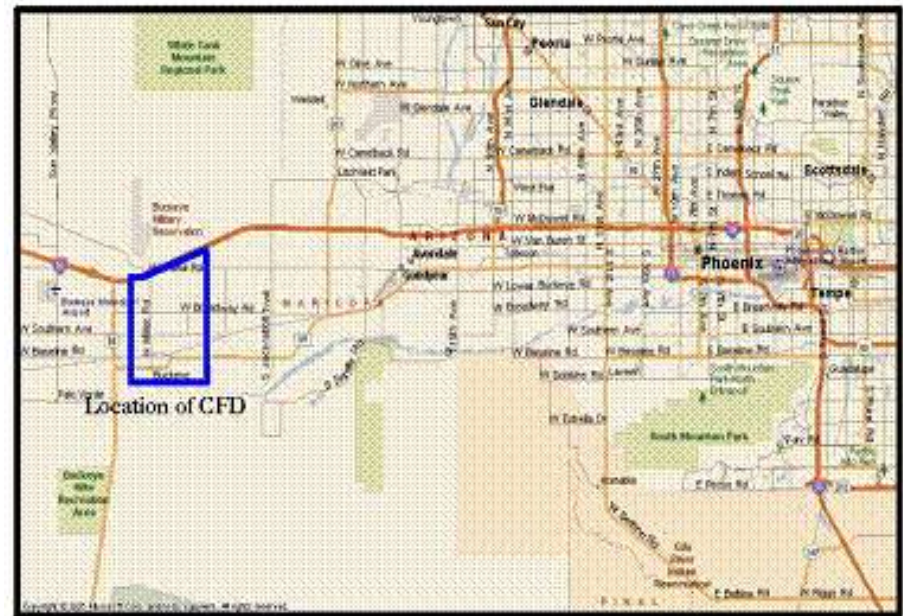
# Ellsworth Loop Road Looking South



# Watson Road CFD (Town of Buckeye, Arizona)

**Project Summary:** 18 developer/landowners decided to form Watson Road CFD to provide a financing mechanism to build the much needed wastewater utility infrastructure collection lines and capacity to serve the extremely fast paced development in the area. The bonds issued by the District were used to finance a 3 million gallon/day treatment plant expansion and the completion of nine miles of collection lines.

- **Location:** Town of Buckeye
- **Acreage:** ~ 2,000
- **Residential Homes:** ~ 8,000
- **Bonds:**
  - \$49,000,000 Special Assessment Revenue Bonds, Series 2005 repaid through a special assessment per residential lot ranging from ~\$4,000 - \$7,000.
- **S&Y Role:** As underwriter S&Y was responsible for coordinating the due diligence needed in preparing the offering document which included input from and about 18 different landowner/developers and ~ 10 different homebuilders. S&Y also was in charge of educating prospective investors of the bonds and ultimately was responsible for being able to offer the bonds at the lowest possible interest rates.







# Festival Ranch CFD (Town of Buckeye, Arizona)

## Project Summary:

The Festival Ranch CFD was formed by the Town of Buckeye in 2000 and consists of 4,015 acres which has been master planned for a large scale residential community and mixed use development project. The District is located approximately 34 miles northwest of downtown Phoenix, 20 miles north of downtown Buckeye and approximately 9 miles west of the City of Surprise. The master plan developer, Pulte Group is developing +/-7,200 Age-Restricted residential homes and +/-1,350 Primary Housing units. The CFD has issued both special assessment bonds and general obligation bonds to finance the acquisition of eligible public infrastructure:

- **Development Progress:** Active Adult (Sun City Festival): Approximately 1,500 sold out of 7,214 planned or 23% built out (2012)  
Primary Housing (Festival Foothills): Approximately 450 sold out of 1,350 planned or 33% built out (2012)
- **Master Financing Plan:** General Obligation Bonds with \$3.00 secondary tax rate for bonds and \$.30 for maintenance and operations and \$2,500 per lot Special Assessment Bonds
- **Amenities:** Golf course (up to 36 holes planned), clubhouse, 31,000 sq. ft. community center with pool, tennis center, 9,000 sq. ft. arts & crafts center, softball complex, walking trails, learning & wellness programs, activities & special events
- **Bonds Issued:** Four General Obligation Bond financings totaling \$15.3 million (issued from 2006 - 2012)  
Five Special Assessment Bond financings totaling \$5.8 million (issued from 2005 - 2011)
- **Credit Rating:** General Obligation Bonds: BBB (S&P) starting in 2009 - with development progress at approximately 20% of build out  
Special Assessment Bonds: Non-Rated
- **S&Y/Stifel Role:** Underwriter, Private Placement Agent or Financial Advisor





# Waterfront Commercial CFD (Scottsdale, Arizona)

## Project Summary:

Stone & Youngberg recently was retained by the City of Scottsdale after a competitive bid process to serve as underwriter for the sale of \$3.8 million General Obligation Bonds for the Scottsdale Waterfront Commercial Community Facilities District. The District is a 4.4 acre mixed use retail and commercial development adjacent to the Scottsdale Fashion Square Mall, one of the largest most commercially successful malls in the country. The Bonds, payable from a \$2.00 (per \$100 assessed value) property tax are being issued to provide funds to acquire certain public infrastructure and a parking easement from the property developer. An additional property tax rate of \$.30 (per \$100 assessed value) will help pay operations and maintenance costs of the District.

- **Location:** Scottsdale, Arizona
- **Acreage:** 4.41 Acres
- **Property Owners:** 10
- **Developer:** Scottsdale Waterfront Commercial, LLC
- **Bonds:** General Obligation
- **S&Y Role:** Underwriter



# Merrill Ranch CFD No. 1 (Florence, Arizona)

## PURPOSE:

Refund District's Series 2006 General Obligation Bonds  
Acquire public infrastructure consisting of specific portions of several roadways in the District

## CHALLENGES:

Several institutional funds' inability to buy new offerings in the primary market due to volatile credit market conditions

## RESULTS:

Created institutional interest from Nuveen Investments and Oppenheimer Funds. Secured several retail orders which allowed S&Y to split the Bonds into two term bonds and lower interest rates.

Bond Total: \$4,390,000

Bond Pledge: CFD Ad Valorem Property Tax

CFD Size: 7,900 gross acres

Landowners: Pulte Home Corporation (1,666 acres) and WHM Merrill Ranch Investments, LLC (6,234)

Development: Pulte developing a master-planned community called Anthem at Merrill Ranch on its portion of the District land; WHM holding its portion as an investment and plans for it to be developed by third parties in the future





# Merrill Ranch CFD No. 2 (Florence, Arizona)

**Bond Issues.** \$3,535,000 General Obligation Bonds and \$290,500 Special Assessment Bonds, Series 2010 (Sole managed by Stone & Youngberg – September 2010)

**Location.** Approximately 1,070 acres located in the northern portion of Florence, Arizona

## Development.

- Anthem at Merrill Ranch Master Planned Community [Sun City (age restricted) and Parkside]
- Master planned for 3,805 conventional and 3,900 age restricted residential units (CFD No. 1 and No. 2)
- Approximately 25% built out

## Builder / Developer.

- Pulte Group



**Use of Proceeds.** Acquisition of public infrastructure

**Primary Security.** CFD ad valorem property taxes and special assessments

## Special Features.

- Special assessment bonds callable on any interest payment date without premium
- No Standby Contribution Agreement

## Bond Success:

- CFD received its first investment grade credit rating of BBB- (S&P) despite a 29% decline in 2010/11 secondary assessed value
- Investor letter restrictions removed - increasing liquidity and lowering cost of capital

# Southside CFD No. 1 (Prescott Valley, Arizona)

**Project Summary:** Commercial CFD project, which the infrastructure requirements consisted of water and wastewater improvements.

**Location:** Prescott Valley, AZ

**Acreage:** 83 Gross Acres

**Bonds:** \$3,025,000 Special Assessment Revenue Bonds repaid through a special assessment per lot, ranging from \$21,000 to \$651,000 capitalized interest and a reserve fund included in the Bond Structure.

## Project Specifics:

- Property mainly clustered on west side of Highway 69
- 11 Property Owners
- Ownership: Mostly individuals and trusts holding property for sale or development
- Appraised value of \$15.4 million, individual parcels ranging from 3.63-to-16.9-to-1
- Zoning: Zoned and planned entirely for commercial development, existing development includes Mexican restaurant and small office/commercial center

**S&Y/Stifel Role:** As underwriter, S&Y was responsible for structuring, managing, and closing the bond financing. S&Y interacted with various institutional and retail buyers to offer the bonds at the lowest possible interest rates.



# Recently Formed or in Process Improvement Districts & Community Facilities Districts

## Improvement Districts:

- ✓ None

## Community Facilities Districts:

- ✓ Rancho Sahuarita Community Facilities District  
(Town of Sahuarita)
- ✓ Trilogy West Community Facilities District  
(City of Peoria)
- ✓ Saguro Bloom Community Facilities District  
(Town of Marana)
- ✓ Eastmark Community Facilities District  
(City of Mesa)

# Arizona City/Town/County Bond Financing Alternatives and Market Update

# Arizona City/Town/County Financial Alternatives

Type of Infrastructure Improvements	G.O. Bonds (a)	HURF Bonds (b)	Excise Tax Rev. Bonds	I.D. Bonds	CFD Bonds	Lease Purchase / COPs (Annual Approp.)	Utility Revenue Bonds & WIFA (c)	GADA (d)	USDA / RUS		P3
1. Streets & Roads (Transportation)	✓ (20% or 6%)	✓	✓	✓	✓			✓			
2. Parks & Open Space	✓ (20% or 6%)		✓		✓			✓			✓
3. Water & Wastewater Utilities (Acquisitions & Improvements)	✓ (20% or 6%)		✓	✓	✓		✓	✓	✓ (Including Grants)		✓
4. Electric & Gas	✓ (6%)		✓	✓			✓ (No WIFA)	✓	✓ (No Grants)		
5. Police & Fire (Public Safety)	✓ (20% or 6%)		✓		✓	✓		✓	✓ (No Grants)		
6. Administrative Facilities (i.e., City Hall)	✓ (6%)		✓		✓	✓		✓	✓ (No Grants)		

(a) Election Permitted to be held on the First Tuesday after the First Monday in November of each year.  
 (b) Election Permitted in March, May, September and November.  
 (c) Election not required if population is less than 50,000. Excise Taxes and Development Fees required by WIFA Under Certain Circumstances.  
 (d) Election not required if population is less than 50,000.

# Arizona City/Town/County Financial Alternatives

Type of Infrastructure Improvements	G.O. Bonds (a)	HURF Bonds (b)	Excise Tax Rev. Bonds	I.D. Bonds	CFD Bonds	Lease Purchase/ COPs (Annual Approp.)	Utility Rev. Bonds & WIFA (c)	GADA (d)	USDA / RUS	P3
7. Libraries	✓ (6%)		✓		✓	✓		✓	✓ (No Grants)	
8. Airport	✓ (20% or 6%)		✓			✓		✓		
9. Equipment / Technology (e)	✓ (20% or 6%)	✓	✓	✓	✓	✓	✓	✓ (e)	✓ (No Grants)	
10. Economic Development	✓ (6%)		✓					✓		✓
11. Storm Drainage	✓ (20% or 6%)		✓	✓	✓		✓	✓	(Grants?)	
12. Solid Waste	✓ (6%)		✓					✓	(No Grants)	
13. Sport Facilities (Professional)	✓ (6%)		✓					✓		✓

- (a) Election Permitted to be held on the First Tuesday after the First Monday in November of each year.
- (b) Election Permitted in March, May, September and November.
- (c) Election not required if population is less than 50,000. Excise Taxes and Development Fees required by WIFA Under Certain Circumstances.
- (d) Election not required if population is less than 50,000.
- (e) Amortization Limited to Average Useful Life of Assets Being Financed.



# Arizona City/Town/County Financial Alternatives

Type of Infrastructure Improvements	G.O. Bonds (15%)	HURF Bonds	Excise Tax Rev. Bonds	I.D. Bonds	CFD Bonds	Lease Purchase/ COPs	Special Districts (a)	Library District	Jail District	WIFA (c)	GADA (d)	USDA / RUS
1. Streets & Roads (Transportation)	✓	✓	✓ (b)	✓	✓						✓	
2. Parks & Open Space	✓		✓		✓						✓	
3. Water & Wastewater Utilities	✓ (Pima County WW Only)			✓	✓		✓			✓	✓	✓ (Includes Grants)
4. Public Safety / Courts	✓		✓		✓	✓					✓	
5. Administrative Facilities	✓		✓		✓	✓					✓	
6. Libraries					✓			✓			✓	
7. Equipment / Technology	✓		✓		✓	✓	✓				✓	
8. Detention Facilities & Jails	✓		✓			✓			✓		✓	
9. Economic Development	✓		✓								✓	

(a) Includes Sanitary Districts, Domestic Water Improvement Districts and other similar Districts.  
 (b) County Highway Acceleration Financing Option Also Available.  
 (c) Election not required if population is less than 50,000.  
 (d) Election not required if population is less than 200,000

# Formation & Legal Requirements

# Improvement Districts

- A designated area of a city or town, with specific boundaries.
- To be assessed the costs of specific improvements.
- Examples of common improvements include streets, sewers, lights, parking, etc. and to provide public service within the district at a higher level or greater degree than provided in the remainder of the community (enhanced municipal services).
- Following a process of:
  - Notice to the property owners within the district
  - Opportunity for property owners to protest and object
  - Hearings on protests and objections

# Improvement District Bonds:

- § 48-595 Bonds can be issued to pay costs of works or improvements constructed. Payable solely from the assessments levied and collected from benefitted lots. They are NOT general obligation bonds.
- § 48-597 Bonds can remain outstanding for not more than 25 years and three months from their issuance date.
- 48-603 If there is no purchaser for any lot offered for sale, it shall be struck off to the municipality as the purchaser and the governing body shall appropriate monies sufficient to pay the assessment.

# Community Facilities Districts

- A political subdivision of the State within the corporate limits of a City or in a County formed by the City Council on petition of property owners following a hearing of property owners, and qualified electors (if any).
- Finance operation and maintenance of public infrastructure with:
  - general obligation tax levy (following election)
  - special assessments, or
  - operating revenues
- Governed by:
  - the City Council or
  - an appointed board (if over 600 acres)

# Community Facilities Districts May:

- Acquire, convert, renovate or improve, if determined by the Governing Board that the following will result in a beneficial use principally to the land within the District;
  - sanitary sewage systems;
  - drainage and flood control systems;
  - water systems (except new agricultural irrigation facilities);
  - roadways and parking facilities;
  - pedestrian, equestrian, bicycle or other nonmotor vehicle paths and facilities;
  - pedestrian malls, parks and open space for entertainment, assembly and recreation;
  - landscaping and water features;
  - public buildings, public safety and fire facilities;
  - lighting systems;
  - traffic control systems; and
  - equipment, vehicles, furnishings and other personal property.



# CFD – General Obligation Bonds

- The District may sell general obligation bonds if approved at an election of qualified electors or landowners within the District. To be sold at public sale, the bonds must receive a minimum investment grade rating by a nationally recognized bond rating agency. This would likely mean that some form of credit enhancement would be necessary.
- CFD's can also issue Revenue Bonds and Special Assessment Bonds

# Bond Limits

- The total amount of *general obligation bonds* and *revenue bonds* outstanding may not exceed the estimated costs of the public infrastructure improvements plus all costs connected therewith.
- GO Bonds shall not exceed 60% of the aggregate of the estimated market value of the property and the improvements in the District after completion of the public infrastructure plus the value of the public infrastructure.

# Engineering & Construction Aspects

# Engineering & Construction Aspects

- **Types of Infrastructure**
  - **IDs limited to basic infrastructure**
    - **Water, Sewer, Streets, Off-street Parking, Water Treatment, Wastewater Treatment, Harbor facilities**
    - **Enhanced Municipal Services - public safety, fire protection, refuse collection, etc.**
  - **CFDs - All of the above, plus**
    - **Sidewalks, Bikeways**
    - **Pedestrian malls, Parks, Public open space, Recreational facilities**
    - **Landscaping, Lakes, Water features**
    - **Public Buildings, Public Safety, Fire Stations**
    - **Traffic Control systems and devices**
    - **Lighting Systems**
    - **Equipment and Vehicles**

# Engineering & Construction Aspects

- **Feasibility Analysis**
  - Capital cost of improvements vs. value of the land to be assessed
  - Municipality must commit to O & M expenses
- **Master Planning**
  - Ensure that infrastructure adequately sized for future growth
  - Assessed property must be able to receive full benefit
- **Regional Capacity**
  - Assessed property owners agree to oversizing
  - Buy-in mechanism for non-participants
- **Downstream Capacity / Supply Capacity**
  - Must have capacity in the system in order to be assessed
- **Public Ownership – Public Property**
  - Must be located in public right-of-way or perpetual easements

# Engineering & Construction Aspects

- **Assessment Methodology**
  - Based on benefit received
  - Must be defensible
- **District Engineer**
  - Approves scope of work, cost estimate, and assessments
  - Approves all aspects of construction and final costs
  - Establishes buy-in methodology for non-participants
  - Assessment modifications
- **Construction**
  - Acquire all rights-of-way and easements prior to formation
  - Ensure all required permits can be obtained
  - Document all construction costs as basis for buy-in fee
  - No change orders – finite amount of funds



# Questions

