Public Improvement Districts

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FMS has a policy that is designed to comply with the disclosure requirements under revised MSRB Rule G-23. In conjunction with these requirements, we are providing the following disclosure to all of our municipal underwriting clients.

Public Improvement Districts

Development Using Public Improvement Districts

Public Improvement Districts (PID) are tools available to landowners / developers / cities / counties to fund public improvements that benefit the area within the PID boundaries.

Creation: Landowners can petition a city or county to establish a PID. Thereafter, PIDs are created by cities or counties.

Resources: The financial resources of PIDs are assessments levied on property owners within the PID. The assessments are based on a percentage of benefited property. Additional revenues can be pledged to the project, thereby mitigating assessments. Other revenues include: tax increment, parking, fees, appropriations, etc.

Financings: A PID sells assessment revenue bonds and / or can generate annual revenues. Further, the assessment can act as a "backstop" for a double barreled revenue bond.

Governance: Appointed by the city council or commissioner's court (dependent district).

Eligible Costs: PIDs can finance a wide array of public infrastructure and development items, including:

- landscaping; erection of fountains, distinctive lighting, and signs;
- acquiring, constructing, improving, widening, narrowing, or rerouting sidewalks, streets/roadways or rights-of-way;
- construction or improvement of pedestrian malls;
- acquisition, construction or improvement of libraries;
- acquisition, construction or improvement of off-street parking facilities;
- acquisition, construction, improvement or rerouting of mass transportation facilities;
- acquisition, construction, or improvements of water, wastewater or drainage improvements;
- the establishment or improvement of parks;
- acquisition, by purchase or otherwise, of real property in connection with an authorized improvement;
- special supplemental services for improvement and promotion of the district; and
- payment of expenses incurred in the establishment, administration, and operation of the district.

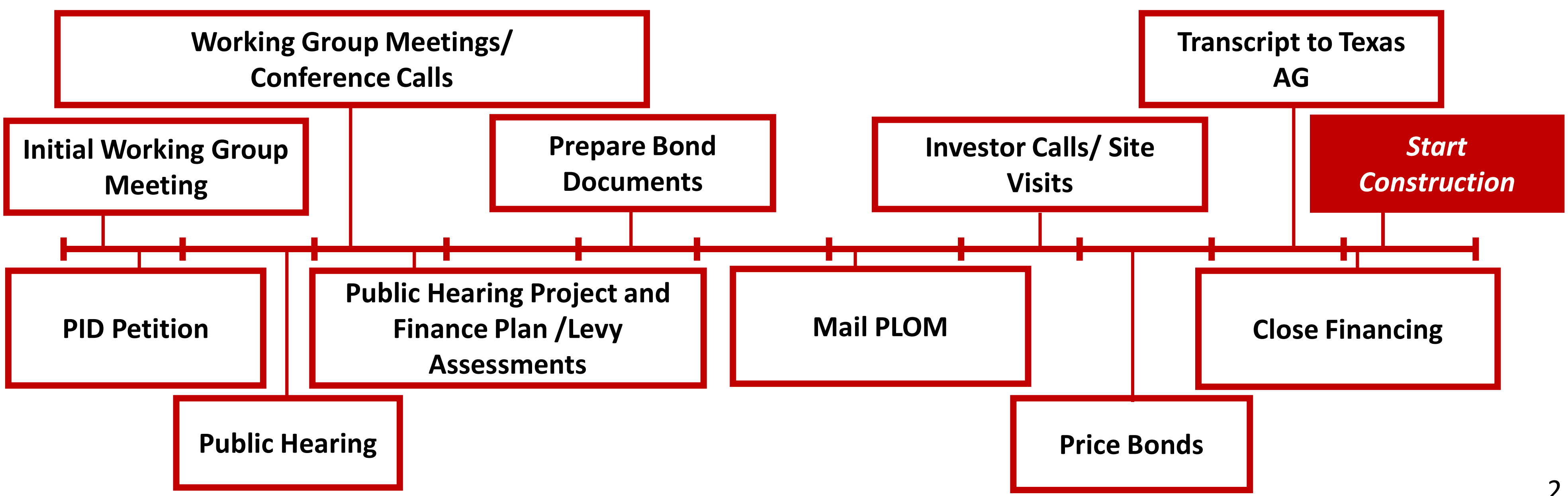
Public Improvement Districts

Possible Transaction Participants / Process

Representing Issuer	Developer / Landowner	Investors
City Staff	Developer's Counsel	Underwriter
Financial Advisor	Assessment Consultant / FA	Underwriter's Counsel
Bond Counsel	Engineer	Trustee
Assessment Administrator (Post-Issue)	Market Feasibility	Trustee's Counsel
Appraiser*	Dissemination Agent	Appraiser*
Dissemination Agent		Dissemination Agent

* Appraiser will prepare a report for the benefit of the underwriter and issuer

Process may take 9 – 12 Months from introduction of project through close



Public Improvement Districts

Summary

Public Improvement Districts – Positive Features

Public Improvement Districts are increasingly being utilized by cities and counties to fund and maintain public infrastructure. The increased uses are due to numerous factors, including but not limited to:

- Revisions to the statute in the $81^{st}/82^{nd}$ Sessions, providing for a more advantageous law for both cities / counties and developers
- Increased population pressuring smaller communities with limited resources
- Public policy concerns with proliferation of developer driven ad valorem special districts surrounding cities
- The City / County has "control" of development – they have the ability to negotiate reasonable development standards
- The sponsoring entity gets to select the professionals they engage for financing and assessment management
- Lower overall cost of capital for developers, thereby facilitating greater amenities and higher valued project
- The districts allocate costs to the citizens being benefitted, therefore the general tax base does not subsidize development
- City / County may require a maintenance PID to mitigate ongoing costs associated with the development

Public Improvement Districts – Issues to Consider

While there are several benefits of utilizing public improvement districts, there are also factors that a sponsoring jurisdiction should consider before using the development tool. Some factors include:

- Establishing a debt PID requires an ongoing public-private partnership with the developer AND subsequent ownership
- Perception among the general tax base may create political issues (i.e., City / County is subsidizing developers)
- With "control" comes additional responsibilities. Unlike an ad valorem district, PIDs will require additional staff time / resources
- As with any public project, construction, market and development risks exist
- The sponsoring entity must be sensitive to overlapping debt ratios, leverage, and other financial considerations
- Increased regulatory scrutiny of the municipal market requires the City / County to exhaust due diligence matters
- While non-recourse to the sponsoring entity, the City / County issues the debt and signs the documents related to financing
- Ultimately, if any issues arise with the PID, the City / County will need to work with interested parties to mitigate the impact

Public Improvement Districts
Assessments and Credit Mechanics

Assessment Bond Safeguards – For successful assessment bond sales, underwriters generally require:

1. Value to Lien – typically 3:1 – though this is determined on a project by project basis
2. All public approvals, entitlement, and utility service delivery issues be resolved
3. Private sources of funding be fully committed, so that the overall plan of finance (bonds as well as private capital) render necessary finished lots
4. Clean title from environmental and lien standpoint (development related mortgages are OK), normal due diligence matters
5. It is recommend that a third-party market study and engineer's report be conducted
6. Finally, builder contracts are preferred… they are the "gold standard" indicators of market demand and positively effect rate
7. The bond prospectus, deliberately and intentionally includes very little disclosure on the political subdivision. The prospectus also includes strong disclosures and risk factors
8. The bond proceeds are held by a trustee. The developer does not have access to the funds. The political subdivision (or its designee) must approve each construction requisition
9. The bonds are secured by a debt service reserve fund, which serves as a "surge-tank" funding source should a tax delinquency require enforcement action
10. Typically, 2-3 years' interest is funded from the bonds
11. The strict, several nature of special assessments assures every property owner that their assessment cannot increase due to non-payment by another landowner

Assessment / Credit Mechanics

1. Assessments are levied against each individual lot or parcel for the life of the PID (lien is known at time of purchase)
2. Assessment liens within the PID are subordinate only to governmental taxes
3. Generally, assessments are paid annually like ad valorem taxes, but the lien can be paid in full (unlike ad valorem taxes)
4. The land / homeowner is responsible for assessment payment (unlike MUD, no impact to owner for non-payment of others)
5. Leverage is based upon the project's appraised value (land + improvements = appraised value). Generally, the bond issue is approximately one-third of the appraised value – though numerous factors may change the ratio (other revenue enhancements, credit enhancements, absorption, builder contracts, etc.)

Public Improvement Districts

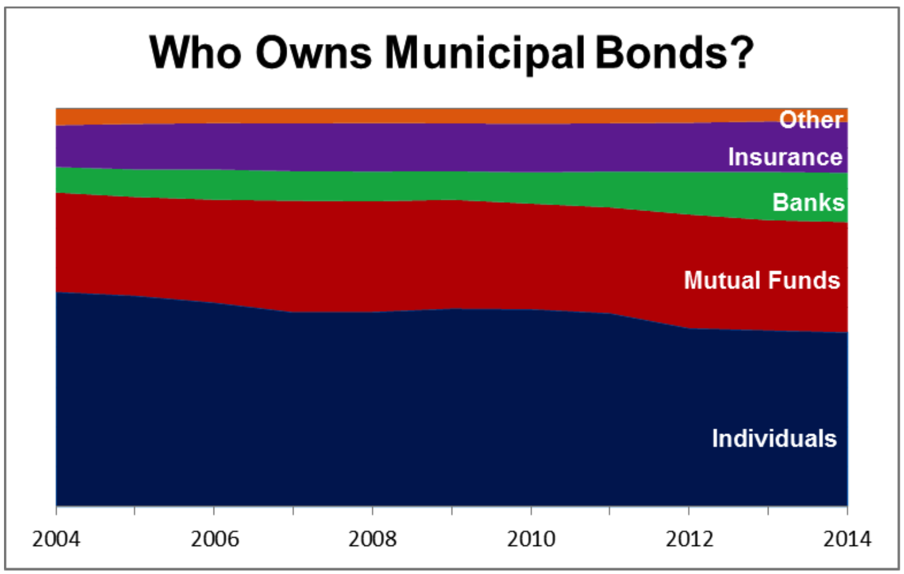
Structuring / Pricing / Distribution

Once due diligence is complete, the underwriter and its counsel will prepare a marketing document (Preliminary Official Statement, hereinafter "POS"). The POS will primarily focus on the development / developer and provide potential investors with material information needed to make an informed investment decision. Prior to entering the market, the underwriter will work with the City and the developer to determine a "**structure**" that meets most of the parties' objectives.

Once in the market, the underwriter contacts a universe of investors that may be interested in the bonds. FMS has a unique client base that crosses all investor classes. This diverse distribution network allows FMS to market The special assessment bonds to investors less sensitive to yield.

While each transaction should be analyzed independently, FMS's underwriting services provides a distribution network that allows it to aggressively price its transactions.

Moody's	S&P	Fitch	Quality of Bond	Issuer / Type
Aaa	AAA	AAA	Prime	Dallas County (GO)
Aa1	AA+	AA+	High Grade	City of Garland (GO)
Aa2	AA	AA		
Aa3	AA-	AA-		
A1	A+	A+	Upper Grade	City of Austin (Airport)
A2	A	A		
A3	A-	A-		
Baa1	BBB+	BBB+	Lower Medium Grade	City of Irving Hotel Occupancy Tax (HOT)
Baa2	BBB	BBB		
Baa3	BBB-	BBB-		
NR	**NR**	**NR**	**Non-investment grade**	**Public Improvement Dist (Assessment)**



Public Improvement Districts

What are <u>some</u> of the risks associated with PIDs?

Step(s)	Risk	Issue	Mitigation
Pre-Formation	Administrative (on-going)	Some landowners / developers may not be qualified to execute a project of the size and scope requested.	City may establish guidelines, minimum requirements, or a fee prior to negotiating a developer's agreement.
Formation	Political	There is a required public process. Some City officials and citizens may view the project unfavorably.	Provide as much information on the project and be as transparent as possible. Let the project stand on its own.
Financing	Perception	PIDs are relatively new to Texas market place; therefore, new to City's and City professionals.	Be pro-active, transparent and educate the City's staff / professionals. Work with, not against the financing group.
	Obligation	While PID debt is non-recourse, the team should be cognizant of overlapping debt and rating agency views.	Thorough review of overlapping debt and responsible financing structure will minimize the possible risks.
	Market	PID debt is non-rated and there is a limited universe of buyers.	Know the market and provide an attractive financing structure to market to investors.
Post-Issuance	Development	Once bonds are issued, Trustee is responsible for release of funds to developer after City approval.	Detail the minimum requirements for developer payment / reimbursement in the developer's agreement.
	Administration	Assessments must be tracked / collected for payment of debt and maintenance.	Engage assessment professional to administer process / provide ongoing disclosure.
	Enforcement	Non-payment of assessments.	Work with 3rd party professional and jurisdiction to collect assessments.
Worst-case	Foreclosure	Inability of landowner to pay assessments	Ultimately a bond-holder risk; however, the jurisdiction will need to work with interested parties on foreclosure process.

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