

# Municipal Property Corporation - Background and Potential Dissolution -

---

City of Apache Junction, Arizona



Zach Sakas | [sakasz@gtlaw.com](mailto:sakasz@gtlaw.com) | 602.445.8456

# Municipal Property Corporation

# 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

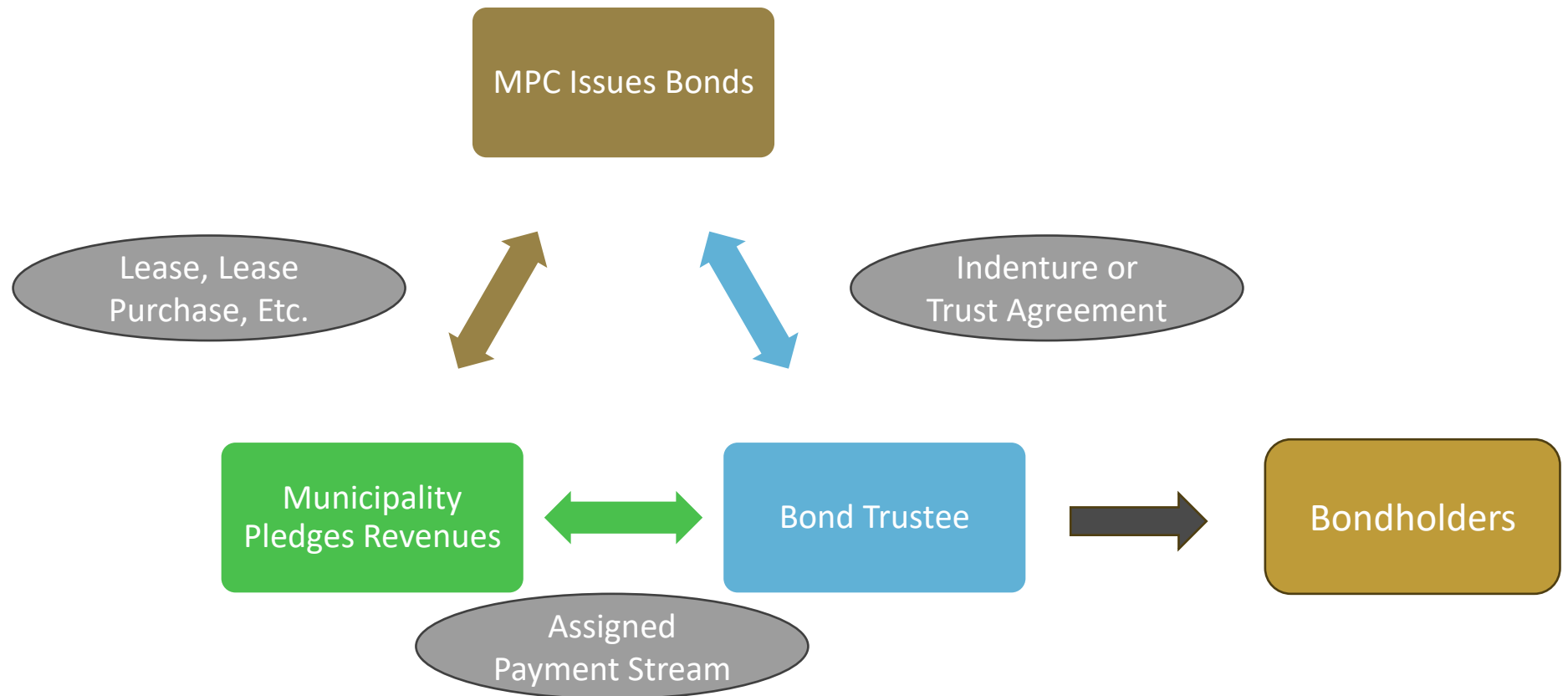
# MPC Financing

---

- 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

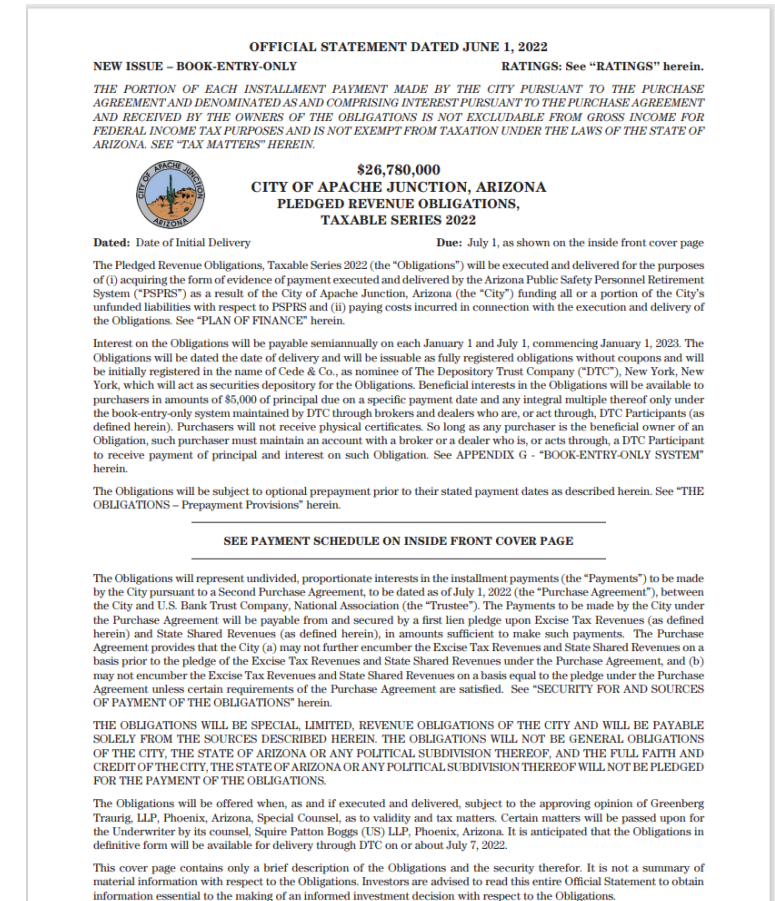
---

- 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



# 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

A low-angle, upward-looking photograph of several tall skyscrapers. The buildings are made of light-colored stone or concrete with many windows. They are set against a bright blue sky filled with soft, white clouds. The perspective makes the buildings appear to converge towards the top of the frame.

# Questions & Discussion