

DRAFT PID Policy Overview



Introduction

- Public Improvement Districts (PID) are becoming a popular financing tool in the region.
- In 2017, the City Council did not pursue a PID request for Brinkmann Ranch (now known as “Painted Tree”).
- The developer of the Honey Creek property has requested approval of a PID for approximately 1,600 acres of land.
- If the City is going to consider the creation of PIDs, a formalized policy is needed in order to standardize the evaluation process.

What is a Public Improvement District (PID)?

- A Public Improvement District (PID) is a special improvement district created by a city or county under the authority of Chapter 372 of the Texas Local Government Code within which improvement projects will be undertaken and paid for through special assessments levied against properties within the district.
- Improvement projects must confer a “special benefit” to properties located within the district.

What public projects can a PID fund?

- Water, wastewater, health, sanitation, or drainage improvements
- Streets and sidewalks improvements
- Mass transit improvements
- Parking improvements
- Library, park, recreation, and cultural improvements
- Landscaping and other aesthetic improvements (fountains, lighting, signs)
- Art installations
- Creation of pedestrian malls
- Public safety improvements
- Affordable housing development, rehab, or expansion
- Supplemental services

But, PIDs do not have to fund all these items.

PIDs for McKinney

PIDs can:

- Help facilitate development in outlying areas with infrastructure limitations (ex: Honey Creek).
- Facilitate development *NOW* rather than in a future development cycle (ex: Honey Creek).
- Allow developers to invest in improvements that would otherwise not be financially viable.
- Are sized in a manner to limit developments of all sizes from utilizing the program.
- In limited situations, be used to entice properties in the ETJ to annex into the City.

Policy Considerations

- Residents may complain when they realize that they're subject to an assessment that other residents are not subject to.
- Direct benefits to assessed residents may be difficult to identify.
- Once a PID is approved by the City, more requests will likely come.
- Can the increased residential development activity be accommodated?
- The success of a PID can depend on the developer's capabilities and track record.
- PIDs can fund a lot of things (TX LGC Ch. 372).

About the Draft PID Policy

- Located within the City and at least 1,000 acres in size, OR
- Located within the ETJ, be at least 200 acres in size, and be willing to annex into the City.
- Must clearly demonstrate an extraordinary and distinct public benefit.
- Application fee (\$50K) and deposit fee (\$200K) to cover review costs.
- PIDs bonds may only be sold for reimbursement of development costs.
- Demonstration of long-term financial capital for the PID Development.
- Contingency plans to address how public improvements will be handled in the case that the PID is dissolved.
- A budget including how all funds will be managed.
- A professional management plan detailing who will be responsible for addressing problems including a list of financial, management and legal consultants.
- Developer cannot administer the PID; City can hire a third-party.

Staff Recommendation:

Staff recommends approval of the resolution adopting the proposed PID policy.

Next Steps:

Fall 2021: Honey Creek MOU ready for City Council Action

Additional Reference Slides



Why do PIDs exist?

PIDs are another financing tool which developers may use, in partnership with a City, to fund public projects which provide a special benefit for a specific area. Without PIDs, these public projects and their special benefits would likely not be possible. PIDs create a mechanism wherein property owners who most directly benefit from a specific public project will pay for that benefit without impacting property owners located outside the PID.

PIDs for McKinney

- PIDs are a powerful financing tool which have grown in popularity in North Texas.
 - For example: Frisco has 1, Anna has 3, Princeton has 5, Celina has 11, Little Elm has 4, Mesquite has 3, and Fort Worth has 12.
- PIDs can be used to further a variety of objectives for various sizes of development.
- PIDs have some policy considerations that need to be evaluated by the City Council.

What are the typical financial implications for the City?

- PID debt is non-recourse because the bonds are backed only by assessments on property within the PID.
- All City costs associated with creating and administering the PID are typically paid through a combination of PID assessments or cash escrows.
- The issuance of PID debt does not impact the City's overall bonding capacity.
- The City keeps all sales and property tax revenue.

What are the typical impacts on the property owners?

- Property owners pay either a one-time assessment (pre-paid) or an annual assessment until the full assessment is paid.
- The City is legally obligated to foreclose on unpaid assessments.
- The assessment will be the same for every lot as established by the service and assessment plan.
- The PID assessment on each lot will expire after a set term.
- Property owners are assessed only for development costs which confer a special benefit to the property.

What are the typical PID Financing types?

- UP-FRONT: Cities may create a PID in which the City issues debt before the improvements have been constructed; or
 - *This type of PID carries a significant amount of risk for the City because if the developer is not able to pay the debt service, the liability to cover this debt services transfers to the City.*
 - *Sometimes called, "Dirt Bonds."*
- REIMBURSEMENT: Cities may create a PID in which the City issues debt to reimburse the developer for eligible public projects as the assessments on properties within the PID are collected.
 - *This type of PID is less risky for the City because debt will only be sold if there is sufficient ad valorem tax value on the ground to cover the debt service.*

Assessments on a property within the PID may be paid annually like other property taxes or may be paid in full at the time of closing.

In order to propose a PID, the draft policy requires:

- The property subject to the proposed PID must be:
 - Wholly located within the City, at least 1,000 acres in size; or
 - Wholly located within the ETJ, at least 200 acres in size, and be willing to annex into the City.
- PID public improvements must be consistent with the property's zoning entitlements; and
- The PID request must clearly demonstrate an extraordinary and distinct public benefit.

The draft policy requires that all PID proposals include:

- Demonstration of long-term financial capital for the PID Development;
- Contingency plans to address how public improvements will be handled in the case that the PID is dissolved;
- A budget including how all funds will be managed;
- A professional management plan detailing who will be responsible for addressing problems including a list of financial, management and legal consultants; and
- An application fee (\$50,000) and initial cash deposit (\$200,000) which will cover City's costs to create the PID.

The draft policy's PID bond financing parameters:

- Bonds will only be sold for a minimum qualified project costs of \$5M;
- Bonds will have a maturity date of not longer than 30 years;
- The estimated appraised value to lien ratio shall be 3:1 (ex: \$15M of ad valorem value = \$5M loan);
- PID bonds shall only be issued on a reimbursement basis; and
- PID Petitioner shall establish a debt service reserve fund that will be equal to the lesser of:
 - 1.25X the average debt service payments of the PID bonds;
 - 1X the maximum debt service payments of the PID bonds; or
 - 10% of the principal amount of the PID bonds.

The draft policy's PID bond financing parameters (cont.):

- The interest rate for assessments may exceed the rate of the bonds by no more than .5%;
- A service and assessment plan shall be submitted and approved by the City before debt financing;
- All City costs associated with the administration of the PID shall be paid out of special assessments; and
- If a developer defaults on bonds issued for a PID, said developer and their affiliates shall be prohibited from requesting a future PID.

The draft policy's PID management requirements:

- The City may hire a third-party company to manage the PID, subject to oversight by the City;
- The developer or PID petitioner shall be prohibited from managing their PID;
- The management company will be responsible for coordinating with each property owner within a PID;
- Costs associated with the PID management company will be paid from the PID's annual assessment revenue; and
- The City may terminate and hire a new PID management firm, at its sole discretion.

Other noteworthy requirements of the draft policy:

- The initial service and assessment plan submitted by the PID petitioner shall be updated annually by the City;
- The City shall charge the PID an annual fee of:
 - 2% of the total PID revenue for that year;
 - \$2,000; or
 - Actual incurred costs to administer the PID.
- The City shall make PID financial statements available to the public on a periodic basis; and
- PIDs may not be dissolved until all outstanding PID debt has been retired.