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Public Comments on Proposed Guidance; Request for Comments: Private Transfer Fee Covenants:========

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A developer or builder has to construct its own infrastructure to develop a property to provide commercial or housing projects. Cities and municipalities simply do not have the funds or inclination to build roads and highways or extend utility services to these properties for the benefit of the community. A developer or builder is left with few choices in this environment with which to use to assist in the massive costs to bring these projects to fruition. Some of their choices to assist them are a MUD (Municipal Utility District), or a PID (Public Improvement District), or a Capital Recovery Fee placed upon the property thru a deed covenant filed in the County where the property is located.

Lets examine each one:

MUD - Municipal Utility District

A Municipal Utility District (MUD) provides water, sewage, drainage and other services within the MUD boundaries. A MUD has the authority to tax, borrow, and issue bonds and may include all or part of any county or counties, including all or part of any cities of other public agencies.

A MUD taxes the homeowner each and every year for the repayment of Bonds issued for the utility improvements until the Bonds are repaid.

The homeowner or commercial property owner has to pay taxes every year to the MUD District which creates an ongoing burden until the homeowner sells his property.

PID - Public Improvement District

A Public Improvement District allows any city to levy and collect special assessments on property.

A Public Improvement District may be formed to perform any of the following improvements:
1. Water, wastewater, health and sanitation, or drainage improvements
2. Street and sidewalk improvements
3. Parking improvements
4. Park, recreation, and cultural improvements
5. Landscaping and other aesthetic improvements

The homeowner or commercial property owner has to pay taxes every year to the Public Improvement District which creates an ongoing burden until the property owner sells his property.

Private Transfer Fee or (Capital Recovery Fees)

Private Transfer Fees (PTFs), or Capital Recovery Fees (CRFs) are covenants used by real estate developers to spread development costs over time across all property owners who will benefit from such improvements. The developer or builder is able to more fairly apportion expenses for infrastructure and other long-term improvements and, in consequence, lower the initial sales price. This economically efficient and equitable arrangement reduces the burden on first time buyers and decreases transaction costs. A Private Transfer Fee of 1% is collected when the property is sold.

COST TO THE HOMEOWNER: Private Transfer Fee vs MUD or PID

Example: Say a homeowner buys a $200,000 house. They sell their house 7 years later for $300,000. If the development was financed with a Private Transfer Fee, the homeowner pays their share at closing for $3,000.

If the development was financed with a MUD or PID, the homeowner is taxed each year and must submit payment, anywhere from $1.00 to sometimes $2.00, or more, per $100 valuation. That same homeowner who buys a $200,000 house must pay $2,000 to $6,000 every year they own their home until they sell it. If they sell their house 7 years later for $300,000, that same homeowner would have paid $14,000 to $28,000, or more, to stay in their home.

Simply stated, Private Transfer Fees creates a tremendous benefit to a homeowner, making their ownership more economical and reducing their tax burden every year.