

MINUTES OF THE MERRILL RANCH COMMUNITY FACILITIES DISTRICT NO. 1 BOARD AND THE MERRILL RANCH COMMUNITY FACILITY DISTRICT NO. 2 BOARD HELD A SPECIAL MEETING OPEN TO THE PUBLIC ON MONDAY, OCTOBER 26, 2015, AT 6:00 P.M. AT SUN CITY ANTHEM UNION CENTER 3925 N. SUN CITY BOULEVARD, FLORENCE, ARIZONA.

CALL TO ORDER

Chairman Rankin called the meeting to order at 6:05 pm.

ROLL CALL:

Present: Rankin, Walter, Woolridge, Hawkins, Guilin, Anderson, Wall.

Chairman Rankin led the Pledge of Allegiance.

WORK SESSION ON COMMUNITY FACILITY DISTRICTS

USE OF COMMUNITY FACILITIES DISTRICTS AS A PUBLIC INFRASTRUCTURE FINANCING TOOL – PRESENTED BY MARK READER AND ERIKA COOMBS (MILLER), STIFEL NICOLAUS (UNDERWRITER) AND MICHAEL CAFISO, GREENBERG TRAUIG (BOND COUNSEL).

Mr. Mark Reeder, Managing Director, Stifel Nicolaus, explained that the Town Council becomes the Board of Directors in a Community Facilities District (CFD). Stifel Nicolaus is the bond firm and their role is to assist the Town in all the financial aspects of a CFD. They also sell the bonds in the bond market once the economics is completed. The money is then used to invest in the public infrastructure.

Mr. Reeder provided a brief overview of the the CFDs in which he explained the following with regard to the CFDs:

- CFD is a living, breathing, political subdivision, special district formed by the Town Council in 2005
- Sole purpose of a CFD is for financing public infrastructure, primarily for master planned communities.
- CFD can issue three types of bonds
- Two types of bonds that affect those who live in that community.

Mr. Reeder explained that there are two CFDs in Anthem at Merrill Ranch. CFD No. 1 is approximately 7,900 acres and is the largest CFD in the Arizona. CFD No. 2 is approximately 1,100 acres. He said there are some small pockets of land within the Anthem at Merrill Ranch area that were not included in the CFDs for various types of reasons such as commercial purposes.

Mr. Reeder provided an overview on the history of CFDs, which included:

- Legislative authority established CFD in late 1980s

- Financing mechanism that has been used country-wide for many years
- Can finance all types of public infrastructure

Mr. Reeder stated that the District has the authority to issue bonds that are exempt from federal and state taxation. The District issues the bonds and the bonds are then sold to investors. The interest income from the sales is exempt from federal and state taxation for the public infrastructure. This means that the District can borrow at a lower cost than they would otherwise borrow at, which is an advantage to the District and to the developer, in terms of passing costs on.

Mr. Reeder provided a listing of eligible CFD funded public infrastructure, which included:

- Highways, streets, roadways and public parking facilities
- Landscaping
- Sewer and drainage (public utilities)
- Flood control
- Street lights and signalization
- Civic buildings
- Pedestrian malls, parks, recreation facilities (other than stadiums) and related open space areas for assembly or entertainment use
- Lighting systems

Mr. Reeder provided a listing of cities/towns in Arizona that have utilized CFDs for purposes of master planned communities:

- City of Apache Junction
- City of Buckeye
- City of Casa Grande
- City of Coolidge
- City of Goodyear
- City of Litchfield
- City of Mesa
- City of Peoria
- City of Phoenix
- City of Prescott
- City of San Luis
- City of Show Low
- City of Surprise
- City of Tempe
- Town of Florence
- Town of Marana
- Town of Prescott Valley
- Town of Sahuarita

Mr. Reeder stated that approximately 3,000 acres of the approximate 8,000 acres is being developed by Pulte. Pulte is the master developer as well as the home builder for for the Anthem community. He said approximately 4,000 acres were recently sold to

Southwest Development Partners. The majority of land is in CFD No. 1 with a small portion in CFD No. 2. Southwest Development Partners will now be the master planned developers and they will invest in public infrastructure. It is anticipated that they will sell off portions of the land to various home builders.

Mr. Reeder stated that CFDs have the State Law power to issue three types of bonds. He said he will discuss general obligation bonds and special assessment bonds. The master financing plan for this community over the last ten years is to have a secondary property tax rate, or general obligation bonds of \$3.25 per \$100 of assessed value and \$0.30 per \$100 for maintenance and operation levy. The combined levy is \$3.55 per \$100 and it appears on the property owner's tax bill. The goal of the District is to maintain the \$3.25 secondary tax rate over the life of the District. This is used for regional public infrastructure.

Mr. Reeder stated that general obligation bonds are generally issued by the District, payable from property taxes. The general obligation tax rate is based on the value of your home and the tax rate. He said the value of the home can change from year to year and the value is applied to the secondary tax rate of \$3.25 per \$100 of assessed value. This is paid through the property tax levy.

Mr. Reeder stated that in addition to the \$3.25 per \$100 of assessed value tax rate, the resident also pays a \$3,500 fixed rate, per lot, per residential home assessment lien. This lien is also placed on the tax bill, unless it was paid in full at the time of closing. The bond money is used primarily for in tract public infrastructure improvements.

Mr. Reeder stated that in the CFD No. 1, they have issued seven special assessment bonds for approximately \$4.7 million and approximately \$5 million in G. O. bonds. He said in CFD No. 2 the Board has issued approximately \$4 million in special assessment bonds and approximately \$5 million in G. O. Bonds.

Mr. Reeder provided an example of how much a resident would pay on a \$150,000 home. He explained what the fees are utilized for. He stated that some residents pay the special assessment in full. He said for those who wish to pay it full, there is no pre-payment penalty. General obligation bonds are secured by the property tax and they cannot be paid off.

A member of the audience stated that some of the homeowners are paying the special assessment in bi-annual payments. She said when she sells their home and receives a pay-off from the Town of Florence for they buyer to assume the bond, the amount that is collected with the property taxes is sometimes higher than the original \$3,500 amount. The pay-off for the special assessment collected by the Town directly is lower. She asked for clarification on the difference in amounts.

Mr. Reeder stated that from the inception in 2005 through 2009, the statute did not allow for the special assessments to be collected by the County Treasurer on the tax bill. The

Town sent out the billings twice per year. He said the payoffs should not be higher than \$3,500.

The audience member stated that she had several that were higher than \$3,500. They were for homes built in 2010 and 2011.

Boardmember Guilin stated that at there are several factors that can make the assessment higher than the \$3,500 amount. She said some factors include the following:

- If past assessment payments were paid through the property tax bill.
- Interest rate attached for assessment payments not made.
- Penalty may be attached for assessment payments not made.

Boardmember Guilin stated that each account needs to be looked at separately and see what the circumstances are for each of those assessment pay outs at that time.

Mr. Reeder stated that the assessment amount will not exceed \$3,500 per principal.

A member of the audience stated that he was told the interest rate is 7.5%. He inquired what the correct interest rate is for the special assessment.

Mr. Reeder stated that the bonds are sold periodically over time when the developer approaches the Town to go to the next stage of development. When they sell the bonds, they are non-rated early stage development bonds. The bonds are priced at the market and they amortized over a 25 year period of time. The bond interest rate in the early stages of the development for the special assessment bonds is anywhere between 6% and 7.5%, depending on the economics. What is going on in the bond market and interest rates in general.

The audience member stated that when he bought his home, he asked the sales representative if there were any taxes or fees that have not been discussed. The sales representative stated that they had covered everything. He said once he went through all of the information, he said he last two pages contained information on the CFD Bond. He said the documents stated "assume an interest rate of 9%". He inquired if the bonds can be recalled or refinanced.

Mr. Reeder said yes, they can be recalled or refinanced. He stated that the rate is dependent on which bond it is. He stated that he did not have the exact amount with him with regards to the bond that the audience member was referencing. He explained that the rate was dependent on the market conditions at the time of sale of the bonds. He explained as the development matures and as the risk gets diversified and goes away, and the Town can obtain a credit rating, bonds may be refinanced at a savings. He said they are trying to initiate change at the State Legislature next session because State statute currently does not allow the CFD to refinance their special assessment bonds.

Mr. Reeder stated that he believes G. O. bonds allow for refinancing. He said they are currently checking on that option.

Mr. Reeder said the Districts No. 1 and No. 2 are master planned for approximately 33,000 homes. He said approximately 2300 homes have been sold so far within the two districts. He said the commercial is not being developed as fast. He said as the rooftops continue to be built, it will help with several things, including the tax base.

Mr. Reeder discussed the tax base and how it has changed over the years. He said there is an approximate 18 month to two year lag from the time Pinal County values the property until the time it shows up on the tax roll. He discussed how the recession affected the values of the homes and that the tax base was adjusted accordingly. He said as the tax base grows and increases additional bonding capacity without exceeding the \$3.55, the District Board will consider the issuance of additional bonds to finance the public infrastructure. The goal is to set the tax rate at \$3.55 per \$100 assessed valuation.

Mr. Reeder stated that District No. 1 and No. 2 have issued approximately \$10 million in bonds. The bonds issued are:

<u>Bond</u>	<u>Regional Public Infrastructure</u>
\$4,390,000 Series 2008 (District No. 1)	Merrill Ranch Parkway, American Way Constitution Way, Felix Road, Independence Way, Sun City Boulevard, and Anthem Way
\$3,560,000 Series 2010 (District No. 2)	Merrill Ranch Parkway, Hunt Highway (Phase I) Storm Drainage
\$900,000 Series 2012 (District No. 1)	Regional Fire Station
\$500,000 Series 2012 (District No. 2)	Regional Fire Station
\$1,850,000 Series 2013 (District No. 2)	Merrill Ranch Parkway, Hunt Highway (Phase 1)
\$1,300,000 Series 2016 (District No. 2) (Estimated)	Hunt Highway, Spirit Loop
\$1,500,000 Series 2016 (District No. 1) (Estimated)	To Be Determined

Mr. Reeder stated that the proceeds from the bonds are used for regional public infrastructure within the District.

ANTHEM AT MERRILL RANCH – PULTE VISION AND USE OF COMMUNITY FACILITY DISTRICT FINANCING.

Mr. Dan Bonow, Pulte Project Manager, Pulte Homes, discussed how CFDs are applied in the community. He outlined where District No. 1 and District No. 2 are situated. He said there are small pockets of land within the District boundaries that are State Land Trust property and commercial property that have been excluded from the District. He said District No. 1 is significantly larger than District No. 2.

Mr. Bonow explained why there are two districts. He stated that Pulte purchased land from Harrison Merrill, hence the name Merrill Ranch. As they were going through the process, Mr. Merrill was setting up a district. Pulte purchased property from Mr. George Johnson. He said that Mr. Merrill did not want to consolidate the districts. He said the land purchase from Mr. Merrill ended on Constitution. He said Pulte worked with Mr. Merrill to come up with a line that brought each unit into one district or the the other. He said it made things much easier form a special assessment standpoint; when funds are being applied it would go to one district or the other.

Mr. Bonow identified which District each of the subdivisions is in:

- District No. 1
 - Heritage
 - Jubilation
 - Monticello
 - Tapestry
 - Triumph
 - Summerville
- District No. 2
 - Acclaim
 - Belmont
 - Cambridge
 - Destiny
 - Inspiration
 - Savoy
 - Tradition

Mr. Bonow identified the top 20 selling master planned communities in the U.S. in 2014, and all use some type of district financing. He said district financing is common across the country and other developers are using district financing. The top 20 selling master planned communities are as follows:

- The Villages – Florida
- Irvine Ranch – California
- Nocatee – Florida
- Riverstone – Texas

- Mountain's Edge – Nevada
- Stapleton – Colorado
- Alana – Texas
- Valencia - California
- Lakewood Ranch – Florida
- Providence – Nevada
- The Woodlands – Texas
- Rancho Mission – California
- Cinco Ranch – Texas
- Wildwood North – Texas
- Summerlin – Nevada
- Pavilion Park – California
- Lake Nona – Florida
- Woodforest – Texas
- Cross Creek Ranch – Texas
- Canyon Lakes West – Texas

Mr. Bonow stated that the master planned communities in Arizona that use district financing include:

- Sun City Festival
- Verrado
- Eastmark
- Vistancia
- DC Ranch
- McDowell Mountain Ranch
- Marley Park
- Estrella Mountain Ranch

Mr. Bonow provided a District comparison to date, in which he stated the following:

	<u>District No. 1</u>	<u>District No. 2</u>
Size	7,900 acres	1,060 acres
G.O. Bonds issued	\$5.3 million	\$5.4 million
S. A. Bonds issued	\$4.7 million	\$4.1 million
Number of units	30,000	3,144
Number sold	1,135	1,137

Mr. Bonow said that District No. 1 is approximately 4% sold out of its lots and District No. 2 is approximately 36% sold out.

Mr. Bonow stated that Pulte invested approximately \$200,000,000 plus before they sold their first home, so financing was very important to them. He stated the advantages to a CFD include the following:

- Makes master planned communities more feasible
- Lower home cost

- Infrastructure costs would have been added to purchase price
- If added to a mortgage, only mortgage interest is deductible
- Property tax that repays the general obligation bonds
 - Both the principal and interest payments are tax deductible

Mr. Bonow identified what is being financed through CFDs in Anthem through general obligation bonds, which include:

- Hunt Highway
- Merrill Ranch Parkway
- Florence Fire Station No. 2
- Anthem Way
- Constitution Way
- Americana Way
- Sun City Boulevard
- Spirit Loop

Mr. Bonow explained what is not being financed through CFDs in Anthem – General Obligation Bonds, which includes the following:

- Recreation Facilities
 - Community park
 - Poston Butte Gold Course
 - Parkside Recreation Center
 - Sun City Union Center
- Water/sewer infrastructure (West of Felix Road)
 - Johnson Utilities is the provider

Mr. Bonow stated that this allows ownership to remain with the community council. He said the Town of Florence is the provider for water and sewer infrastructure, east of Felix Road, and that infrastructure can be eligible for CFD.

Mr. Bonow explained what is being financed through CFDs in Anthem – Special Assessments, which include the following:

- Currently a \$3,500 per lot assessment for infrastructure within the unit itself
- Improvements within the Unit itself
 - Storm Drain
 - Pipe
 - Drainage structures
 - Concrete
 - Curb, gutter
 - Sidewalk
 - Paving

Mr. Bonow identified the top 5 taxpayers in each district based on the primary assessed value for 2015, which include:

- District No. 1
 - Pulte \$1.63 million
 - Southwest Value Partners \$1.24 million
 - Poston Butte \$298,000
 - Curis \$251,000
 - T-Mobile \$ 37,000

- District No. 2
 - Florence Hospital \$2.48 million
 - Vertex I \$858,000
 - Southwest Value Partners \$254,000
 - Pulte \$205,000
 - PLNU \$109,000

Mr. Bonow stated that those ten taxpayers (listed above), have contributed approximately \$261,000 to the District. He said through 2014, all of them were up to date on their taxes and had no delinquencies.

An audience member inquired who is responsible for the sewage and water since it not part of the Town's infrastructure.

Mr. Bonow explained that Johnson Utilities is responsible for the water and sewer. He said the Felix Road is the boundary line and everything west of Felix Road is serviced by Johnson Utilities. Because Johnson Utilities is a private utility provide, Pulte has separate agreements with Johnson Utilities that prevent Pulte from going for financing the infrastructure on the side serviced by Johnson Utilities.

Mr. Bonow stated that Pulte has the following coming up in the short term, which includes the following:

	<u>District No. 1</u>	<u>District No. 2</u>
Special Assessments	Unit 53 (Parkside) Unit 50 (Sun City)	Unit 36 (Sun City)
General Obligation	\$1.5 million bond – 2016	\$1.3 million bond – 2016

Mr. Bonow stated Pulte has the following going forward in the next four years:

- Subdivisions
 - Parkside
 - 470 new lots
 - Average sales is 90 per year
 - Sun City

- 540 new lots
- Average sales is 120 per year
- Infrastructure
 - Merrill Ranch Parkway – Hunt Highway to the west
 - Constitution Way
 - Spirit Loop – full completion

QUESTIONS FROM BOARD

QUESTIONS FROM THE PUBLIC

An audience member inquired what the \$3500 special assessment was for and why isn't it included in the lot price.

Mr. Bonow explained that the assessment is for infrastructure within the subdivision itself and includes, streets, storm drains, and curb and gutter outside of the home. He said the assessment was a decision that was made when they set up the District.

Mr. Dan Hewert, Sun City Resident, stated that he paid his assessment in full. He inquired if it is a tax deduction for him since he paid it this year.

Mr. Bonow stated that he is unable to provide him tax advice.

Mr. Hewert inquired who is responsible for widening Hunt Highway beyond Franklin going towards San Tan.

Mr. Bonow stated that the area is outside of the District.

Chairman Rankin stated that the widening of the road is the responsibility of Pinal County.

Mr. Wayne Costa, Public Works Director, stated that Pinal County recently completed the construction on Gary Road. Roadwork from Gary Road to Bella Vista will start in January 2016. He said from Bella Vista to Magma is approximately 50% designed and anticipate to go into construction in approximately two to two and a half years from now. The final loop within the County is from Magma to Arizona Farms. Pinal County is doing studies to address that section of Arizona Farms with Hunt Highway. Everything south of Arizona Farms to Franklin Road is within the Town's jurisdiction but is outside of the CFD. The Town will have a CIP on this area and should be in place in the next few years.

An audience member stated that it is her understanding that after one year, the street becomes the property of the Town of Florence and inquired if that is correct. She asked if the repairs are then decided by the Town for any street within the community that is over one year old.

Mr. Bonow stated explained when Pulte builds a road for arterial infrastructure in a subdivision, they go through a process. They will obtain a punch list with the Town and correct the items. Once the road is accepted by the Town Council, it goes into a one year warranty period. The Town takes ownership at the end of the one year warranty period.

The audience member inquired if she should address road issues to the Council after the one year warranty period is over.

Chairman Rankin stated that she should address those issues with Public Works. Public Works will then do an inspection of the issue to determine what needs to be done.

The audience member stated that a lot of the crosswalks, especially at Anthem grade school need to be repainted. There are also several streets that are in need of minor repair or need to be repaved. She said that she has been in Florence for eight years and things do break.

An audience member asked for clarification with regards to the bonds. He inquired if the rate of \$3.55 per \$100 assessed valuation will remain the same regardless of the amount of bonds issued.

Mr. Bonow stated that he is correct. He said the rate has not increased since CFDs were first introduced.

An audience member inquired if funding is available to repaint the lines on the roads and to fix the streets.

Mr. Costa stated that the Town does have a portion of the money available. He said a portion of the \$0.30 per \$100 assessed valuation for maintenance and operations is used for roads. There is approximately \$200,000 in CFD No. 1 and approximately \$70,000 in CFD No. 2. He said approximately 60% to 70% is used for maintenance and is scheduled through the Capital Improvement Plan for certain units, which they have scheduled for the next four years. He said Highway User Revenue Funds (HURF) is also used for maintenance.

Mr. Costa explained the work that has been done thus far in the CFDs. He said they are also looking for Transportation Excise Tax Revenue Bonds in order to enhance some programs that are outlined in Proposition No. 407. He said this will occur in the next two years. Improvements will be north of Franklin Road, micro sealing of pavement preservation of Merrill Ranch Parkway and Hunt Highway, intersection improvements at Attaway and Hunt Highway and intersection improvements at Felix Road and Hunt Highway.

Mr. Costa stated that the Town has exhibited an extraordinary amount of traffic growth in the last two years. Just recently, the Town put out a traffic count north of Franklin Road because traffic has increased between 40% and 50%. He stated that an estimate projection on traffic growth went from 12,000 to 17,000. He said the traffic counts one year ago at Attaway approximately was 10,000 of which, approximately 90% are making a left hand turn. He said almost every unit in Anthem is programmed into the CIP for the next four years for pavement preservation and restoration. He said five to six units have been completed to date, which include Units 17, 19, 21, 23, and 25. The units were addressed with concrete and crack seal. He said this is a prerequisite for pavement preservation that will be occurring.

CALL TO THE PUBLIC

An audience member inquired if there will ever be a road from Spirit Loop, up to Franklin to Hunt Highway in the next five to seven years. He inquired where Magma Road is located and asked if it will be a new section of road and asked if that road will connect to the three-lane road by the hospital.

Mr. Larry Putrick, Pinal County Commissioner, stated that they received an update from Pinal County Public Works in which they stated that they will complete the widening of the road by the end of next year. He said the project will include the expansion of Ganzel Road. The access lanes on Ironwood will take longer because they will be adding some strips or lanes for safety factors.

Mr. Bonow stated that there will not be a road for Spirit Loop, up to Franklin to Hunt Highway. He said the intent is to keep the traffic internally.

An audience member inquired if there will be a golf cart path to get to the hospital.

Mr. Bonow stated that Pulte continues to review option. They haven't finalized the master plan to tie in. Originally the hospital had an option for an additional 30 acres and Pulte rezoned it as such. He said the option lapsed and they no longer have an option on that hospital. He said if they would entertain conversations with the hospital owner if they choose to purchase the property.

An audience member stated the Town of Florence Council has done a fine job in being fiscally responsible in managing the budget.

CALL TO THE BOARD

Boardmember Hawkins thanked everyone for attending.

ADJOURNMENT

On motion of Boardmember Anderson, seconded by Vice-Chairman Walter, and carried to adjourn the meeting at 7:50 pm.

Tom J. Rankin
Tom J. Rankin, District Chairman

ATTEST:
[Signature]
Lisa Garcia, District Clerk

I certify that the following is a true and correct copy of the minutes of the Merrill Ranch Community Facilities District No. 1 and No. 2 Boards meeting held on October 26, 2015, and that the meeting was duly called to order and that a quorum was present.

[Signature]
Lisa Garcia, District Clerk

