

INTRODUCTION

The Harris Ranch Community Infrastructure District No. 1 (“the District”) was created in 2010 to “To encourage the funding and construction of regional community infrastructure in advance of actual developmental growth”¹ and “To create additional financial tools and financing mechanisms that allow new growth to more expediently pay for itself”². **The goal of this overview is to give you a better understanding of the District’s taxing and project reimbursement functions.** This overview will focus on these topics and touch briefly on other topics only to support the explanation of taxing and reimbursements.

At its most basic level, the District’s operations focus on the levying of taxes to pay for existing and future municipal bond issuance. The bonds are used to reimburse the District’s Developer to pay for community infrastructure.

Before we dive into the details, one quick disclaimer, this document is not a legal interpretation of the Idaho Code or the Developer Agreement. This writing is prepared from the perspective of the operations of the District.

EXECUTIVE SUMMARY

- Primary Stakeholders:
 - The residents of the District
 - The Developer/Owner
 - The District Board of Directors
 - Staff and Contractors of the District
- Governance and Formation
 - The District’s primary governing rules are from Idaho Title 50, Chapter 31, and a Developer Agreement signed between the City of Boise, the Owner, and the District itself
- Taxes
 - The District has three forms of taxes
 - General obligation bond levy – based on property value
 - Administrative levy – based on property value
 - Special Assessment tax – based on property size (acreage)
 - General obligation bond taxes are set based on a 2.85 mill levy rate. That means 0.285% of the market value of all property within the District less any exemptions. The authority for issuing bonds was granted by vote of all property owners in 2010.
 - The administrative levy covers regular operational costs of the District and is capped at 0.01% of the market value of the District less any exemptions.
 - Special Assessment Tax
 - The special assessment tax is used to pay for debt service for the 2011 Special Assessment Bond.
 - Each year the properties in the assessment area are assessed for size and added to the Assessment Rolls.

¹ Idaho Code § 50-3101(a) – Purpose, Relationship with other Laws and Short Title

² Idaho Code § 50-3101(c)

- Bonds and Project Reimbursement
 - Projects
 - Project reimbursement eligibility is defined within Idaho State Code and the Developer Agreement. Reimbursements must qualify as community infrastructure and benefit the District. Reimbursable costs include planning, design, construction as well as other expenses.
 - All reimbursements must follow the public bidding process
 - The Developer submits reports with projects for reimbursement. If the projects are eligible for reimbursement, then bonds are issued, and proceeds used for reimbursement.
 - Bond Issuance Process - Bonds are privately placed. The lender is bid out and the award is based on the most favorable terms.
- Public Meetings and Budget
 - The District holds at least four separate meetings to review and approve the budget as well as resolutions to support the taxes and bond issuance process.
 - Although all meetings are open for the public to attend, only the Budget Public Hearing is set up to receive resident testimony at this time.
- Conclusion - This document is a high-level summary. If you have additional questions, please contact District staff: boisetreasury@cityofboise.org

PRIMARY STAKEHOLDERS

- The residents of the District – the residents are the beneficiaries of the community infrastructure
- The Developer (Owner) – there are two parties who are called the Developer:
 - The Harris Family Limited Partnership (“HFLP”) – owns the land that on which the community infrastructure projects are built. They are primarily reimbursed for transfer of land into public ownership
 - Barber Valley Development Inc. – leads the development of community infrastructure within the District. They are primarily reimbursed for community infrastructure project costs
- District Board of Directors
 - The District Board has three members. They are appointed by the City of Boise’s City Council and are all City Council members³
- Staff for the District
 - The District does not have any full-time staff. Instead, it contracts with the City of Boise and other publicly-bid contractors to support its operations

GOVERNANCE and FORMATION

The District follows Idaho state law and a legal agreement signed between the HFLP, the City of Boise, and the District.

- Idaho Title 50 (Municipal Corporations), Chapter 31 (Community Infrastructure District Act)
- District Development Agreement No. 1

On April 2, 2010, Barber Valley Development Inc. submitted a petition on behalf of the four managing members of the Harris Family Limited Partnership to create the District. The District was formally created by City Council resolution on June 22, 2010.

The District, the City, and the Developer signed the District Development Agreement No. 1 on August 31, 2010. This agreement details the process by which projects are constructed, acquired, and reimbursed. The agreement also covers matters related to the two types of bonds issued by the District.

TAXES

There are three types of taxes present in the District:

- General obligation bond levy tax
- Administrative levy tax
- Special-assessment tax

The first two taxes, the general obligation bond levy tax and the administrative levy tax, are calculated based on the property value. The property value includes both the land and the house. They are combined as a single line item (Tax District 151) on the tax form you receive from Ada County (see example below).

³ Idaho Code § 50-3104(2) – District Organization

Tax Districts		
Tax District	Levy	Description
1	0.002549212	ADA COUNTY
3	0.000121963	EMERGENCY MEDICAL
6	0.000771526	ADA COUNTY HIGHWAY DIST
7	0.004277232	SCHOOL DISTRICT NO. 1
14	0.005698506	BOISE CITY
43	0.000021765	MOSQUITO ABATEMENT
100	0.00012858	COLLEGE OF WESTERN IDAHO
151	0.002899964	CID HARRIS RANCH 1 ADMIN/BOND
Total Levy: 0.016468748000000002		

The third tax is based on the acreage of your property. We'll go into more detail in a bit. Let's look at the first tax.

General Obligation Levy and Bond Authority

The tax levy that supports general obligation bonds is based on the value of the property that is being taxed. The levy has been historically set at 0.285%. That means that if a property is worth \$100,000 the owners will pay a tax of \$285, or a tax of \$1,425 for a \$500,000 property.

This approach to taxation is unique to the District. Most taxing districts, such as the City of Boise, Ada County, and the school districts tax based on a relatively stable budget. In contrast the District has a fixed levy and the its budget expands or contracts with the change in the aggregate property values of the District. This means that as property values rise, the levy of most taxing districts will decrease while the District's levy will remain fixed. The implication of this is that year-over-year in an environment of rapidly increasing property values, the District's tax levy will become a larger.

This can be mitigated if the primary increase in the value of the District comes from new construction rather than higher property values.

Each year, the District staff take the estimated value of the entire District and multiply it by 0.285%. We then subtract the amount that is currently used to pay for bonds that are still outstanding. The remainder is what is used for the current year's bond issuance.

For example:

1. The estimated value of the District for 2020 was \$348,521,600
2. Multiply that by 0.285% and you get \$993,286.56
3. The debt service for outstanding bonds for 2020 was \$833,999
4. The difference between the two is \$159,287.14. This is the amount that is pledged for the annual payment towards new debt

The issuance of the bonds that are supported by the levy was authorized by an election of the initial homeowners on August 3, 2010. The homeowners voted to authorize the District to issue general obligation debt with a cumulative principal amount of \$50 million. The authority to issue was good for

thirty years from the date of the election. Appendix A shows the amounts of general obligation debt that has been issued to date as well as how much of the \$50 million authorization is left.

Administrative Levy

The administrative levy is used “to reimburse or defray the administrative expenses of the district pursuant to a district development agreement.”⁴ The levy is capped at 0.010% of the value of the District. As we noted above, it is combined with the general obligation bond levy on your property tax statement. For the Fiscal 2021 Budget, the Administrative Levy was set at \$15,100 or 0.004% of the estimated value of the District.

Special Assessment Tax

Instead of being calculated on the value of the property, the Special Assessment Tax is calculated based on the acreage of the property being taxed. The properties that are taxed for the special assessment are within the boundaries of Assessment Area One. While Assessment Area One falls entirely within the boundaries of the District, its area is smaller than that of the District.

The Special Assessment tax is used to support the debt service payments for the 2011 Special Assessment bond and administrative costs. The District chose to issue a Special Assessment bond because the market value of the District was too small to support meaningful reimbursements using general obligation bonds. The administrative costs for the Fiscal Year 2021 are \$14,460.87. Because of the high administrative burden of this type of bond, the District and the Developer do not plan to issue another bond of this type.

Each year the Developer contracts with an engineering company to conduct an assessment to calculate the acreage of each property within Assessment Area One. Those properties, together with their acreage, are included on the Assessment Rolls that are approved by the District Board. Each year the acreage included in the Assessment Rolls is decreased as land is used for roads or common areas such as HOA land.

Once the Engineer produces the Assessment Roll, the District Staff allocate the debt service for the Special Assessment Bond to each property based on the ratio of the acreage of that property against the total acreage of Assessment Area One.

For Fiscal Year 2021, let’s assume that your property is 0.25 acres. To calculate how much you would pay in Special Assessment taxes, we would take the following steps:

1. Total acreage of Assessment Area One for FY-2021: 265.683 acres
2. Divide 0.25 by 265.683 to get 0.000940973
3. The debt service and administrative costs for FY-2021: \$400,710.87
4. Multiply that by our ratio in step 2, and we get \$377.06

Unlike the general obligation bonding authority, no election is required⁵. Instead, a petition from a minimum of two-thirds of the owners is submitted, a public hearing is held, and the District Board votes on a resolution approving the special-assessment tax. The actual issuance of bonds is considered in a

⁴ Idaho Code § 50-3113 – Cost of Administration

⁵ Idaho Code § 50-3109(1) – Special Assessments - Bonds

separate resolution. In that resolution, the District Board can approve the issuance of special-assessment bonds up to the amount that can be supported by the special-assessment tax.

BONDS and PROJECT REIMBURSEMENT

Projects

The proceeds of both the general obligation and special-assessment bonds are used to reimburse the Developer for community infrastructure. For full details on what constitutes community infrastructure, please reference Idaho Code § 50-3102(2). For the purposes of this overview, the key things to understand are:

- Improvements must have a substantial nexus to the District. This means that means improvements built in say, downtown, would not constitute community infrastructure.
- Improvements cannot be built fronting individual single-family residential lots.
- “Community infrastructure includes planning, design, engineering, construction, acquisition or installation of such infrastructure, including the costs of applications, impact fees, and other fees, permits and approvals related to the construction, acquisition or installation of such infrastructure”.

The developer agreement adds other requirements that improvements must meet to be reimbursable:

- All infrastructure reimbursements must follow the public bidding process according to Idaho Code⁶.
- The Developer/Owner submit reports requesting financing for community infrastructure. The District Board cannot unreasonably deny or refuse to consider the reports, approve them, and to take action to issue bonds to fund the reimbursements requested in the reports⁷.
- The District also reimburses the Owner for reasonable costs and expenses related to carrying out the purposes of the District⁸.
- Similarly, the District also reimburses the City of Boise and its vendors for costs and expenses related to the operations of the District⁹.

Each year the Developer submits report(s) with the projects (improvements) for which they are requesting reimbursement. The District staff reviews the requests to confirm that the requirements above have been met. Additionally, the District contracts with external bond counsel to review the reports to confirm that they meet IRS requirements for reimbursement by tax-exempt bond proceeds.

One important note, any projects that are not reimbursed accrue interest at a rate of prime plus two percent. The interest is simple interest.

The projects are reimbursed based on the size of the bonds. The size of the bonds is based on the amount of tax levy that can be used to support new issuances.

Bond Issuance Process

⁶ Developer Agreement – Section 1.5 and Idaho Code § 67-5711C Construction of Public Projects

⁷ Developer Agreement – Section 1.6

⁸ Developer Agreement – Section 1.8

⁹ Developer Agreement – Section 1.4, this is governed by Idaho Code § 50-3105

Because of the relatively small size of the District’s bond issuance, the District sells the bonds directly¹⁰ to a single lender, rather than conducting a public sale. To select the purchaser of the bond, the District conducts a Request for Proposal (RFP) with potential lenders throughout the US. Each prospective lender provides a term sheet with its proposed lending terms. The District awards the bid based on the most favorable terms. Among the terms that the District has historically sought are those that will minimize the interest paid, allow for future flexibility to refinance, and longer lending terms in order to maximize the bond proceeds.

PUBLIC MEETINGS and BUDGET

Let’s bring all this together. All of the items we’ve discussed are linked together through a budget and public meetings process, which we’ll now review. At present, there are four meetings, all of which are open to the public. Only one meeting is a public hearing where residents can provide comment.

1. **Service Agreements:** During the first meeting, the District Board reviews and approves the service agreements from the vendors that will support the bond issuance and special-assessment process.
2. **Budget Workshop:** In the second meeting, the District Staff presents a proposed budget for the next fiscal year. The District Board provides comments.
3. **Budget Public Hearing:** The third meeting is the opportunity for the residents to provide their comments to the proposed budget. The District Staff put a notice in the Idaho Statesman and post notices in the postal pavilions throughout the District. This is done a minimum of ten days prior to the meeting per Idaho Code¹¹. After receiving resident testimony, the District Board votes on the budget.
4. **Bond Resolution / Assessment Roll Resolution / L-2 Resolution:** During the final meeting, the District Board votes on resolutions regarding the bonds, the special-assessment rolls, and the L-2.
 - a. **Bond Resolution:** The bond resolution acts as the agreement between the District and the lender. It spells out the terms of the bond, including payment terms, loan covenants, and interest rates.
 - b. **Assessment Roll Resolution:** This is the Engineer’s Report mentioned in the Special Assessment Discussion.
 - c. **L-2 Resolution:** The L-2 is the document submitted to Ada County that contains the dollar levy amounts that will be assessed for the general obligation bond levy and the administrative levy.

FREQUENTLY ASKED QUESTIONS

1. Why are there pockets within the District that do not pay the General Obligation tax levy?
 - a. In 2010, when the Owners voted to create the District, there were subdivisions that had already been built. Because the owners within those subdivisions did not join the District at its creation, they are not subject to any of the taxes of the District.
 - b. Idaho State law prevents those homeowners from being forced to join the District, they can only join voluntarily.

¹⁰ Rule 144A under the Securities Act of 1933 as amended

¹¹ Idaho Code § 50-3114 – Annual Financial Statements and Estimates – Annual Budget - Certification

- c. Because the bonding authority that the Owners voted to authorize extends for 30 years (and up to \$50 million), anyone who purchases property within the District takes on the obligation pay debt issued within the framework of the bonding authority.

CONCLUSION

This overview is a high-level summary of the operational process that the District goes through each year in assessing taxes and issuing bonds for project reimbursement. If you have additional questions, please reach out to the District Staff: boisetreasury@cityofboise.org

APPENDIX A

General Obligation Bond Authorization Tracking

Series	New Bond Amount	Authorization Balance	Reimbursement
		\$50,000,000	
2010	\$75,000	\$49,925,000	60,052.00
2013	\$319,000	\$49,606,000	244,475.00
2014	\$77,000	\$49,529,000	52,000.00
2015	\$3,744,404	\$45,784,596	3,336,547.01
2016	\$1,331,390	\$44,453,206	1,188,582.81
2017	\$1,801,193	\$42,652,013	1,628,202.15
2018	\$1,979,736	\$40,672,277	1,884,712.85
2019	\$3,921,911	\$36,750,366	3,804,938.82
2020	\$2,121,599	\$34,628,767	2,029,759.87
Total	<u>\$15,371,233</u>		<u>12,199,510.64</u>
GO	\$15,371,233.00		\$12,199,510.64
SA	<u>\$3,920,000.00</u>		<u>\$2,726,850.58</u>
	\$19,291,233.00		\$14,926,361.22