

No Hard Hat Required: Demystifying Financing for Development Infrastructure

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Today's Agenda

- Legal Framework for Special Assessment Districts: Brief History of Legislative Changes
Driving the use of Districts and the Process for Creating Districts
- Assessment Districts as a Growth Engine: Why Cities Use Them
- The Advisory Team: Who Needs to Be Involved and When
- Protecting Your Client: Critical City Attorney Guidance

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Shifting Legislative Landscape

Texas cities have faced steady erosion of local control over land use, annexation, and development.

- ❑ Recent legislative changes have significantly curtailed city authority:
 - Reduction in reduced ability to annex new territory
 - ETJ opt-outs – property owners can now remove themselves from ETJ
 - Reduced control over subdivision platting standards and requirements
- ❑ **The result: Cities have fewer tools to shape how development happens around them**
- ❑ PIDs and negotiated assessment districts are some of the most powerful remaining tools cities have to:
 - Finance horizontal infrastructure without increasing or burdening city-wide taxes
 - Negotiate the quality, design, and amenities of new development
 - Accelerate projects advancing the city's comprehensive plan and capacity for serving water and sewer



PID Legal Foundation

Chapter 372, Texas Local Government Code – Authorized by state law

- ❑ A PID (Public Improvement District) is a defined area in which the property owners fund public improvements through special assessments
 - Assessments are levied ONLY against the property within the PID based on the benefit received – NOT a general tax
 - The assessment is a lien on the property and runs with the land
 - Can be formed in a city's corporate limits or ETJ
 - Managed by the Administrator, overseen by City legal and financial consultants and staff
- ❑ **What a PID can fund:**
 - Roadways, water, wastewater, drainage, landscaping, parks and trails, etc.
 - Establishment, administration, and operation expenses
 - Designed to stay self-supporting
 - Special revenue bonds (non-recourse to the city)
- ❑ **What a PID is NOT:**
 - Not a direct city debt – bonds are backed only by assessments, not city tax revenues
 - Not a tax – it is a benefit-based special assessment
 - Not a guarantee – the city's obligation is limited to assessment enforcement

LOCAL GOVERNMENT CODE
 TITLE 12. PLANNING AND DEVELOPMENT
 SUBTITLE A. MUNICIPAL PLANNING AND DEVELOPMENT
 CHAPTER 372. IMPROVEMENT DISTRICTS IN MUNICIPALITIES AND COUNTIES
 SUBCHAPTER A. PUBLIC IMPROVEMENT DISTRICTS

Also governing and influenced by Federal Tax Law, State Bond Law, Attorney General Opinions, and guidelines and directions from Public Finance Division of AG

Why Utilize a PID?



- Use PIDs as an economic development incentive tool to promote the goals of the City
- Incentivizes amenities and/or annexation by the developer, but for the creation of the PID would not normally occur
 - Superior plan, design, architecture and building materials that exceed subdivision building standards
 - Lot and residential unit size that align with the City's goal for economic growth
 - Private amenities tailored to the community
 - Pools
 - Playgrounds
 - Fitness Centers
 - Enhanced Trails
- Accelerate construction of improvements described in City's Comprehensive Plan, Thoroughfare Plan and Parks Plan

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Assessments as an Economic Development Engine

Assessment
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Cities and Counties across Texas are using PIDs and Assessment District to actively grow their tax base and fund infrastructure they couldn't otherwise afford.

- **PIDs enable cities to:**
 - Incentivize annexation
 - Support development in areas that would not otherwise attract investment
 - Fund horizontal infrastructure (roads, utilities, drainage) without general obligation capacity
 - Accelerate development timelines aligned with City's Comprehensive and Thoroughfare Plans
 - Support superior design, architecture, and amenities that exceed minimum subdivision standards
 - Stimulate additional developer support for projects benefitting the PID and area outside the PID

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Statewide PIDs: Supporting Texas' Growth

❑ PIDs are used statewide – from small cities to the largest metros:

- Over 470 assessment backed transactions in 2025
 - Up from 170 in 2020
- Allow cities to both keep up with and strategically plan for population growth
 - Over 2.5M new residents since 2020 = ~1,170 per day
- Support efforts to make housing approachable
 - Utilizing tax exempt bonds to finance infrastructure instead of rolling total developer costs into a mortgage

This is not a niche tool – Public Improvements Districts are:

- ❑ **A critical financing mechanism for Texas infrastructure;**
- ❑ **A key component of the future of sustainable City development**

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How PIDs Work: Financing Mechanics

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- ❑ **Key financial metrics the team will assess and discuss for ALL transactions:**
 - Tax Rate Equivalent (TRE): converts assessment to rate for market-testing
 - Value-to-Lien: measures debt load relative to property value – a primary underwriting metric
- ❑ **Three primary PID financing structures:**
 - Pay-As-You-Go (PAYGO): Developer funds construction; city reimburses over time from assessments collected.
 - Interest rate set at levy (typically 2-5% above bond index).
 - Reimbursement Bonds: City issues bonds to reimburse developer after infrastructure is accepted.
 - Lower risk = lower interest rates = lower homeowner costs.
 - Construction Bonds: City issues bonds upfront to fund construction.
 - Higher risk (undeveloped land) = higher rates, but developer gets capital immediately.

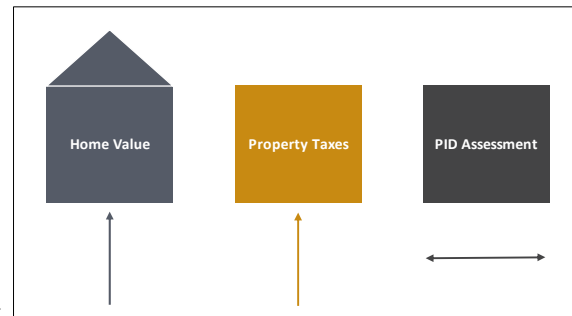
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Assessments versus Taxes

ASSESSMENT STRUCTURE: NOT A TAX

- ❑ Assessments levied on property based on benefit received – not tied to appraised value fluctuations
- ❑ Homeowners can pay in full at closing or in annual installments (shown as a line item on tax bill)
- ❑ Value increases in the home does not increase the assessment as the preferred method of financing



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Negotiating the Development Agreement

Most transactions begin with a Development Agreement: This sets tone, timing, and roadmap for the transaction

STANDARD TERMS

- ❑ Financing Metrics for Assessments
- ❑ Foreclosure Obligations
- ❑ Bond Issuance Prerequisites
- ❑ Property Notice Requirements
- ❑ Improvement Funding Mechanisms

KEY PROVISIONS

- ❑ Annexation Provisions
- ❑ Development Standards
- ❑ Zoning/HOA/Land Use Obligations
- ❑ Eminent Domain and Funding Obligations
- ❑ Alternative Funding Mechanisms

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Early Team Engagement Matters

An Assessment Transaction is a **COMPLICATED BEAST**.

But the City is **NOT** alone:

- **City Staff:**
 - City Manager – policy direction and executive sign-off, council/mayor interfacing
 - Finance Director – debt management, budget implications, GASB compliance
 - Economic Development/Engineering – alignment with incentive policy and strategic goals
- **Professional Consultants:**
 - City Attorney – legal framework, policy guardrails, document review
 - Financial Advisor – structures the deal, models tax stack and value-to-lien decisions
 - Bond Counsel – legal authority, bond documents, tax law compliance
 - PID Administrator – day-to-day management, benefit analysis, SAP preparation
- **Assessment financing tools are designed to be self supporting:**
 - Developer's sign a Professional Services Agreement and escrow funds for City consultants prior to assessment
 - Annual Installments include ongoing administrative expenses

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Team's Critical Role

The team drives a transaction forward while protecting the City and the City attorneys are essential policy architects:

- Coordination and Communication with Staff and consultant team:
 - **Financial Advisor:** Review from a fiduciary obligation to advise on financial structure with focus on impact on the city related to bond issuance and tax increment
 - **Bond Counsels:** Negotiating the structure and keeping the transaction compliant with federal tax law, state law, and present the bonds to the AG for approval
 - **PID Administrator:** Produce visuals and tangible models to demonstrate the developer ask for the City Attorney, Bond Counsel, Financial Advisor and Council

When the team works together, the transactions can be coordinated to support the city and the move faster



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Ways the Team Protects the City

Things to Stay Aware of:

- ❑ Public perception – homebuyers may not fully understand the assessment obligation at purchase
- ❑ Headline risk – media coverage of foreclosures or defaults can create political friction
- ❑ Administrative burden – annual SAP updates, council action, continuing disclosure
- ❑ Covenant to foreclose – the city must act when property owners don't pay
- ❑ Bond market risk – non-rated bonds sold to limited investors; market depth matters



Bringing the Developer to the Table

The most successful PID transactions start with a conversation

- ❑ **The market reality post-legislative reform, when developer doesn't approach the City**
 - Developers have more alternatives than ever
 - Residents still end up paying – through MUDs, HOA fees, or deferred infrastructure
- ❑ **What cities gain when developers come to the table:**
 - Negotiating leverage: design standards, building materials, amenities, annexation
 - Ability to find unique solutions with the team
 - Options for annexation
 - Discussions regarding City needs without City's tax revenues
 - Option to discuss timing and quality of development as well as different amenities
 - Solutions for financially responsible repayment of development costs
 - Opportunity to leverage today's construction for expanded infrastructure

The goal: Be the city that says 'here's what we need' – not the city that says 'we don't do that.'

The Growth is Coming...

PIDs can help

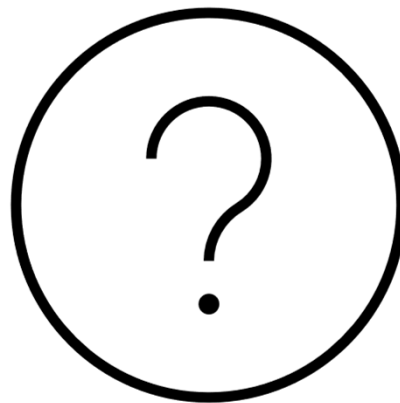
- ❑ Grow the tax base and accelerate development without general obligation taxes or debt
- ❑ Fund infrastructure aligned with Comprehensive Plan, Thoroughfare Plan, and Parks Plan
- ❑ Negotiate enhanced design standards, amenities, and annexation commitments
- ❑ Recover City costs of Developer's request and Developer creation and administration through PSAs and annual installments
- ❑ Retain control over horizontal infrastructure in a post-reform legislative environment



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Questions?



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