

# CITY OF CRANDALL, TEXAS

OVERVIEW OF:  
PUBLIC IMPROVEMENT  
DISTRICT AND TAX  
INCREMENT  
REINVESTMENT ZONE  
FINANCING



**MUNICAP, INC.**  
PUBLIC FINANCE

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## PID & TIRZ PURPOSE

- **Self-financing tools available to local governments to:**
  - Encourage new development [most common use of PIDs]
  - Redevelop urban renewal areas
  - Rebuild public infrastructure
- **Types of PIDs:**
  - Infrastructure/capital PIDs (PID bonds or cash-flow)
  - Maintenance PIDs
  - PIDs with TIRZ overlay

# PUBLIC IMPROVEMENT DISTRICT – FACT SHEET

- Number of Cities with PIDs: 65

Amarillo	Ferris	Kaufman	Mathis	Sachse
Anna	Flower Mound	Kyle	McLendon-Chisholm	San Marcos
Argyle	Fort Worth	Lago Vista	Mesquite	Shenandoah
Aubrey	Frisco	Lavon	Missouri City	Tomball
Austin	Galveston	League City	Montgomery	Trophy Club
Burleson	Grand Prairie	Leander	North Richland Hills	Venus
Cedar Hill	Gregory	Lewisville	Oak Point	Waco
Celina	Hackberry	Liberty Hill	Plano	Waxahachie
Conroe	Haslet	Little Elm	Ponder	Westlake
Dallas	Hickory Creek	Lubbock	Princeton	Wolfforth
El Paso	Horseshoe Bay	Magnolia	Round Rock	
Farmers Branch	Irving	Manor	Rowlett	
Fate	Justin	Marble Falls	Royse City	

## PID & MUD COMPARISON

	PID	MUD
Entity to establish district	Municipality	State
Ease to create	< 60 Days	Minimum 6 months
Regulating entity	City/ Chapter 372	TCEQ
District oversight	City	Independent Board
Revenue collected	Assessment	Ad valorem tax
Timing of collection	Annually	Annually
Cross collateralization	No	Yes
Ability to prepay	Yes	No
Amount	Fixed	Variable
Term	Defined	Undefined

## PUBLIC IMPROVEMENT DISTRICT OVERVIEW

- Chapter 372 of the Texas Local Government Code, as amended (the “PID Act”) governs the creation and operation of PIDs in Texas.
- Public financial mechanism that allows for public improvements to be funded with the issuance of bonds and other debt obligations by the local municipality.
  - Bonds issued
  - CO’s issued
  - Reimbursement Agreements with the developer

## PUBLIC IMPROVEMENT DISTRICT OVERVIEW (CONT'D)

- **Why PIDs**

- Ease of creation process
- Low cost to create and manage (makes PIDs particularly beneficial to develop relatively small tracts)
- Governance by City Council \*\*
- No City financial obligation for bonds and predetermined non-financial obligations by City. Bonds secured solely by assessments
- Minimal impact on City operations (managed by third party administrator)
- Limited life
- Greater flexibility for property owners
- No cross-collateralization (limited and preset obligations)

*\*\* See Appendix A for primary public policy issues*

## PUBLIC IMPROVEMENT DISTRICT OVERVIEW (CONT'D)

- **PID creation and assessment of levy:**
  - Petition from owners of more than 50% of the appraised value of taxable property in the PID
  - Mailing and publication of notices for creating PIDs and levying assessments
  - Service and Assessment Plan (SAP)
  - PIDs can be created quickly and at a low cost
  - Can be created in City corporate limits or ETJ
- **Public hearing and approval**
- **Adoption of Service and Assessment Plan, Assessment Roll**

## PUBLIC IMPROVEMENT DISTRICT OVERVIEW

### Typical City Team Involved in PID or PID/TIRZ Financing

- City Staff
- City Attorney
- Bond Counsel
- City Financial Advisor
- Engineer
- PID Consultant [Creation of PID, Adopting SAP, Management of PID]
- Mayor or Councilpersons sub-committee

## PID IMPLEMENTATION

- Created by the City (at the pace of the City)
- District continues to be governed by the City
- Assessment levy and bond issuance
- Public improvement construction
- Assessment collection and debt repayment

## SERVICE AND ASSESSMENT PLAN

- **Structure of the SAP**

- The property in the PID
- The proposed land uses for the development within the PID
- Proposed public improvements and corresponding estimated costs
  - Most common public improvements include roadways, water, sewer, drainage, parks, trails, landscaping etc. \*\*
- Debt to be issued to finance public improvements
- Provisions for allocation and collection of assessments

*\*\* See Appendix B for full details*

## SERVICE AND ASSESSMENT PLAN (CONT'D)

- **Assessment Allocation and Determination Basis**

- **Allocation Basis**

- Equally per front foot or square foot
    - According to the value of the property
    - Any other method that allocates improvements in a manner that reasonably reflects benefit
    - Mostly based on projected average buildout value of the improved property.

- **Determination Factors**

- Tax Rate Equivalent
    - Term: 10-30 years
    - Comparison to competing properties

## PID IMPACT TO THE HOMEOWNER

- Pay an additional assessment on annual real property tax bill
  - Special assessment
  - Term defined
  - Administration fee included in special assessment
  - No cross collateralization
  - Ability to prepay
- Receive benefit (allocated proportionately) of public infrastructure
- Typically enjoy better amenities within the community

## TAX INCREMENT REINVESTMENT ZONE OVERVIEW

- Chapter 311 of the Texas Property Tax Code, as amended (the “TIRZ Act”) governs the creation and operation of TIRZs in Texas.
- Public financial mechanism that allows for public improvements\*\* to be funded with the issuance of bonds and other debt obligations by the local municipality.

*\*\* See Appendix C for full details*

## PID WITH A TIRZ OVERLAY OVERVIEW

- TIRZ provides for additional public improvements to be financed:
  - Public improvements located outside of PID
  - Oversizing of utilities required for PID, but also required for properties outside of PID
- TIRZ increases bonding capacity of the PID bond issuance
- Tax increment revenues from TIRZ act as a credit against the special assessment

## PID DEBT DETAILS AND OBLIGATIONS

- Bonds are typically issued by the city
- PID bonds include the following characteristics:
  - Tax exempt
  - Non-rated
  - Special revenue obligations (not general obligations)
  - ***Not*** backed by the full faith and credit of the city
  - Secured only by the special assessments from the property
    - Special assessment is a lien second in parity only to real property taxes
- The city will be responsible for statutory and bond related compliance

## PID CONSULTING/ ADMINISTRATION

- Prior to District Formation
  - Development agreement
- District formation
- Assessment levy
  - Service and Assessment Plan
- Bond issuance

## PID ADMINISTRATION

- City tasks are typically contracted out to a third-party administrator
- Administration tasks of PIDs after assessments are levied include:
  - Annual service plan updates
  - Tax collection related matters
    - Data exchange with tax collectors
    - Delinquency enforcement assistance
  - Homebuyer Disclosures
    - Developer, Builder, Realtors etc.
  - Requisition review
  - Accounting and auditing assistance
  - Primarily managed by PID Administrator and paid from PID annual assessments collected

## PID ADMINISTRATION (CONT'D)

- **Additional Administrative Tasks for PID Bonds:**
  - Disclosures:
    - Bondholders ( Quarterly, Annually)
  - Compliance monitoring:
    - Indenture & Development Agreement (as applicable)
    - Bond related accounting and auditing assistance
    - IRS compliance
    - Arbitrage rebate
- **Bond oversight:**
  - Refunding monitoring
  - Bond proceed reinvestment monitoring and analysis

## TIRZ ADMINISTRATION

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- **TIRZ administration:**
  - Annual state reporting
  - Increment calculation and administration
  - Amendments/updates to Project and Finance Plan

## BENEFITS OF PID/TIRZ FINANCING

- Provides for public infrastructure to be funded by special assessments
- Reduces use of general fund revenues to fund infrastructure (only needed for maintenance and operations)
- Funds public infrastructure sooner than capital improvement plan (CIP)
- Can provide for affordable residential for sale units
- Increases the municipal tax base with new/upgraded development
- Provides an alternative implementation tool for development projects that have been vetted by the standard development process

## APPENDIX A – PRIMARY PUBLIC POLICY ISSUES

1. Is public assistance appropriate for this project?
2. “But For” test
  - Financial analysis
  - Application of judgment
  - Do current conditions impair proposed development?
  - Is there some other reason the market acting alone will not produce the development?
3. How much assistance is appropriate?
4. What is the sponsoring government agency receiving in return for the TIRZ? (TIRZ is both a financial and land use development tool.)
5. What is the amount of private investment (is the public investment adequately leveraging private investment)?

## APPENDIX A – PRIMARY PUBLIC POLICY ISSUES (CONT'D)

6. Will there be sufficient surplus tax revenues to cover costs of public services required for the project?
7. Is the proposed TIRZ economically efficient (i.e., more tax revenues or benefits than the No-TIRZ alternative)?
8. Are there clear linkages between the properties in the TIRZ area and the TIRZ plan?
9. What are the risks associated with the TIRZ plan and have the risks been addressed?
10. Will the public support the TIRZ?

## APPENDIX B – PID PERMISSIBLE IMPROVEMENTS

- **Permissible Public Improvements to be Financed**

1. Acquisition, construction, or improvement of water, wastewater, or drainage facilities or improvements
2. Acquiring, constructing, improving, widening, narrowing, closing, or rerouting of sidewalks or of streets, any other roadways, or their right-of-way
3. The establishment or improvement of parks
4. Landscaping
5. Erection of fountains, distinctive lighting, and signs
6. Acquisition, construction, or improvement of off-street parking facilities
7. Acquisition, construction, improvement, or rerouting of mass transportation facilities
8. Construction or improvement of pedestrian malls

## APPENDIX B – PID PERMISSIBLE IMPROVEMENTS (CONT'D)

- **Permissible Public Improvements to be Financed**

9. Acquisition and installation of pieces of art
10. Acquisition, construction, or improvement of libraries
11. Payment of expenses incurred in the establishment, administration, and operation of the district
12. Projects similar to those listed in subdivisions 1-10
13. Acquisition, by purchase or otherwise, of real property in connection with authorized improvements
14. Special supplemental services for improvement and promotion of the district, including services relating to advertising, promotion, health and sanitation, water and wastewater, public safety, security, business recruitment, development, recreation, and cultural enhancement
15. The development, rehabilitation, or expansion of affordable housing

## APPENDIX C – TIRZ PERMISSIBLE IMPROVEMENTS

- **Permissible Public Improvements to be Financed**
  1. Capital costs
  2. Interest before and during construction
  3. Real property assembly costs
  4. Professional services costs
  5. Financing costs
  6. Administrative costs
  7. Organizational costs

## APPENDIX C – TIRZ PERMISSIBLE IMPROVEMENTS (CONT'D)

- **Permissible Public Improvements to be Financed**
  8. Acquisition and construction of public works, public improvements, new buildings, structures, and fixtures
  9. Acquisition, demolition, alteration, remodeling, repair, or reconstruction of existing buildings, structures, and fixtures
  10. Remediation of conditions that contaminate public or private land or buildings
  11. Preservation of the façade of a public or private building
  12. Demolition of public or private buildings
  13. Acquisition of land and equipment
  14. Clearing and grading of land