## Municipal Property Corporation

- Background and Potential Dissolution -

City of Apache Junction, Arizona



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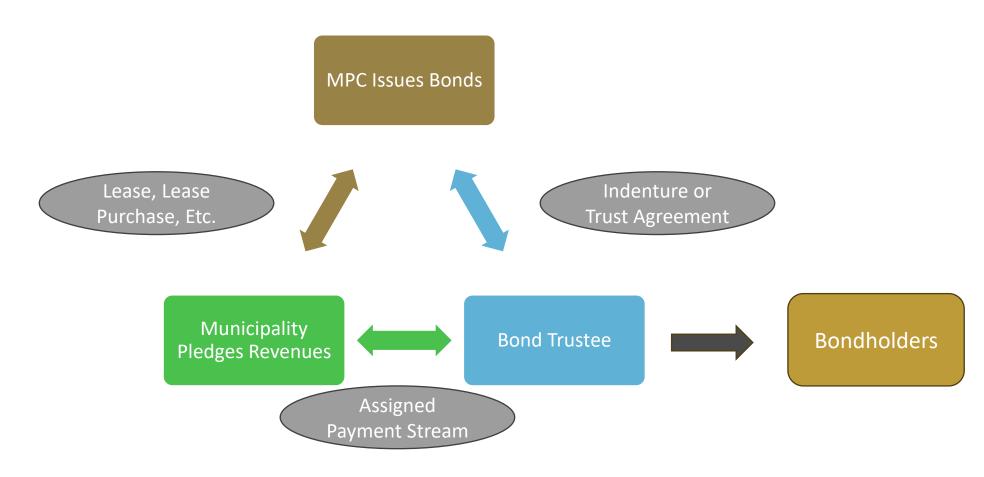
# City of Apache Junction Municipal Property Corporation (MPC)

- Formed in 1990
- Arizona nonprofit corporation
- Must be maintained in good standing
  - Annual reports to AZ Corporation Commission
  - Appointed MPC Board members
  - Annual meeting and budget
  - IRS Form 990 filing, as applicable
  - Insurance (or indemnification from City/additional insured under Risk Pool)
  - Periodic updates to bylaws

### **MPC Financing**

- Historically, MPC financings generally used a revenue pledge
  - Most commonly, excise tax/State shared revenues or utility revenues
- Non-voter authorized revenue pledge is derived from general contracting ability of the municipality and caselaw

### **MPC Financing Structure**



#### AJ MPC

- Completed several transactions with pledged excise taxes and State shared revenues
  - Municipal facilities
  - Streets
  - Other improvements
- All MPC bonds have been fully repaid and are no longer outstanding
- Staff is reviewing prior bond documentation to ensure any ownership rights or lease encumbrances have been released by MPC and/or bond trustee
  - Often long-term bonds, and upon final payment, the bond trustee did not fulfill requirements to execute warranty deed for improvements to municipality
  - Valley National Bank to Bank One to Chase, for example

#### **MPC Structure No Longer Necessary**

- 1997 amendments to Treasury Regulations § 1.141-3
  - This section generally deals with private use
  - Generally, ownership equals private use; prior to amendments a corporate trustee having any ownership interest could create private use concerns and limit the tax-exempt status of interest on bonds
  - Post-amendments, Treasury and IRS clarified that "Use by a nongovernmental person that is solely incidental to a financing arrangement is not private business use. A use is solely incidental to a financing arrangement only if the nongovernmental person has no substantial rights to use bond proceeds or financed property other than as an agent of the bondholders."
    - Example financing structures that do not constitute private use expressly include a sale and leaseback, as well as bond trustee services

### **MPC Structure No Longer Necessary**

- Arizona municipalities began to phase out use of MPC structure
  - Bonds typically have long maturities, so it takes time
  - For example bonds issued in 1996 with 20 year maturity, MPC had to be maintained in good standing because indenture had express covenants that the MPC, as the bond issuer, would not be dissolved or cease to exist
- Certain Arizona municipalities with significant amount of MPC debt still use the structure
  - Scottsdale (MPC) and Phoenix (Civic Improvement Corporation), for example

#### **AJ Most Recent Pledged Revenue Transaction**

- Apache Junction 2022 Pledged Revenue Obligations
  - Excise Tax and State Shared Revenue pledge
  - Corporate Trustee structure, no MPC

#### OFFICIAL STATEMENT DATED JUNE 1, 2022

#### NEW ISSUE - BOOK-ENTRY-ONLY

RATINGS: See "RATINGS" herein.

THE PORTION OF EACH INSTALLMENT PAYMENT MADE BY THE CITY PURSUANT TO THE PURCHASE AGREEMENT AND DENOMINATED AS AND COMPRISING INTEREST PURSUANT TO THE PURCHASE AGREEMENT AND RECEIVED BY THE OWNERS OF THE OBLIGATIONS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND IS NOT EXEMPT FROM TAXATION UNDER THE LAWS OF THE STATE OF ARIZONA. SEE TAX MATTERS HEREIN.



#### \$26,780,000 CITY OF APACHE JUNCTION, ARIZONA PLEDGED REVENUE OBLIGATIONS, TAXABLE SERIES 2022

Dated: Date of Initial Delivery

Due: July 1, as shown on the inside front cover page

The Pledged Revenue Obligations, Taxable Series 2022 (the "Obligations") will be executed and delivered for the purposes of (i) acquiring the form of evidence of payment executed and delivered by the Arizona Public Safety Personnel Retirement System ("PSPRS") as a result of the City of Apache Junetion, Arizona (the "City") funding all or a portion of the City's unfunded liabilities with respect to PSPRS and (ii) paying costs incurred in connection with the execution and delivery of the Obligations See "PIAN OF PINANCE" herein.

Interest on the Obligations will be payable semiannually on each January 1 and July 1, commencing January 1, 2023. The Obligations will be dated the date of delivery and will be issuable as fully registered obligations without coupons and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). New York, New York, which will act as securities depository for the Obligations. Beneficial interests in the Obligations will be available to purchasers in amounts of \$5,000 of principal due on a specific payment date and any integral multiple thereof only under the book-entry-only system maintained by DTC through brobers and dealers who are, or act through, DTC Participants (as defined herein). Purchasers will not receive physical certificates. So long as any purchaser is the beneficial owner of an Obligation, such purchaser must maintain and account with a broker or a dealer who is, or acts through, DTC Participant to receive payment of principal and interest on such Obligation. See APPENDIX G - "BOOK-ENTRY-ONLY SYSTEM" herein

The Obligations will be subject to optional prepayment prior to their stated payment dates as described herein. See "THE OBLIGATIONS – Prepayment Provisions" herein.

#### SEE PAYMENT SCHEDULE ON INSIDE FRONT COVER PAGE

The Obligations will represent undivided, proportionate interests in the installment payments (the "Payments") to be made by the City pursuant to a Second Purchase Agreement, to be dated as of July 1, 2022 (the "Purchase Agreement"), between the City and U.S. Bank Trust Company, National Association (the "Thustee"). The Payments to be made by the City under the Purchase Agreement will be payable from and secured by a first lien pledge upon Excise Tax Revenues (as defined herein), and State Shared Revenues (as defined herein), in a mounts sufficient to make such payments. The Purchase Agreement provides that the City (a) may not further encumber the Excise Tax Revenues and State Shared Revenues on a basis prior to the pledge of the Excise Tax Revenues and State Shared Revenues on a basis equal to the pledge under the Purchase Agreement unless certain requirements of the Purchase Agreement unless certain requirements of the Purchase Agreement are satisfied. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS" hereto.

THE OBLIGATIONS WILL BE SPECIAL LIMITED, REVENUE OBLIGATIONS OF THE CITY AND WILL BE PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN. THE OBLIGATIONS WILL NOT BE GENERAL OBLIGATION OF THE CITY, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF, AND THE FULL FAITH AND CREDIT OF THE CITY, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WILL NOT BE PLEDGED FOR THE PAYMENT OF THE OBLIGATIONS.

The Obligations will be offered when, as and if executed and delivered, subject to the approving opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Special Counsel, as to validity and tax matters. Certain matters will be passed upon for the Underwriter by its counsel, Squire Patton Boggs (US) LLP, Phoenix, Arizona. It is anticipated that the Obligations in definitive form will be available for delivery through DTC on or about July 7, 2022.

This cover page contains only a brief description of the Obligations and the security therefor. It is not a summary of material information with respect to the Obligations. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Obligations.

#### Whether to Dissolve MPC

- Many cities have dissolved their respective MPCs
  - Hard to find boardmembers
  - No transactions
  - Administrative and compliance burden
  - Switched to corporate trustee structure
- Some cities keep the MPC just in case
  - Concerned Treasury or IRS will change the rules again, making MPC a viable financing tool
- AJ policy decision
  - Staff will complete title search, litigation search, UCC search prior to dissolution
  - Typically, bylaws or articles require all assets and obligations are assumed by the municipality upon dissolution



