



## MEMORANDUM

TO: Mayor and City Council

FROM: Elaine Hart, Chief Financial Officer  
Greg Guernsey, Director, Planning and Development Review Department

DATE: August 6, 2014

RE: Cascades Municipal Utility District No. 1 (MUD), information requested by City Council

On February 13, 2014 City Council approved, on first reading, the applicant's request for City consent to the creation of the Cascades MUD. Council requested that staff work with the applicant to develop an agreement for future Council consideration and that staff provide additional information on the tax implications of the MUD proposal.

### **Analysis of ad valorem tax implications associated with proposed MUD**

The table below covers three scenarios for the proposed Cascades MUD including:

- Create Cascades MUD and MUD bonds issued with 25 year term
- Create Cascades MUD and MUD bonds issued with 15 year term
- Full Purpose Annexation in lieu of creating Cascades MUD and no MUD bonds issued

For each of these scenarios, the table presents the impact on City tax collections, impact on MUD tax collection estimates, and the impact of MUD bonds outstanding upon full purpose annexation.

Tax Analysis Scenarios		
25 Year MUD Bonds	15 Year MUD Bonds	No MUD
\$0 City Taxes for 35 years	\$0 City Taxes for 25 years	Full City Taxes collected upon annexation
\$65.1 million MUD Taxes	\$27.6 million MUD Taxes	\$0 MUD Taxes
Outstanding MUD Bonds become a City liability if annexation is scheduled prior to repayment	Outstanding MUD Bonds become a City liability if annexation is scheduled prior to repayment	City assumes no MUD Bond debt upon full purpose annexation
\$\$\$ ESD Reimbursement	\$\$ ESD Reimbursement	\$ ESD Reimbursement

Our initial analysis of full purpose annexation in December 2013 showed a positive net present value of \$6.2 million and we recommended full purpose annexation at that time.

If the Cascades MUD is created, staff recommends the term for MUD bonds be limited to 15 years due to the location of this proposed development in relation to the existing city limits and availability of city utility service and other city services, as well as the scale and nature of improvements to be financed with MUD bonds. City Council has authorized the issuance of MUD bonds for several Austin area MUDs in the last 3 years that were sold on

terms shorter than the 25 year term requested for this MUD. The amount and term of authorized bonds requested by the developer would be 2.34 times as generous as the similarly situated Estancia PID that was created just last year. **The 25 year term requested by the Cascades developer increases the time period in which the City will collect no City property tax by 10 years.** With a 25 year term, the MUD would be able to divert the full city tax rate for 35 years.

#### Key Issues with Cascades MUD Proposal

Using the Council adopted MUD policy guidance to review the Cascades MUD proposal, staff has identified key issues related to the developer's request for your consideration. The location of this project relative to nearby centers identified in the Imagine Austin comprehensive plan and in close proximity to the interchange with State Highway 45 Southeast is noteworthy. Creation of a MUD at this location is certain to be problematic as the surrounding properties become available and succumb to development pressures along the IH 35 corridor. The developer's proposed 25 year term for the MUD bonds and the MUD's ability to expand its boundaries in the future are of great concern to staff due to the negative impact these allowances have on the City's otherwise unimpeded ability to annex other developing areas in accordance with customary policies and procedures. On the other hand, the developer is agreeable to several enhancements to the previously approved preliminary plat (2008) contingent on the City's approval of the MUD. However, these improvements could be incorporated into the project without the MUD as part of normal development expenses. Finally, the developer is unable to provide a solution to address the Planning Commission condition of providing a mechanism to guarantee affordable homeownership as was presented to Council as a benefit at first reading.

#### Cascades MUD Proposed Bond Summary

\$36,900,000 Proposed MUD Bonds issued over 7 years, payable through 2046

\$4.1 million (2016-2040)	\$2.9 million (2017-2041)	\$4.6 million (2018-2042)	\$4.0 million (2019-2043)	\$7.1 million (2020-2044)	\$7.1 million (2021-2045)	\$7.1 million (2022-2046)
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#### Construction and non-construction expenses (in millions):

\$0.3	general construction, erosion & sedimentation
\$8.5	street & drainage*
\$4.8	water & wastewater
\$0.8	ponds
\$2.4	dry utilities*
\$1.8	MUD civic center*
\$0.7	incidental construction
\$0.8	regional stormwater fees (RSMP)*
\$7.2	construction contingency*
\$3.0	engineering, surveying, processing & administration
\$3.0	inspections & testing
\$3.0	governmental fees
\$0.7	legal fees
\$0.7	financial fees
\$0.6	engineering fees
\$2.2	interest
\$1.8	developer interest
\$1.1	bond discount
\$0.3	MUD creation
\$0.2	MUD administration & organization

\*Although allowable these expenses (approximately \$20.7 million or 56% of the proposed MUD Bond issuances) are generally not MUD expenditures. Typically the developer assumes payment of these obligations, and recaptures the expense from homes sales revenue.

We hope this information is helpful in your decision to support or deny consent to the creation of the Cascades MUD which is posted on your August 7 Council Agenda. If you have questions or need any clarification, please contact Virginia Collier by email at [virginia.collier@austintexas.gov](mailto:virginia.collier@austintexas.gov) or phone at 512-974-2022.

Cc: Marc A. Ott, City Manager  
Sue Edwards, Assistant City Manager  
Greg Guernsey, Director, Planning and Development Review