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Public Improvement Districts (PIDs)

Understand to Negotiate

Table of Contents

	<u>Page</u>
Summary	2
PID History and Recent Debt Issuance	3
Economic Development – Options and Impact	4
Why Developers Utilize Districts	5
PIDs Overview	6
PID Economics – Project One	12

Summary

- A Public Improvement District (“PIDs) is a recently authorized economic development tool that has been gaining in popularity
 - ✓ Developers – Increase profitability and internal rate of return (“IRR”), provide funding and transfer repayment to future property owners
 - ✓ Cities – Useful tool to encourage in city development as an alternative to extra territorial jurisdiction (“ETJ”) special district development
- A PID is a defined area within a City or its ETJ that is created by City Council action to provide services and/or improvements by levying and collecting assessments on property to fund public improvements and services
 - ✓ by repaying contractual obligations, repay debt or pay for operations
- A PID is the most powerful economic development tool because it enables the tax exempt monetization of assessments and other contracted revenue streams – TIRZ, impact fees, etc.
 - ✓ Debt issued by city or special entity created by city
 - ✓ Regardless of what entity issues the debt or how the debt is structured the City has both initial and ongoing responsibilities and liabilities
 - SEC Disclosure
 - IRS Compliance
 - PID implementation, administration, collection and debt payment
 - Foreclosure (PID only)

PID History and Recent Texas Debt Issuance

1987 - Original PID Legislation

1988 to 2007 - PIDs used for funding maintenance and of HOA facilities and “pay-as-you-go” capital costs

December, 2007 - 1st “Modern” Texas PID revenue bond issued by Trophy Club \$27.5 million by for The Highlands Development

Since 2007 – Approximately 10 projects funded

Currently – Numerous in process, with many being sponsored by cities for strategic and financial goals

Economic Development – Options and Impact

<u>Economic Incentive</u>	<u>Action / Commitment</u>	<u>Impact to Developer</u>
Approval	Variances Land Use Zoning Building Standards, etc.	Reduce Development Cost
Reduce and Absorb Costs	Waive Fees and Taxes Enterprise Zones Rollback Taxes Inspection and administrative Impact fees - water, sewer, road, park, drainage	Reduce Development Cost Reduce Capital Requirements Increase IRR
Reallocate Future Project Revenues	Reallocation of Project Revenues Tax Increment Reinvestment Zone Ad Valorem / Sales Tax 380.01 Grant Ad Valorem / Sales Tax	Improve Project Economics Increase Project Revenues Reduce Capital Requirements Increase IRR
Increase Revenues	Additional Taxes / Assessments Ad Valorem – Special Districts – TCEQ Brimer Revenues – Hotel, Care Rental, Venue Assessments – PID	Improve Project Economics Increase Project Revenues Reduce Capital Requirements Increase IRR
Monetization	Debt Issuance Special Taxing Districts - TCEQ TIRZ Debt PID Debt	Improve Project Economics Reduce Capital Requirements Increase IRR
Upfront Monetization	Debt Issuance TIRZ Debt – City Credit Brimer Revenue – City Revenue Credit PID Debt – Project Revenue / Lien Credit	Improve Project Economics Reduce Capital Requirements Increase IRR

Why Developer Utilize PIDs

What they Say

- Needed to make a project / development work
- Level the playing field with
 - ✓ Other cities
 - ✓ Other developments
 - ✓ ETJ development
 - ✓ Other publically financed communities
- Potential to increase quality – funding allows for better amenities (landscaping, lighting, etc.)

The Reality

- Projects that do not work without a PID will not “magically” work with one
- Increase Profit
 - ✓ Increase IRR
 - ✓ Reduce Capital Requirements
 - ✓ Transfer infrastructure repayment costs to homeowner by levying assessments
- Potential to increase quality – funding allows for better amenities (landscaping, lighting, etc.)

PIDs Overview – Creation Process

A Public Improvement District (“PID”) is a defined area within a City or its ETJ created and controlled by a City to fund public improvements and services funded by the levy of assessments on the property in the defined area

- Acceptance of Petition by Landowner
- Call Public Hearing by Resolution
- Approval by Ordinance
 - ✓ Creation
 - ✓ Service and Assessment Plan
 - Indicates Public Improvements - water, sewer, drainage, roads, police, fire, parks, libraries, and other development enhancements
 - Details Assessment Process and Levy
 - ✓ PID Debt Issuance
 - ✓ Annual Operating Budget
 - ✓ Annual Assessment Collection
 - Operating and Maintenance Assessment
 - Debt Service Assessment

PIDs Overview - Service and Assessments Plan (SAP)

The Service and Assessment Plan (SAP) is the City Council approved plan that details the public improvements funded, the levy of property assessments and debt Issuance

Service Plan

- ✓ Public Improvements - water, sewer, drainage, roads, police, fire, parks, libraries, and other development enhancements
- ✓ Service and Maintenance – annual administrative, operating and maintenance expenses

Assessment Levy

- ✓ Assessments can be implemented on any fair and logical process - per lot, per square foot, per front foot basis, per projected economic value, etc.
 - Capital assessments are levied in the SAP and must be prepayable at any time
 - Maintenance assessments are levied annually to pay budgeted operations and costs

Debt Issuance

- ✓ Max. Par Amount
- ✓ Max. Interest Rate
- ✓ Projected Timing and Phasing

PIDs Overview – Types of Debt

- Debt may be issued for public improvements
 - Bonds issued by City, local government corporation, or specially created district
 - Must receive approval from creating municipality to sell debt (upfront versus at issuance)

- PID Revenue Bonds
 - May issue bonds backed by Special Assessment Revenues (PID Revenue Bonds)
 - Repayment of bonds is solely from assessments
 - Revenue Bonds are not technically a direct general obligation of the City; they are solely secured by the pledged PID assessment revenues
 - PID revenue bonds are complex multiple party agreements that should be approached with great degree of due diligence

- City Tax Pledge
 - Certificates of obligation may be issued with a City tax pledge and a pledge of PID revenues if PID revenues are sufficient; requires tax pledge of entire City and contract with PID to pledge its revenues

PIDs Overview – Municipality's Responsibilities

- To the landowner / developer
- To future landowners and residents
- To citizens
- To other developers / landowners
- If debt is issued
 - ✓ Investors
 - ✓ State of Texas
 - Authority
 - Debt Issuance Review and Approval
 - ✓ Securities and Exchange Commission (“SEC”)
 - Disclosure
 - Investor Suitability
 - ✓ Internal Revenue Service (IRS)
 - Tax Exemption
 - Arbitrage Rebate Compliance

PIDs Overview – Municipality's Liabilities

- Initial evaluation, due diligence, disclosure
- Assessment plan implementation
 - ✓ Capital Plan – Public Improvements
 - ✓ Maintenance and Operation Plan
- Ongoing management, administration and if required, foreclosure
 - ✓ City is required to foreclose to satisfy delinquent assessments (after payment of prior unpaid tax liens)
 - ✓ Foreclosure is usually done the same as and as part of delinquent tax process

PIDs Overview – Implementation Process

- Education – Issuer needs to understand tools, application, pros and cons, real and potential responsibilities and liabilities
 - Information
 - Presentations and Workshops
 - Engage and utilize experts that have fiduciary responsibility to Municipality / Issuer
- Negotiations
 - Receive and understand Developer’s Request
 - Due diligence
 - Economics of Project – Win / Win – How does Municipality / Issuer benefit
 - Municipality / Issuer’s liability and risk isolation and limitation
 - Justification and Fairness
- Commitment
 - Memorandum of Understanding
 - Development Agreement
- Implementation
 - “The fastest time is whatever time it takes to do things right”!
 - First step is a Development Agreement or a Memorandum of Understanding
 - Transparent, inclusive and deliberate
 - Additional due diligence
 - Ongoing updates and commitment benchmarking
 - Municipality / Issuer and its team control and drive the process

PID Economics – Project One - Summary of Proposed Development

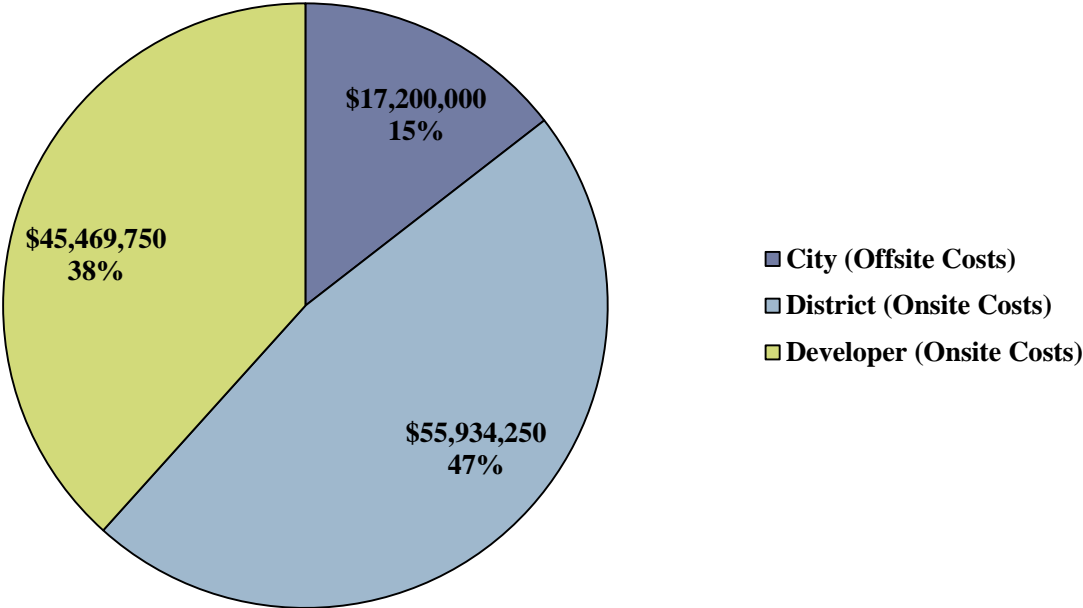
- Developer approaches small City and requests that the City enter into an ETJ Development Agreement
 - ✓ Approval to create a special taxing district
 - ✓ Non annexation agreement until all special district debt repaid or city absorption of district liabilities
- City's strategic goal is to annex property (Tax Rate = 65 cents and \$4,000 impact fees)
 - ✓ Extend ETJ
 - ✓ Utilize excess existing utility capacity
 - ✓ Provide pay for requested services – parks, public safety, library, etc.
 - ✓ Control development standards

Lot Width	Qty	Estimated UNIT	Estimated UNIT	Estimated TOTAL	Estimated TOTAL	TOTAL Market
		Lot Value	Home Value	Lot Value	Home Value	Value
50	889	\$50,000	\$250,000	\$ 44,450,000	\$ 222,250,000	\$ 266,700,000
60	889	\$60,000	\$300,000	53,340,000	266,700,000	320,040,000
65	0	\$65,000	\$325,000	-	-	-
70	197	\$70,000	\$350,000	13,790,000	68,950,000	82,740,000
MF	0	\$18,000	\$90,000	-	-	-
	<u>1,975</u>			<u>\$ 111,580,000</u>	<u>\$ 557,900,000</u>	<u>\$ 669,480,000</u>

Weighted Average Lot Value	\$56,496
Weighted Average Home Value	\$282,481

PID Economics – Project One – Projected Development Costs

\$118,604,000 Total Project Development Costs



PID Economics – Project One – Projected Development Project

- City and Developer agree to Development Agreement – Win / Win
 - ✓ Developer annexes property into the City and pays full taxes and impact fees
 - ✓ City agrees to creation of PID, levy of assessment and PID debt issuance based on limits and restrictions that fund / reimburse Developer for \$55.9 million of public infrastructure
 - ✓ City agrees to fund offsite infrastructure
 - ✓ City agrees to purchase land for park

Development Project - Acres	1121 acres
Estimated Cost per Acre	<u>(\$22,857)</u>
Developer's Estimated Total Land Cost	(\$25,622,697)
Estimated Onsite Development Cost	(\$101,404,000)
Estimated Lot Sales Revenue	<u>\$237,038,400</u>
Estimated Net Revenue	<u>\$110,011,703</u>
Plus: Projected PID District Onsite Costs Net Reimbursements	\$55,934,250
Plus: City Offsite Funding Commitment	\$17,200,000
Plus: City of land for parkland	<u>\$1,600,000</u>
Gross Profit	<u><u>\$184,745,953</u></u>

PID Economics – Project One – Projected City Revenues

- City and Developer agree to Development Agreement – Win / Win
 - ✓ Developer annexes property into the City and pays full taxes and impact fees
 - ✓ City generated \$28.9 million cash flow after funding commitments
 - ✓ City agrees to fund offsite infrastructure
 - ✓ City agrees to purchase land for regional park

	GRAND	GRAND	TOTAL	Less:	Less:	Tax &	TOTAL	Plus:	Tax &
	TOTAL	TOTAL	Tax &	TOTAL	TOTAL	Impact Fees	\$17,200,000	Repayment	Impact Fees
	TOTAL	Impact Fees	Impact Fees	M&O Tax	Park Impact	Available	Capital	of Interfund	Surplus
Year	Tax Revenue	Revenue	Revenue	Tax Revenue	Fees Revenue	Debt Service	Debt Service	Loans	Cash Flow
1	\$ 129,919	\$ 760,000	\$ 889,919	\$ 92,950	\$ 200,000	\$ 596,969	\$ 596,969	-	-
2	648,398	760,000	1,408,398	463,895	200,000	744,503	744,503	-	-
3	1,157,370	1,026,000	2,183,370	828,038	270,000	1,085,332	918,750	166,582	-
4	1,863,157	1,216,000	3,079,157	1,332,992	320,000	1,426,165	1,347,200	78,965	-
5	2,624,988	1,425,000	4,049,988	1,878,042	375,000	1,796,945	1,338,706	250,482	207,757
6	3,495,618	1,425,000	4,920,618	2,500,933	375,000	2,044,685	1,334,294	-	710,391
7	4,391,636	1,425,000	5,816,636	3,141,987	375,000	2,299,648	1,343,438	-	956,211
8	5,324,002	1,520,000	6,844,002	3,809,047	400,000	2,634,955	1,341,006	-	1,293,949
9	6,295,970	1,238,800	7,534,770	4,504,439	326,000	2,704,330	1,342,131	-	1,362,199
10	7,069,682	760,000	7,829,682	5,057,990	200,000	2,571,692	1,341,681	-	1,230,010
11	7,612,107	950,000	8,562,107	5,446,067	250,000	2,866,040	1,339,656	-	1,526,383
12	8,247,281	950,000	9,197,281	5,900,501	250,000	3,046,780	1,345,794	-	1,700,986
13	8,868,485	608,000	9,476,485	6,344,941	160,000	2,971,545	1,340,094	-	1,631,451
14	9,276,988	-	9,276,988	6,637,203	-	2,639,785	1,342,556	-	1,297,229
15	9,416,142	-	9,416,142	6,736,761	-	2,679,382	1,333,181	-	1,346,200
16	9,557,385	-	9,557,385	6,837,812	-	2,719,572	1,341,706	-	1,377,866
17	9,700,745	-	9,700,745	6,940,379	-	2,760,366	1,342,738	-	1,417,628
18	9,846,256	-	9,846,256	7,044,485	-	2,801,771	1,341,406	-	1,460,365
19	9,993,950	-	9,993,950	7,150,152	-	2,843,798	1,347,450	-	1,496,348
20	10,143,860	-	10,143,860	7,257,405	-	2,886,455	1,340,869	-	1,545,586
21	10,296,017	-	10,296,017	7,366,266	-	2,929,752	1,336,794	-	1,592,958
22	10,450,458	-	10,450,458	7,476,760	-	2,973,698	1,339,831	-	1,633,867
23	10,607,215	-	10,607,215	7,588,911	-	3,018,303	1,339,719	-	1,678,585
24	10,766,323	-	10,766,323	7,702,745	-	3,063,578	1,346,194	-	1,717,384
25	10,927,818	-	10,927,818	7,818,286	-	3,109,532	1,339,256	-	1,770,275
	\$ 178,711,768	\$ 14,063,800	\$ 192,775,568	\$ 127,858,988	\$ 3,701,000	\$61,215,580	\$31,765,922	\$ 496,029	\$ 28,953,629

PID Economics – Project One – Developer’s Phase 1

- A tax equivalent PID assessment rate of 35 cents reimburses the developer 55% of onsite development costs
- The developer initially requested an ETJ district so \$1.00 could be monetized for reimbursement
- A tax equivalent rate of 63.6 cents would reimburse the developer 100% of onsite development costs

Phase 1 - 200 Lots	<u>Total</u>	<u>Per Lot</u>	<u>Percent Of Profit</u>	<u>Percent Onsite Cost</u>
Estimated Land Cost	(\$2,594,703)	(\$12,974)		
Estimated Onsite Development Cost	<u>(\$10,268,759)</u>	<u>(\$51,344)</u>		100%
Estimated Total Development Cost	<u>(\$12,863,463)</u>	<u>(\$64,317)</u>		
Estimated Lot Sales Revenue	<u>\$24,003,889</u>	<u>\$120,019</u>		
Estimated Lot Sales Profit	\$11,140,426	<u>\$55,702</u>	60%	
Plus: Projected PID District Onsite Costs Net Reimbursements	\$5,664,228	\$28,321		55%
Plus: City Offsite Funding Commitment	<u>\$1,741,772</u>	\$8,709		
Plus: City of land for parkland	<u>\$162,025</u>	<u>\$810</u>		
Estimated Total Reimbursements	<u>\$7,568,025</u>	<u>\$37,840</u>	40%	
Estimated Lot Sales and Reimbursement Profit	<u>\$18,708,451</u>	<u>\$93,542</u>	100%	

Discussion, Comments and Questions