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Public Improvement Districts –
A “New” Tool For Land Development

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Brief History of Public Improvement Districts

I. Legislation Passed in 1987
    a. Justification - - - rising tax rates

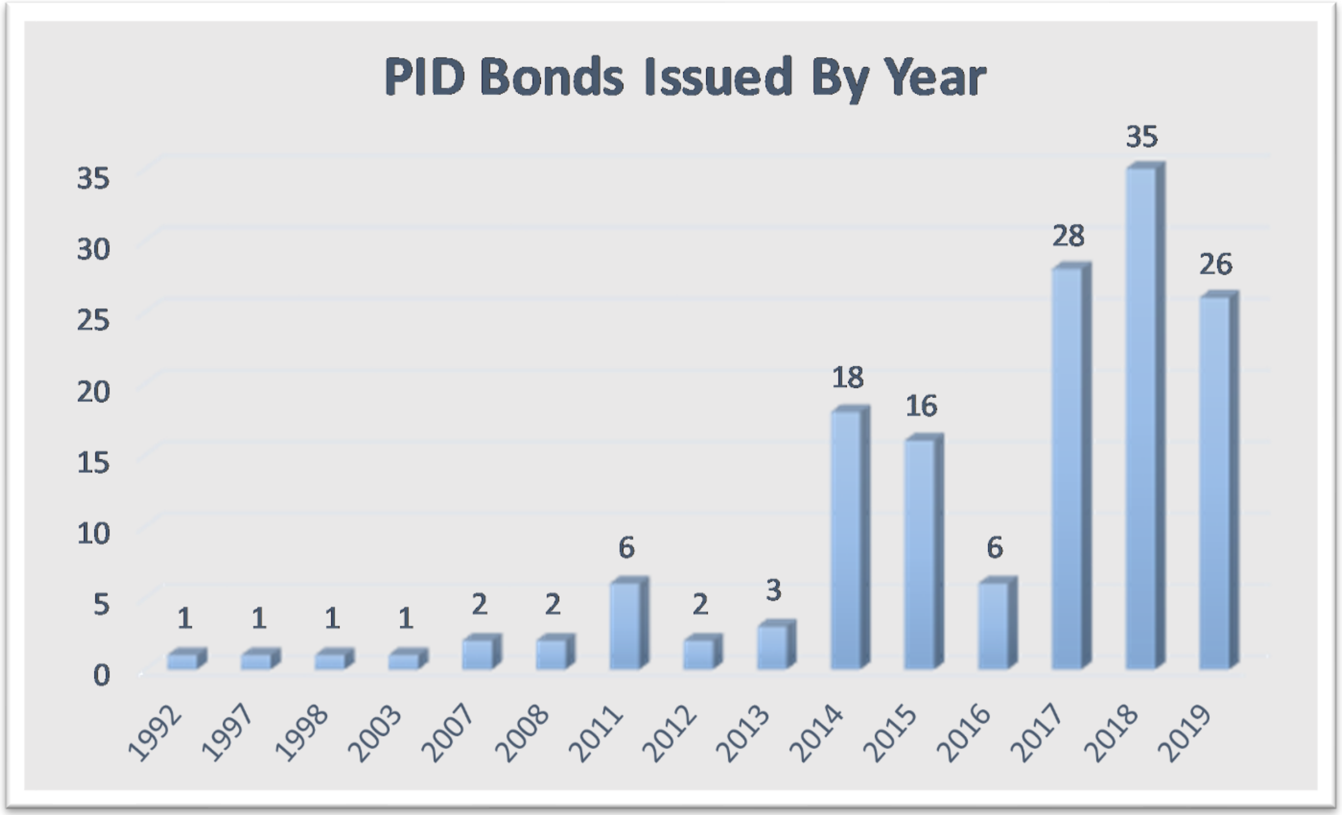
II. Informal “Types of PIDs”
    a. “Maintenance PIDS”
    b. “Infrastructure PIDS”
        i. “Cash Flow PIDs”
        ii. “Dirt Bond PIDS/Bare Land PIDS”
        iii. “Reimbursement PIDS” (like a MUD)

III. Today #PIDS, #Cities, $Volume of Financing is Sky-Rocketing

PID Fact Sheet (Mid-2019)

First Publicly Issued PID: **1992**

Number of PID Public Bond Issuances: **148**



Why is Volume Sky Rocketing?

I. From Developer's Perspective
   a. Up-Front Bare Land Construction Financing Is Attractive.
   b. Cost Effective for Small Projects.
   c. Cities are requiring PIDs in place of MUDs, when they can.

II. From City's Perspective
   a. Don't like "MUDs" – Another Governmental Entity.
   b. Assure Term of Existence – MUDs Exist Longer Term.
   c. "Control" – Each Series of Bonds is Sold by City, so the City remains intimately involved in the development financing.

Differences Between MUDS and PIDS

I. What is a PID?
   a. It’s a line drawn on a map by the City. City says it will assess the land/lots within the circle to fund or reimburse the developer for specific infrastructure.

II. MUD is a separate political subdivision which is created for certain infrastructure.

PID Creation Procedure

I. PID can be created in corporate limits or ETJ.

II. City receives petition from landowner, calls a public hearing, publishes notice more than 15 days before hearing, mails notice to landowner, conducts public hearing, adopts resolution creating the PID, <u>records resolution in the real property records.</u>

III. Total time can be less than 45 days.

IV. City has sole discretion to create the PID, regardless of whether PID is in ETJ or corporate limits

MUD Creation Procedure

I. Landowner petitions City for “City Consent.”
   - Once consent is given, City is out of the loop.

II. Owner then goes to Legislature (odd numbered years) or Texas Commission on Environmental Quality.

III. Total time to create MUD 6-12 months from time of Petition to City.

IV. Creation of MUD in City’s corporate limits is at City’s sole discretion.

V. Creation of a MUD in City’s ETJ is subject to “cram-down” provisions in TWC 54.016.

If land is in ETJ developer may be able to create MUD over City’s objection.

Comparison

I. 45 days vs. 6-10 months.

II. Cost $20,000 - $40,000 vs. $70,000-$100,000.

III. Creation of the PID is at sole discretion of the City.

IV. Creation of a MUD is at sole discretion of the City, <u>only if the MUD is in the corporate limits of the City</u>.

Infrastructure Funded

I. **MUDS**
   a. Water
   b. Sewer
   c. Drainage
   d. Roads
   e. Recreational Facilities/Parks

II. **PIDS**
   a. Water
   b. Sewer
   c. Drainage
   d. Roads
   e. Recreational Facilities/Parks
   f. Others

Comparison

Typically MUDs and PIDs fund the same infrastructure

HOW DO YOU GO FORWARD?

MUDs

I. Created by Legislature or TCEQ.
II. Project taxable value of homes to be built in the MUD.
III. Look at total overlapping tax rate being levied and determine how much of an additional "annual tax" the market can stand. Tax will include monies to pay debt service on the bonds and monies to operate the MUD.
IV. Conduct confirmation and bond election.
V. Developer develops and homebuilders build homes. MUD levies the determined marketable tax.

VI. When sufficient taxable value is present, apply to TCEQ for permission, sell bonds, and reimburse developer.

- Amount of bonds sold is usually 10% of the then present taxable assessed value.
- Usually sold in $3,000,000+ increments ($30,000,000).

VII. This usually is 18 months or more after homebuilding begins.

VIII. This schedule repeated for each new phase.

PIDs

I. PID is created by the City.

II. Project taxable value of homes to be built in the PID.

III. Look at total overlapping tax rate being levied and determine how much of an additional “annual tax” the market can stand. Then calculate the “assessment” that can be levied on the home, based upon the cash flow from the “annual tax”. Essentially, the assessment is “backed into” based upon the “annual tax”. The “annual tax” technically is not a “tax” but it is an “assessment”, which is billed by the City just like a tax.

IV. The “annual tax” will include monies to pay debt service on bonds and monies to pay the costs of the City to administer the PID.

V. Once you determine the above, City will adopt a "Service and Assessment Plan" ("SAP") reciting the Service ("designated infrastructure") to be provided and the Assessment (e.g. $17,000) per lot to be charged and the annual payment (e.g. $985/yr).

VI. Each year the SAP is updated, but that usually is to reflect any change in the costs to administer the PID.

VII. The City can sell bonds "up front" based on the projected annual tax; The City can sell bonds after homes built (like a MUD); or the City can reimburse the developer on a "cash-flow" basis.

VIII. Most PID Bonds are sold "up-front". Some cities reimburse like a MUD. A few cities reimburse on a "cash-flow" basis.

IX. Bonds sold to provide "up-front" financing generally are limited to 1/3 value of the lot (but more bonds may be sold later).

X. This schedule repeated for each new phase

Similarities

I. Infrastructure funded is very similar.

II. <u>Initial</u> amount paid each year by homeowner is very similar.

Differences

I. No additional entity (MUD). Managed by City with assistance of a PID Administrator.

II. PID Bonds are issued by the City, but PID Bonds are not secured by full faith and credit of the City.

III. Homeowner pays a relatively fixed PID Assessment for a fixed period of time. MUD will levy the same tax rate for years as home value goes up.

IV. As home values appreciate, the “tax rate” for the PID debt goes down.

V. Typically, fewer dollar volume of bonds per lot/home are sold utilizing a PID.

VI. Universally, PID Bonds bear a higher rate of interest (1.25% higher).

VII. Universally, fewer net dollars go to hard infrastructure, because of higher transaction costs, reserves and higher interest rate.

VIII. PID Bonds frequently are sold up-front to provide construction funding as compared to reimbursing the developer years later. THIS IS THE BIG BENEFIT TO THE DEVELOPER AND IS HIS MOTIVATION TO UTILIZE A PID VS. A MUD

Motivation to Utilize a PID

Developer

I. Up-front bare land financing allows developer to replace expensive equity (20% per annum) and bank financing (7%) with PID Debt (3.5 – 4.5%). Developer will receive less money through PID, but time value of money off-sets it.

City

I. No additional governmental entity.
II. Control
III. City knows the assessments on a home generally will be a fixed amount for a fixed term. Then the assessment goes away.

Final Comments

I. Before starting the 45-day creation process, we typically reach agreement with City on:
   (i) The facilities to be funded;
   (ii) Assessment;
   (iii) Annual payment;and
   (iv) Any development issues.

II. Some cities overlay a TIRZ upon the PID, so more infrastructure can be funded.