PUBLIC IMPROVEMENT DISTRICTS AS A LAND DEVELOPMENT FINANCING MECHANISM

City of Georgetown
General Government & Finance Subcommittee
April 5, 2012
The Challenge – Historical vs. Current Environment

Historical Financing Structure

- Non-Recourse Bank Financing
- Builder Deposits
- Land Equity
- MUD Reimbursements

Current Financing Environment

- Limited Bank Financing
- Recourse Required
- No Builder Deposits
- Major Gap in Capital Stack
The Financing Alternatives

• Municipal Utility Districts
  • Proven public/private financing mechanism for land development in Texas
  • Only provides funding on reimbursement basis
  • Operational infrastructure readily available
  • Preferred approach by developers seeking to maintain full control over project

• Public Improvement Districts
  • Proven public/private financing mechanism for land development in states other than Texas
  • Provides funding in advance of construction or on reimbursement basis
  • Limited history of PID debt offerings in Texas
  • Requires City or County involvement
<table>
<thead>
<tr>
<th>Cost Recovery Method</th>
<th>PID</th>
<th>MUD</th>
<th>Eligible Improvements</th>
<th>PID</th>
<th>MUD</th>
<th>Source of repayment</th>
<th>Public bidding required?</th>
<th>Security</th>
<th>Source of funding shortfall in event of taxpayer default</th>
<th>Pre-payment options</th>
<th>Cost certainty</th>
<th>Tax Status of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Advance of Construction and/or Reimbursement</td>
<td></td>
<td></td>
<td>Assessments</td>
<td>No</td>
<td>Land and Improvements</td>
<td>Limited to defaulting property owner</td>
<td>PID assessments may be pre-paid without penalty at any time</td>
<td>PID assessments are fixed for life of district</td>
<td>Tax-Exempt</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reimbursement Only</td>
<td></td>
<td></td>
<td>Taxes</td>
<td>Yes</td>
<td>Land and Improvements and unlimited tax obligations</td>
<td>Other taxpayers in district</td>
<td>MUD taxes may not be pre-paid</td>
<td>MUD taxes fluctuate with assessed value of real estate</td>
<td>Tax-Exempt</td>
</tr>
</tbody>
</table>

**Comparison of Texas Public Financing Alternatives**
- PIDs: Municipal Improvement Districts
- MUDs: Municipal Utility Districts

- **Source of repayment**: Assessments for PIDs, Taxes for MUDs
- **Public bidding required?**: No for PIDs, Yes for MUDs
- **Security**: Land and Improvements for PIDs, Land and Improvements and unlimited tax obligations for MUDs
- **Source of funding shortfall in event of taxpayer default**: Limited to defaulting property owner for PIDs, Other taxpayers in district for MUDs
- **Pre-payment options**: PID assessments may be pre-paid without penalty at any time for PIDs, MUD taxes may not be pre-paid for MUDs
- **Cost certainty**: PID assessments are fixed for life of district for PIDs, MUD taxes fluctuate with assessed value of real estate for MUDs

- **Tax Status of Debt**: Tax-Exempt for both PIDs and MUDs
# LAND SECURED INFRASTRUCTURE FINANCING
## COMPARISON OF TEXAS PUBLIC FINANCING ALTERNATIVES

<table>
<thead>
<tr>
<th></th>
<th>PIDs</th>
<th>MUDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requires TCEQ approval</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Debt Status Upon City Annexation</td>
<td>No Change or Impact to City</td>
<td>City Assumes Debt/Possible Impact on City Bond Rating</td>
</tr>
<tr>
<td>Ongoing Administration</td>
<td>None</td>
<td>Monthly Meetings</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>Management</td>
<td>Management, Legal, Assessor, Bookkeeping, Property Tax, Engineer</td>
</tr>
<tr>
<td>Governing Board</td>
<td>City or County</td>
<td>Elected Board of Directors</td>
</tr>
</tbody>
</table>
What Can Be Financed?

- Basic public infrastructure
- The public infrastructure must eventually be owned by public entity
- Can be off-site or on-site
- Includes design & engineering costs
- Can include up to three (3) years of construction period interest
When Can Bonds Be Issued?

• “Up Front” to fund engineering & construction

• Can be issued in a phased program over time for phased or larger projects

• As private development continues, additional bonds may be issued to provide additional developer reimbursements
What is Repayment Mechanism?

• Assessment placed on each individual parcel or lot
• Assessment payments are paid with annual property taxes
• Standard property tax delinquency payments will apply
• Whoever owns land is responsible for assessment payment
• All assessments can be prepaid in full at any time without penalty
• Delinquency on assessment obligations is cured by bring debt current

• PID DEBT DOES NOT ACCELERATE UPON DELINQUENCY
The Public Improvement District

What are Credit Terms?

• All development entitlements should be in place

• Project appraised value (land plus value of improvements to be constructed with bond funds) is primary factor in determining bond capacity

• Value to lien ratios (Appraised value to bond size) usually range from 5:1 to 3:1 depending upon development timetable and developer financial strength

• THE LAND IS THE CREDIT
The Public Improvement District

The Land is the Credit

The PID debt is secured by a Special Assessment Lien on the PID Land

• The land, not the owner, is the credit

• The owners can sell at any time – only the land is the security

• The PID appraisal should include a thorough analysis of truly comparable land sales

• It is in the best interest of the PID (and the respective City or County) to see that the PID area is parcelized to at least a neighborhood or village level when bonds are sold.

• Development entitlements must be in place
The Public Improvement District

Value to Lien Calculation at 5:1

Property Value at Final Map

- 300 Unfinished Single Family Homes @ 30,000 per lot = 9,000,000
- 200 Unfinished Town Homes @ 15,000 per lot = 3,000,000
- 100 Unfinished Apartments @ 10,000 per lot = 1,000,000

Subtotal Before Bonds are Issued = 13,000,000

Proposed Bond Sale for Public Infrastructure = 3,200,000

Post Bond Sale Value = 16,200,000
The Public Improvement District

Value to Lien Calculation at 4:1

Property Value at Final Map

300 Unfinished Single Family Homes Under Contract @ 50,000 per lot = 15,000,000
600 Unfinished Single Family Homes @ 30,000 per lot = 18,000,000
5 Unfinished Commercial Acres @ 250,000 per Acre = 1,250,000

Subtotal Before Bonds are Issued = 34,250,000
Proposed Bond Sale for Public Infrastructure = 11,400,000
Post Bond Sale Value = 45,650,000
The Public Improvement District

Value to Lien Calculation at 3:1

Property Value at Final Map

300 Unfinished Single Family Homes Under Contract @ 60,000 per lot = 18,000,000
200 Unfinished Single Family Homes @ 40,000 per lot = 8,000,000
Subtotal Before Bonds are Issued = 26,000,000
Proposed Bond Sale for Public Infrastructure = 13,000,000
Post Bond Sale Value = 39,000,000
The value to bond lien, project viability and property owner strength are the three primary determinants of interest rate.

As of 1st Quarter, 2012, 30 year rates could vary from 6.5% to 9% based on credit strength.

Ideal project would have 5:1 property value to lien amount, be commencing the private development in the immediate future and the developer would have a strong track record – interest rate should then be in the 6.5% to 7% range.
The Public Improvement District

Allocation of Bond Proceeds

- The Public Infrastructure Project 81% of Bond Proceeds
- Up-front Costs of Financing 4-6%
- Debt Service Reserve Fund 8%
- Capitalized Interest 6% (optional)
The Public Improvement District

What are the Benefits to the City?

• Provides no financial risk for City
• Does not reduce City’s bonding capacity
• Covers all out of pocket costs of City
• Accelerates development of amenities
• Increases City’s total tax base
• Serves as potential financing mechanism for needed City infrastructure and capital improvements
• Allows City to influence land uses in ETJ’s
The Public Improvement District

What are the Benefits to the Property Owner?

• Funding “up front” at start of the project

• Long term fixed rate infrastructure financing at reasonable cost

• Debt may be passed on the property purchaser

• Debt can be pre-paid at any time

• High likelihood of securing funding at 5:1 value to assessment lien ratio

• Debt is secured as a lien on the property, NOT a balance sheet or developer guaranteed security
The Public Improvement District

Starting Point

**PID Decision Points**

- What public infrastructure should be financed?
- What is a prudent and marketable level of debt?
- What should be the geographic area of the PID?
- Maximum level of homeowner assessment acceptance
The Public Improvement District

Typical Sequence of Events for PID Formation

PETITIONED INITIATED PID

1. 50% of the Land Owners
2. Payment of Pre-Formation Costs

Legislative body commences Proceedings

1. Staff “global” review to determine City/Issuer benefit
2. Preliminary legal/financial overview to approve steps to proceed

PUBLIC HEARING

1. Detailed staff & consultant analysis of PID
2. Preparation of service and assessment plan (SAP)
3. Prepare PID formation & optional bond financing documents
4. Publish notice of PID formation hearing

City approving PID formation
Optional: Levy PID assessment and approve land sale

SUBSEQUENT ACTIONS

1. Close bond issue
2. Record any levy PID assessment
3. Commence Construction

1. Initial Construction or acquisition
2. Commence activities to administer debt, levy and collect special taxes and comply with continuing disclosure requirements