

WHAT ARE MUD'S, PID'S, TIF'S & PUD'S?



CHICAGO TITLE

Utilities

MUD-Municipal Utility District

Municipal Utility Districts were created to provide services like water, sewer and stormwater drainage in areas where the city does not provide them. MUD's use the sale of bonds to raise funds needed to build the infrastructure for the development.

The MUD tax is your property's contribution to build this infrastructure to provide these water services to your subdivision. When neighborhood is brand new, tax is higher, but over time, this MUD tax decreases. Usually in 20-30 years MUD tax could be zero as the bonds will be paid off.

Texas Commission on Environmental Quality (TCEQ) governs MUDs and makes sure the infrastructure is in line with local and state regulations. MUDs have Boards appointed in the beginning by the TCEQ and as the subdivisions grow, residents can run for the member positions. Board Members are elected then by property owners for 4-year terms.

PID-Property Improvement District

A Property Improvement District is a special district created by a city or county that allows the developer of a subdivision to charge an assessment to properties in order to build additional infrastructure.

PIDs can be used for the same purposes as a MUD (i.e. water, sewage and infrastructure) however PIDs can also be used for sidewalks, roadways, landscaping, parks and recreation, public safety/security, parking facilities, affordable housing, etc.

PID taxes are done when the tax on each home is paid in full. PID taxes can be spread out for 20-40 years or they can be paid upfront by a homeowner. Some developers use a PID instead of an HOA since PID assessments are Tax Deductible. As of Sept 1, 2021, PIDs are required to file a notice within the city or county when they file their next annual service plan update. Unlike a MUD, a PID is not a political entity.

PIDs are funded through bonds secured by liens against the property and issued based on the property's appraised value.

PUD-Public Utility District

A Public Utility District is created by the community and operated under an elected board which may seem similar to a HOA, however it exists solely to provide electricity, water sewer and telecommunications. Although PUDs are controlled by the homeowners, they operate independently from the HOA.

TIF-Tax Increment Financing

A Tax Increment Financing district (TIF) is a special purpose district; a way for the cities to reinvest added tax revenue from new development back into the area where it originated. The TIF program is used to finance new public improvements in designated areas. The goal is to stimulate new private investment and thereby increase real estate values.

Any increase in tax revenues (caused by new development and higher property values) is paid into a special TIF fund to finance improvements. Potential improvements include wider sidewalks, utilities, public landscaping, lighting, environmental remediation, demolition, and historic facades etc.

What do REALTORS® need to know?

How do we represent our clients' best interests when working a sale of a property located in one of these districts? In the past, listing agents needed to ask the Seller to request the appropriate Notice to Purchaser Form from the MUD or PID. If they did not have a form available, the seller could be directed to Chapter 49.452 of the Texas Water Code to obtain a generic Notice to Purchaser Form.

In the last Legislative Session, HB 1543 Sellers Notice (Public Improvement Districts) was passed revising the language of the statutorily mandated notice used in a real estate transaction. In addition, the Broker-Lawyer Committee met in June 2021 and decided to recommend the use of a promulgated addendum to the contract. **The details of the bill can be found here <https://www.trec.texas.gov/article/2021-legislative-session-overview>.**

The 2020-2021 Legal Update CE Class includes a section dedicated to Municipal Utility Districts (MUDs) and the Law. In that section it states that “Chapter 49 of the Texas Water Code says IF a person is selling a property that is in a district created under the Texas Water Code or by an act of the legislature to provide certain utilities such as water, sanitary sewer, drainage and flood control, and any of these services or facilities have been financed with bonds that are payable by the persons who live in the district, THEN the seller must give notice to the buyer of those potential fees for owning this property. Furthermore, the law says the notice must be given to the buyer prior to the buyer entering into the contract OR as an addendum to the contract at the time the contract is negotiated. If the notice is not timely provided, the buyer can terminate the contract at any time.”

The main take-away is that “there is NO binding contract if such notice is not acknowledged by the buyer at or prior to executing the contract! Giving the notice after the contract is executed does not eliminate the buyer’s right to terminate the contract any time prior to closing.”

HB 1543 Sellers Notice (Public Improvement Districts)

This bill revises the language of the statutorily mandatory notice used in a real estate transaction related to properties located in public improvement districts (PID). It requires the notice to be given to a prospective purchaser before executing the contract, either separately as an addendum, or as a paragraph of the purchase contract. If the transaction is entered into without the notice being provided, the bill authorizes the purchaser to terminate the contract, unless the seller provides the notice at or before closing and the purchaser elects to close. The bill requires the purchaser to sign the notice and the notice must be recorded once signed. This bill has an effective date of September 1, 2021.

The Broker-Lawyer Committee met in June to discuss the best way to implement these new requirements and decided to recommend the use of a promulgated addendum to the contract that mirrors the statutory notice. This draft addendum and corresponding contract form changes will be presented before the Commission at the August 2021 meeting for emergency rule making in order to allow for use within the statutory deadline. The Commission will also conduct concurrent rule making related to the draft addendum and contract form changes that will follow the traditional rule making timelines and public comment periods.

Remember when a license holder takes a listing, which is serviced by a MUD, PID, PUD or TIF, the Notice to Purchaser Form should be filled out by the seller at the time of listing and provided to the buyer at or BEFORE a contract to purchase is signed.

Author: Patty Stoner / Sources: RealManage, JonesCarter, Texas Real Estate Commission

EXAMPLES OF TAX RATE DIFFERENCES

A house in Cierra Vista (Liberty Hill)

1.886% (Williamson Co, Wmsn ESD#4, Wmsn FM/RD, Liberty Hill ISD)
Taxes based on 2021 Value of \$455,351 were \$8218.85 (No MUD or PID)

House in Georgetown Village PID (Georgetown)

2.212% (City of Georgetown, Williamson Co, Gtown Village PID 1, Wmsn FM/RD, GISD)
Taxes based on 2021 Value of \$431,269 were \$9156.57 (\$603 of that was the PID)

House in Liberty Park PID (Liberty Hill)

2.340% (City of Liberty Hill, Williamson Co, Wmsn ESD#4, Wmsn CO FM/RD, Liberty Hill ISD)
Taxes based on 2021 Value of \$300,315 were \$7516.16 (\$871 of that was the PID)

House in Dreekbroke PID (Leander)

2.362% (City of Leander, Williamson County, ACC, Deerbrooke PID, Wmsn FM/RD, Leander ISD)
Taxes based on 2021 Value of \$481,269 were \$12,497.88 (\$1522 of that was the PID)

House in Rancho Sienna MUD (Georgetown)

2.736% (Williamson County, Wmsn ESD#4, Wmsn Co MUD #12, Wmsn Co FM/RD, Liberty Hill ISD)
Taxes based on 2021 Value of \$419,170 were \$11,101.60 (\$3562 of that was the MUD)

House in Santa Rita Ranch MUD (Liberty Hill)

2.583% (Williamson County, Wmsn ESD#4, Wmsn Co MUD#19A, Wmsn FM/RD, Liberty Hill ISD)
Taxes based on 2021 Value of \$434,972 were \$10,903.29 (\$3604 of that was the MUD)