

Public Improvement District / PID

Below is a summary of the most common questions regarding a PID. The last PID that the City approved was in the development of Escondido. PIDs are created pursuant to Texas Local Government Code Chapter 372, "the PID Act", and pursuant to petition of the landowner to create a defined area and to provide for authorized improvements allowed by the PID Act. The PID Policy requires that new development meets higher standards than the current base requirements of zoning and building ordinances in the city. If, the City creates the PID and approves a development agreement, the development agreement may provide that the City issue PID Bonds in the City's name. This allows the PID bonds at a lower interest rate. The PID bonds are for authorized improvements allowed by the PID Act.

1. **Will the City be a 'co-signer' on the bond debt the developer obtains?**

NO. The PID Bonds are issued in the City's name as allowed by the PID Act. The PID Bonds are non-recourse meaning that the **City bears NO responsibility for debt**, even if the land owners default in paying the PID debt.

An assessment lien is placed on the land within the PID and the PID assessments are paid by the developer, their investors, and future homebuyers within that development only. The PID Bonds are sold and the PID assessments pay the Bond Holders. The PID Bonds are non-recourse meaning that the City bears no responsibility for debt, even if the land owners default in paying the PID assessment.

If the developer were to default or go bankrupt, that debt is taken on by their bank or investors (like when Summit Rock first began as Skywater). Depending on what stage of development, the development may have fully platted, infrastructure in place with no homes. But because of the PID, it will not be a 'scraped acreage' due to the requirement for balanced greenspace. It would likely sell to another developer quickly but may sit dormant for a while (as many developments do including Summit, Escondido, even the Trails for a while) as the market discovers it, like any development. If the development is dormant, the PID assessments will be required to pay the Bond Holders. Ad valorem taxes will be assessed and will be required to be paid. The City's ad valorem tax attorneys are authorized by law to collect the ad valorem taxes and PID assessments. If the property is in bankruptcy, the bankruptcy trustee will develop a plan.

2. **What happens if the project were to be sold?**

The development agreement would still be in place with all requirements.

3. Will the bond debt associated with the PID cover the entire infrastructure?

No. The developer will provide for the infrastructure cost that the PID bonds do not provide. The developer will provide for their cost of the infrastructure with a cash contribution or with borrowing with a lender. In the instance of the Monarch Ridge PID, they anticipate to sell bonds in the amount of \$20 million which is 1/3 of the total cost of the public infrastructure anticipated needed for the development. The developer will demonstrate to the bond advisors, our financial advisors, and investors that they have funds secured to cover their portion.

4. When would funds be sold/available to the developer?

The developer anticipates to ask the City to start the bond process 8 months after the development agreement is finalized. Those funds will reside with the Bond Trustee. The developer will access those in a reimbursement format, i.e. after they complete the infrastructure not covered by the PID Bonds. The PID administrator will verify that the infrastructure is complete before the Trustee will release funds to reimburse the developer. The City is not a part of this process except to inspect the quality/compliance of the work.

5. What are the advantages for a City to approve a PID?

The PID allows the City to establish higher standards. The developer would have the right to build on their property at current city ordinance levels (like current lot size, restrictions, etc. within the City) anyway, but the PID challenges them to build higher quality. This agreement with Monarch Ridge is a model for future developments by:

- a. Increasing the lot sizes (thus lowering the density of homes/traffic). For this project, the homes will be on ½ acre lots (2x the size of most Residential lots in Horseshoe Bay); the other portion of the homes will be garden homes matching current garden home guidelines.
- b. of the development will be greenspace, including walking paths, image corridors with native plantings, low water grasses, and reduced water lot landscaping guidelines.
- c. They will seek/use alternative water source where available.
- d. They will use purple pipe water (gray water recycled) as possible.

The largest advantage is the requirement for a per lot ‘community benefit’. The agreement is considering major CIP projects – drainage implementation plan, trail connections and/or new water tower. The total benefit to the City will be at least \$1.5 million dollars. This could help offset the City drainage plan implementation that must be instigated whether this property develops or not.

6. Will the City pay for their infrastructure?

No. The developer pays for their entire infrastructure, including all water/sewer lines, drainage work, and roads. In addition, the developer or a homebuilder will pay a full ‘impact’ fee for the cost of connecting to the City water and wastewater system.

There is an added benefit in this development. As they pay for access, it allows the City to upgrade aging infrastructure. Once the water/sewer lines are completed, the ownership

transfers to the City since they are connected to the City's system and need to be maintained by the City. The maintenance of these lines is paid by the developer/future homeowners in their utility costs like all in Horseshoe Bay. The roads may be transferred to the City for an annually paid rate, like most POA roads in the City. Or the development could keep/maintain the roads (as do Escondido, Summit Rock, Applehead Island, etc).

7. Will the PID help with the development of amenities, homes, etc.?

No. The PID is for the horizontal development only (infrastructure). The developer then pays for the building of homes, amenities, and any other vertical features. Part of the PID agreement is that the developer must begin the amenity center (clubhouse) once the 50th home is built and complete prior to the 150th (this means the clubhouse would be finished within ¼ of the project completion rather than wait for the entire project).

8. Does the PID impact the 'firm water' guarantee of the City?

Even if the developer did not use a PID, the development would have access to water. Without the PID, the development could build at a higher density level (2-3x the number of homesites) with higher water demand. The impact on current citizen water access, however, is not degraded. The new City contract has reviewed the entire ETJ (area that could be annexed) and used this in the calculations for maximum water needed (including completion of existing internal City lots). Current users needs are already included in the water guarantee and the additional contract amount will serve new homes. This was true when the City renegotiated its contract in 2010 to accommodate growth expectations at that time.

9. What is 'reserve' water?

When the City contracts for water, it must pay for it annually – even if not used. Any water not used, however, is paid for at one-half the rate of normal water use. The reserve costs for holding the water for new developments will be paid for by the developer as a part of their impact fee.

10. Why would we annex the areas in our ETJ (Extra territorial jurisdiction - land along our City boundaries)? Doesn't this make us obligated to provide them with water/sewer access, as well as fire/police service?

While we encourage property owners of existing ranches to consider establishing wildlife preserves or to remain large greenspace ranches, all landowners have the right to develop. Current owners are generally committed to not develop, but as property is inherited or as owners age, it is possible that the land will sell. We have established annexation development agreements with property along Hwy 71 from Hwy 2147 to the end of our ETJ toward the hospital. These agreements allow us to annex any property that decides to develop beyond their current state of ranch/wildlife. This helps us ensure that predatory building of low quality homes, undesirable commercial enterprises such as rock crushing plants, mobile home parks, or other projects not reflective of the City of Horseshoe Bay standards can not be built. Once annexed, they would have to meet all City ordinance/ standards. Since this area directly backs up to homes and properties within the current City, it is the City's responsibility to protect the safety and property value of taxpayers. Any annexed property would immediately pay taxes.

Even if the City did not annex, the property could be developed (and would access water through other means...likely Marble Falls which draws from the same river as Horseshoe Bay). By annexing, these residents pay utility bills for their water and wastewater, as well as helping to cover other costs associated with utility infrastructure management. We already serve the ETJ with fire/police/EMS through mutual aid agreements with the County. Annexing would require these properties to pay City taxes just as current City residents pay for these services. Rather than adding to the cost, they would now be paying their fair share of the cost.

11. Won't these new developments add to the traffic?

Whether we annex or not, as noted, these properties have a right to develop. Even if we annex (and don't approve a PID), they have the right to develop (at higher density level). Traffic along Hwy 71 is not under the City control as this is a State highway. The City remains in conversations with TxDot to advocate for including potential increased demands in their long range planning. They do currently set standards for substantive deceleration/turn lanes for any development that emerges. Currently, there are no plans by TxDot indicated for widening Hwy 71 within our ETJ.

This development will not have a direct route into the City or to Hwy 2147. Given its closer proximity to Hwy 281, it is most likely that residents would access Marble Falls along that Hwy and therefore not add to the traffic within our City. They, of course, will come into the City for local business, social, and resort activity at times.