



PIDS, MUDS, SUDS, or PUDS

What are they and how do you know if a property has one?

What Are PIDS, MUDS, SUDS, and PUDS?

They are mechanisms developers use to raise funds for utilities and/or amenities needed in a new community. The decision whether or not to use a PID, MUD, SUD, or PUD to fund a development can have longterm implications for buyers and sellers, agents and lenders, and impact the marketability of a neighborhood. Having a basic understanding of these four financing mechanisms is important to help clients make educated decisions and avoid surprises.

A PID is a "Property Improvement District"

A PID is a special district created by a city or county under the authority of Chapter 3723 of the Texas Local Code. This law allows a city or county to charge a tax against properties within the designated area, or district, to pay for improvements. PIDs can be used to finance the same infrastructure a MUD would finance but are more commonly used to fund additional infrastructure items such as sidewalks, landscaping, parks and recreation. Some developers will use a PID instead of an HOA to fund infrastructure within a development. One reason for using a PID rather than an HOA is that PID assessments are tax deductible whereas HOA dues are not. Most PID assessments run 20-40 years and payments end when the bonds are paid. PID assessments can also be paid in full up-front by a buyer. Two Collin County neighborhoods that include PIDs are Mustang Lakes in Celina and Creeks of Legacy in Prosper.

A MUD is a "Municipal Utility District" or an officially classified Political Subdivision of the State of Texas

MUDs are created under the authority of the Texas Commission of Environmental Quality (TCEQ) and provide water, sewage, drainage, or other utility-related services to new developments. MUDs are likely to exist in large master planned developments that, when started, fell outside city limits or outside the area where a city was providing utility services. A few recent North Texas developments that are classified as MUDs are Light Farms in Celina, Artesia in Prosper, and Trinity Falls in McKinney.

MUDs use the sale of bonds to raise funds needed to build out infrastructure for new development. The homeowners within the MUD pay off bonds and pay for utility services through a MUD tax. A MUD tax will be in lieu of a city tax. In theory, a MUD tax will go down over time because the initial infrastructure costs are eventually repaid, so only money to maintain services would be collected after the original bonds are paid. The only way a MUD tax is eliminated is if the MUD area is annexed by the city. If this happens, the city pays off the MUD debt and the utility payments are paid by the city.

A SUD is a "Special Utility District"

A SUD is a Texas water district and special utility district under Chapters 49 and 65, Texas Water Code. It's purpose is to provide water and wastewater utility services as permitted by applicable law. It's operating policies, bylaws, rates, tariffs, and regulations are formulated and effected by a Board of Directors elected by the voters of the District.

A PUD is a "Planned Unit Development"

A PUD is a community of homes that could look like single family residences, townhomes, or condos, and can include both residential and commercial units, but on paper, they're most similar to condos. When you're shopping for homes and see the type of ownership listed as "condominium", even though the home looks like a typical house or townhome, then it's most likely a PUD.

A PUD includes ownership of a "lot," with common areas either owned by an HOA or collectively by all invested parties. If you buy a home within a planned unit development, you'll have to pay HOA dues. PUDs often have amenities beyond the scope of most condos, like private tennis courts and outdoor playgrounds that are maintained by HOA fees and only open to homeowners. The monthly dues can be very high in some communities, so it's important to include them in your monthly budget when deciding whether or not to buy a PUD.

How do you know if a property has one?

Buyers of new construction are informed if a property is in a PID, MUD, SUD or PUD, but will this be the case for resales? Sometimes "No PID/MUD/SUD/PUD" is placed at the start to a property description for homes in areas where they are common. While the seller should be disclosing this information, it is wise for agents to view the tax certificate provided by the title company to determine if a property has a PID/MUD/SUD/PUD tax. Knowing whether or not a property has one of these taxes is important in the qualification process because the inclusion of one of these taxes very often results in higher overall property taxes. This can cause a buyer who is stretching their budget to no longer qualify once the higher taxes are identified.



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