



Trinity Falls

Taxpayer Protections

Texas special districts are the most highly regulated political subdivisions in the State, with multiple levels of oversight including:

- Texas Commission on Environmental Quality (“TCEQ”)
 - Primary agency responsible for all aspects of special districts operations
- The City
 - Cities must consent to creation of special districts within their city limits or extraterritorial jurisdiction (“ETJ”)
 - Level of oversight is dependent on agreements between the City and the district
- Attorney General of Texas
 - Approves all bonds issued by governmental entities within the State
 - Reviews all bond issues to confirm the legality of the issue
 - Establishes rules designed to limit the amount of road bonds that may be issued by a special district

The TCEQ is the State agency that is primarily responsible for overseeing the operations of special districts, including the issuance of debt

- TCEQ has established rules under the Texas Water Code outlining the requirements that must be met for a special district to issue bonds for water, sewer and drainage projects
- The TCEQ's rules establish that the District is strictly a reimbursement vehicle with specific limitations
 - The District cannot pre-finance developer projects
 - Developers only receive reimbursement when enough value has been created to support the issuance of debt
 - The District must receive TCEQ approval of a bond application prior to the issuance of bonds for water, sewer and drainage projects

The City of McKinney

Through an existing Consent Agreement and Development Agreement, the City exercises authority over the standards of the public infrastructure and general development standards.

- The District is financing the construction of the **City's utility system**
 - The City owns and operates all facilities within the District, therefore the City makes all decisions regarding which facilities are constructed
 - The residents of the District pay water and sewer rates to the City
 - The residents of the District pay the City for fire protection
 - The residents of the District will pay the City for police protection
 - The City receives tap connection fees as homes are built
- The District and developer follow the same public bidding requirements as the City for infrastructure projects
- Furthermore, the TCEQ rules require that the District must sell bonds issued for reimbursement through a competitive bidding process

Tax Rate of the District

McKinney MUD No. 1 (the “District”) levies a total tax rate of \$1.05 per \$100 of assessed valuation.

- The components of the tax rate are as follows:
 - Maintenance and Operation– Pays for the day-to-day operations of the District and includes \$0.02 for the City’s park fee.
 - Water, Sewer & Drainage Debt Service– Pays the principal and interest on the bonds issued for water, sewer and drainage projects
 - Road Debt Service– Pays the principal and interest on the bonds issued for roadway projects

	2015 Tax Year (Current)	2016 Tax Year (Projected)
M&O Tax Rate	\$0.505	\$0.25
WS&D DS Tax Rate	\$0.545	\$0.63
Roads DS Tax Rate	\$0.000	\$0.17

Background

Pursuant to the Consent Agreement, the District may issue up to \$125 million in principal amount of bonds and McKinney MUD No. 2 (“MUD 2”) may issue up to \$94 million in principal amount of bonds for a total of \$219 million. The \$219 million in principal amount of bonds would generate approximately \$164.25 million in project reimbursement after accounting for the estimated soft costs associated with issuing the bonds.

The District is requesting the following:

- Merging the cap of the District and MUD 2, which prevents bond capacity from being “trapped” between the districts
- Increasing the combined cap by 20% to \$262,800,000 to account for increased costs of construction and projected costs of future eligible projects
- Adding a 3% inflation factor to the cap to keep up with rising construction costs over time

Eligible Projects

The District may only sell bonds to reimburse the developer for certain projects, as specified in the TCEQ Rules (for water, sewer and drainage projects) and the Texas Constitution (for road projects)

Eligible Projects

- Water, sewer & drainage facilities
- Creation costs
- Impact fees
- Connection charges
- Elevated storage
- Off-site water & sewer lines
- Road costs*
- Traffic signals and signage
- Engineering

Non-Eligible Projects

- Parks and recreational facilities
- Land cost of lots
- Dry utilities
- Swimming pools
- Golf courses
- Enclosed air-conditioned spaces
- Taxes paid by developer

*Road costs include additional design requirements of the City, such as screening and other design features