Town of Queen Creek, Arizona

Municipal Bond Information

October 3, 2012

RBC Capital Markets®

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Bond Basics

SECTION 1

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Bond Basics

- Common types of bonds issued by Arizona municipalities include:
  - General Obligation Bonds – Property Taxes
  - Excise Tax Revenue Bonds – Sales Taxes
  - Certificates of Participation – General Fund
  - Special District Bonds (i.e. Improvement Districts, Community Facilities Districts)
- Most municipal bonds receive ratings from independent rating agencies
  - “Aaa/AAA” is the highest in the investment grade category
  - Rating level and interest rate are inversely correlated
    - The higher the rating, the lower the interest rate on the bonds
  - Queen Creek – “A” category

Community Facilities District

SECTION 2

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CFDs in Arizona

- 22 Cities/Towns have CFDs to date – no Counties currently have CFDs
  - Apache Junction
  - Buckeye
  - Carefree
  - Casa Grande
  - Coolidge
  - Florence
  - Fountain Hills
  - Glendale
  - Goodyear
  - Litchfield Park
  - Marana
  - Mesa
  - Peoria
  - Phoenix
  - Prescott
  - Prescott Valley
  - Scottsdale
  - Sahuarita
  - Show Low
  - Surprise
  - Tempe
  - Youngtown

- Of the $637.4 Million in CFD bond issues, approximately 75% have been issued as general obligation bonds

What is a CFD?

- A Community Facilities District is a separate political subdivision of the State
- Created by municipality for primary purposes of *financing* public infrastructure
- Has authority to construct, acquire, operate and maintain public infrastructure (broadly defined).
- Governed by City/Town Council or County Board of Supervisors (if District is less than 600 acres)

Types of Debt Issuance

- General Obligation Bonds
  - Requires an election of qualified electors or landowners within the District
  - Bonds are payable from ad valorem property tax levied against all property within the District which is unlimited as to rate and amount
- Special Assessment Bonds
  - Similar to Arizona Improvement Districts
  - Costs are assessed to properties receiving benefit of the infrastructure
  - The special assessments have a first lien on the property, subject to general property taxes
- Revenue Bonds
  - No bond election required
  - Revenue – generating facility or enterprise (i.e., water or sewer utility)

CFD Financing "Continuum of Risk"

More Risk ⟷	Less Risk
• Under-capitalized developer • Lower land values • Uncertainty with respect to homebuilder contracts and/or absorption • Bonds issued prior to sufficient land value existing	• Well-capitalized developer • Higher land values • Signed homebuilder contracts • Bonds issued to reimburse developer for construction expenditures after land value has increased

Tax Increment Financing

SECTION 3

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Tax Increment Financing

Tax **I**ncrement **F**inancing (“TIF”) a financing mechanism for public infrastructure paid for with a tax increment. Historical use is that the area to be designated as a TIF is so blighted that little or no new development or growth would take place in the area without the use of the TIF.

- Property Tax TIF
    - Define an area (usually blighted, slated for redevelopment, etc.) and value property within it – “Base Value/Base Year”
    - As values grow over time, the difference between the base value and the new value is the “increment” that will be used to calculate the new tax revenue stream
    - Tax revenues are “diverted” to the TIF – no revenues go to overlapping jurisdictions
    - Tax revenues leveraged through bonds to fund improvements in the redevelopment area

- 49 States have statutory/constitutional authority for property tax TIF programs
    - Which one does not??