Traditional Tax District Financing
vs.
Assessment Financing

The City of Celina and Cambridge Company are planning an Assessment Finance Model on The Lakes at Mustang Ranch

Traditional Tax District Financing

- As you know Special Districts are located throughout Texas.
- However, the majority of these Special Districts such as Municipal Utility Districts commonly referred to as MUDs are located in the Houston Metropolitan Statistical Area.
- The North Texas area over the past twenty years has seen an increase in Special Districts as the area has grown.

Traditional Tax District Financing

- Responsible Developers, Municipal Governments and Counties have used the tools provided by the Legislature to efficiently provide Water, Sewer, Drainage and Roadway Improvements throughout Texas.
- The Vast majority of these Districts have successfully completed their missions and complaints are rare.

Traditional Tax District Financing

- Tax Districts are viewed as necessary to finance quality water, sewer, drainage and roadway projects. Many Cities, Counties and Legislative Leaders have seen the need to allow for Special Tax Districts to be created for this purpose.
- Some critics of Special Districts would argue that all public improvements for a Development should be passed on to the property purchaser immediately in lump sum manner.
- This is not always a reasonable approach for Large Master Planned Communities due to the high cost of early phases of development.
- Large Master Planned Communities and Projects depend on a long investment horizon. The long horizon requires patient investment and lending environment that has an exit strategy over time to retire debt for public infrastructure.
- Many large scale projects would not be feasible without a Special District.
- Used Responsibly and in planning with appropriate governmental authorities can produce a successful quality project and satisfied homeowners and commercial users.

Traditional Tax District Financing

- However, in recent years some taxpayers and government policymakers have grown concerned over several matters arising from some of these Taxing Districts.
- Some of the issues are:
- Open End Disclosure that makes it difficult for a home purchaser or land purchaser to calculate the defined amount of their obligation at the time of purchase or for that matter along the way of paying taxes. These Disclosures to purchasers simply state the “TOTAL AMOUNT OF BOND DEBT AUTHORIZED IN THE ENTIRE DISTRICT” and the “CURRENT TAX RATE”.
- The Purchaser is simply encumbered with a Tax Rate that can rise or fall, but does not “allow a purchaser to calculate their liability or pay their liability in full at any time”. Simply put you are entering into “COMMUNITY DEBT”. The Purchasers’ obligation is not complete until ALL DEBT by the DISTRICT is Paid.
- Refinancing Debt Issuances prolongs the Tax Obligation.
- If a District is created without Emergency Service Plan, the level of Emergency Services might not be adequate.

Is there a better approach that addresses many of the important concerns?

- I would submit to you that “YES” we can improve and answer many of these concerns.
- The “Assessment Approach” might be a better approach than traditional “Tax District Finance”.

The “Assessment Finance” Approach

- Let us assume that the Developer installs Water, Sewer, Drainage and Roadways in the traditional manner.
- The District would still carry a “Reimbursement Agreement” with the District that requires the District to “Reimburse the Developer” for Qualified Costs to the Developer.
- However, with this approach the “Developer Reimbursement” is simply to the Extent the “ONE TIME ASSESSMENT” can carry that Reimbursement.
- The Developer does not have the ability to go back to the District and be paid out additional funds because the “ONE TIME ASSESSMENT DEFINED” cannot be increased.
- As we discussed earlier the Traditional Taxing District carries a “Community Debt”.
- Remember the Disclosure for any property purchaser is the total debt for the entire District or Zone and a current tax rate recognizing an unlimited tax pledge necessary to service debt.
- The “Assessment Disclosure” deals with an “INDIVIDUAL TAX PARCEL” Debt.
- The “Assessment” is Defined and clearly defines the AMOUNT that the Improvements have Benefited that particular piece of property.
- The “Asssessment” clearly tells the Purchaser what the Cost of the Assessment is over time and provides the option to pay the “Assessment” in Full at any time.
- There is ZERO EFFECT on any other property owner by another property owners’ default.
- The “Assessment” can never go up.
- The DISTRICT ceases the need to exist when all of the property parcels debt has been paid in full.
- With Traditional “TAX DISTRICT FINANCING” the District can extend the finances over and over keeping a tax on property for long periods of time.

Resistance to the Assessment Finance Model

- There is significant resistance to the Assessment Finance Model in Texas.
- This resistance generally has arisen from the Houston Metropolitan Area where the Practice of creating and administrating MUD Districts is dominant.
- MUD Professionals in the Houston area see the MUD model as the best model to provide consistency to the Development Community.
- MUD Professionals might see the Assessment Model as a threat to the more “Cookie Cutter” approach to the Development Business.

Arguments against the Assessment Model

- Most of the arguments you will hear against the Assessment Model fall into the following categories:
- Assessment Financing in California, Nevada and Florida has been abused leading to defaults in the Market
- While many examples of failed transactions in those states can be listed the main issue with defaults are generally associated with the level of risk of Value of Land vs. the Amount of Bond Debt. Assessment Finance Transactions being undertaken in Texas currently follow a similar DEBT vs. VALUE as Tax Transactions. The Market simply would not accept a Transaction that did not have a reasonable debt vs. value criteria. This argument against the Assessment Model is hollow if proper financial coverages are used and the Market Regulates this point quite reasonably.
- Along the same lines the “Assessment Model” offers one feature that “Tax Financed Models” simply do not and that is the fact that no property owner that has paid their assessment is affected by default of other property owners. This is not the case with an unlimited tax pledge in many cases.

Arguments against the Assessment Model

- Traditional Tax Finance proponents might argue that the “Disclosure” in Assessment transactions may slow sales by builders with the full amount of the cost of borrowing disclosed.
- This may be true at the outset of any reading of the Assessment Disclosure since it does tell the true story of the cost bore by a single parcel of property.
- However, property purchasers have become increasingly sophisticated and builders have discovered that “Truth in Disclosure” in every element of the Sale brings credibility to the Builder and builds a better trust with the Customer.

Arguments against the Assessment Model

- Traditional Tax Finance Supporters will also argue that Developer should be able to made more “whole” over time by being able to request the District refinance debt to allow for larger reimbursement over time.
- While Developers would be advantaged the Taxpayer is better served by a “Conservative Reimbursement” to the Developer that is reasonable and allows all parties in the transaction to be fully aware of their obligations and Developers can share a more defined amount of expectation from the District.

Arguments Against the Assessment Model

- Traditional Tax Finance supporters will argue that the Ease of the Taxing District provides an easier way to developers to complete critical infrastructure with little negotiation with local governments.
- Developers at this time would agree that negotiating an Assessment type transaction is time consuming and challenging.
- However, most of the Assessment Transactions you see in Texas have taken many critical issues and dealt with them up front assuring Taxpayers are protected, Emergency Services are provided and generally the Assessment Finance transactions are in Muncipal Boundaries or in the ETJ with an Annexation Plan included. Development Agreements have been involved in Texas transactions to date.
- This argument has merit with Developers, but in the long term these details worked out prior to development really do produce a better thought out end development. Developers that have undertaken this route against the advise of Houston area MUD Practitioners have concluded that the end result is superior.

The City of Celina has entered into a Developers Agreement

- The Cambridge Company has entered into a Developers Agreement with the City of Celina
- The Cambridge Company plans to develop a proposed Development to be known as "The Lakes at Mustang Ranch".
- The Development will be a high quality subdivision located initially in the ETJ of Celina.
- The Developers Agreement has entered into between the Developer and the City provides for the City providing EMS services to the Project.
- The Agreement set forth clear development standards.
- The Agreement provides for Annexation of the Property.
- Simply put the Agreement contemplates producing a High Quality Subdivision that is well planned and will provide future Taxpayers with a high quality of life, low taxation and responsible provision of services.
- The Developer has clear obligations and the Developer will only be reimbursed for identified Public Improvements per the Assessment Plan that the City approves.
- A Public Improvement District currently exists on the Property.
- However, the City and Developer has determined that the Creation of a "MUNICIPAL MANAGEMENT DISTRICT" is a better approach if a legislative bill can be passed in the 82nd Legislative Session.

Cambridge Company and The City of Celina

- The City Of Celina passed a Resolution in September of 2010 supporting the Legislative Bill to create the MMD that only allows Assessment Approach. The District will NOT HAVE TAX AUTHORITY.
- Cambridge Company and the City of Celina is requesting that the County Judge send a letter to both Representative Jodi Laubenberg and Senator Craig Estes that states that the County is “NOT OPPOSED TO THE LEGISLATIVE BILL ”.