SMITH'S
RESEARCH & GRADINGS

## 2025 High Yield Municipal Bond Conference

# Texas MUD Bond Financing for Critical Infrastructure to Build Strong Credit Foundations

Tom Wynne

John Stoecker

Jeff Dincher

D·R·HORTON
America's Builder

Jeff Tebeaux

Evan Forrest

# Smith’s Panel Discussion

October 28, 2025

# Panelist Overview

- Jeff Dincher, CFA, Principal
  PGIM Fixed Income
  Municipal Research

- Evan Forrest, Senior Vice President – Advisory
  Zonda Advisory
  Real Estate Consulting

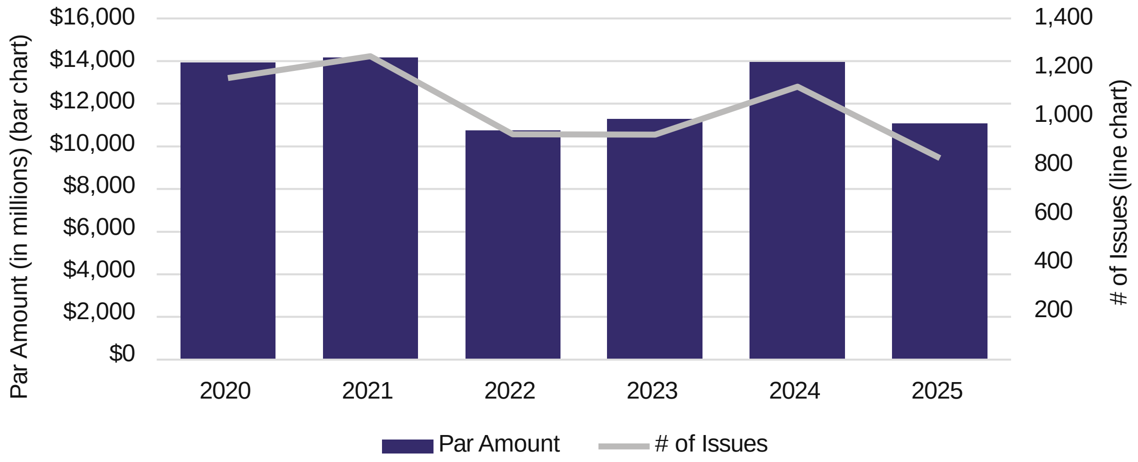
- John Stoecker, Program Administrator
  National Finance Authority
  Economic Development and Conduit Bond Issuances

- Jeff Tebeaux, Senior Vice President – Real Estate
  D.R. Horton
  Homebuilder

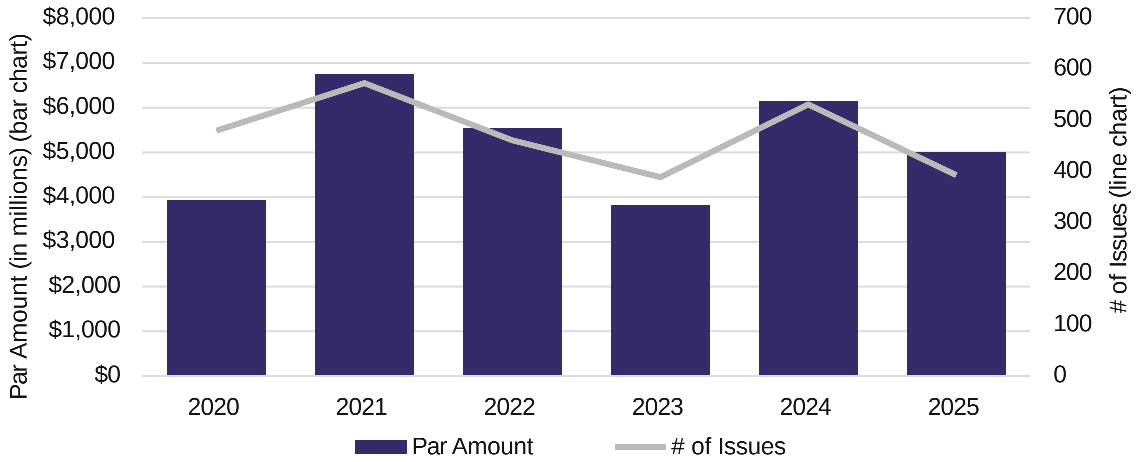
- Tom Wynne, Director
  Wells Fargo Corporate & Investment Banking
  Public Finance Investment Banking

# National District Trends

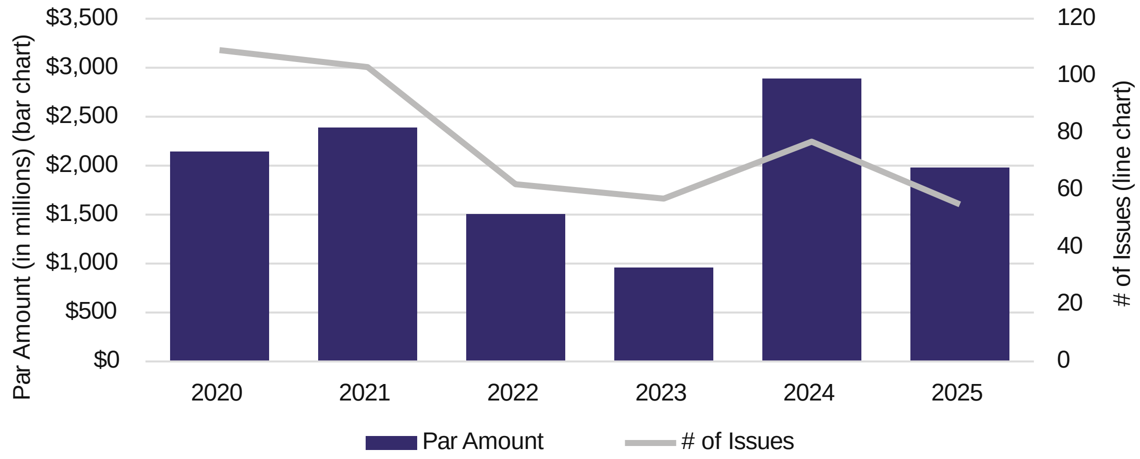
## National Land Secured Volume ($MM)



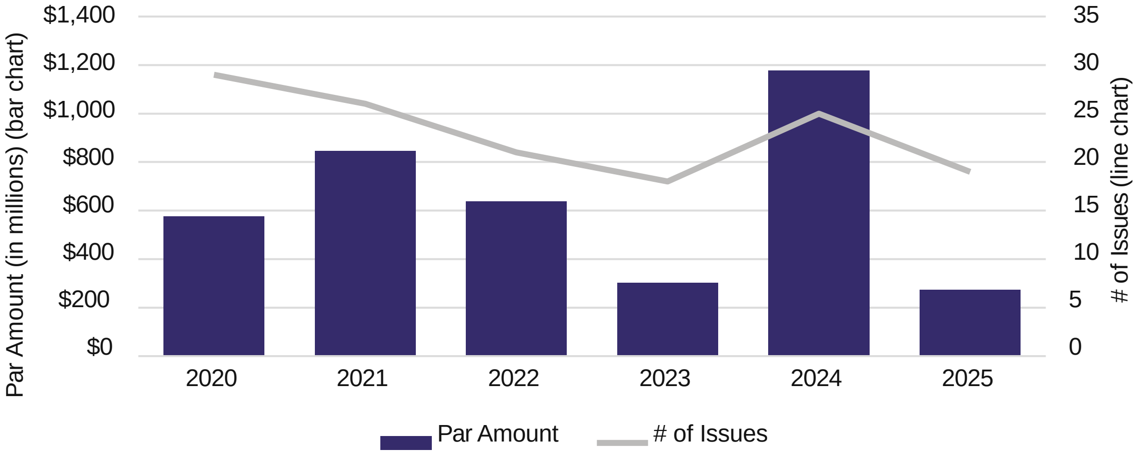

## Non-Rated National Land Secured Volume ($MM)




## National Tax Increment Volume ($MM)



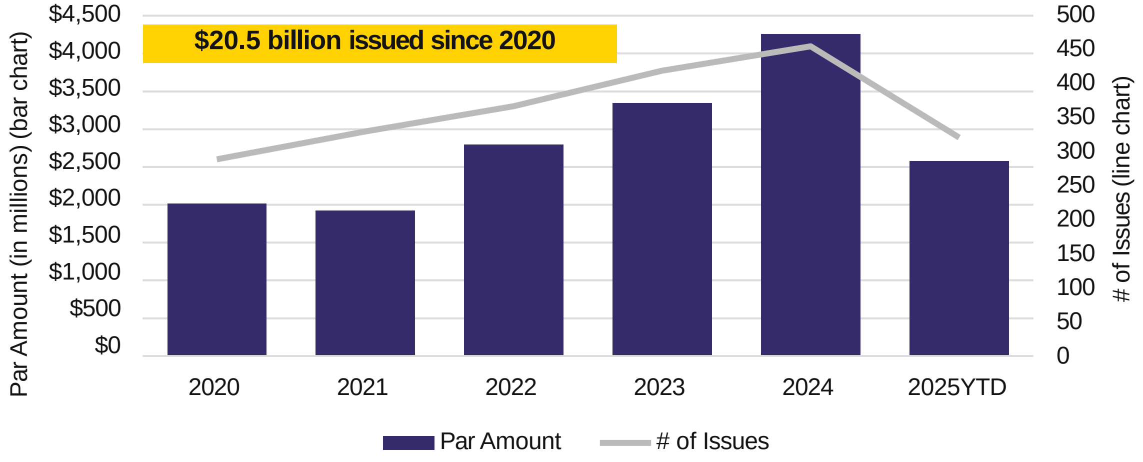

## Non-Rated National Tax Increment Volume ($MM)



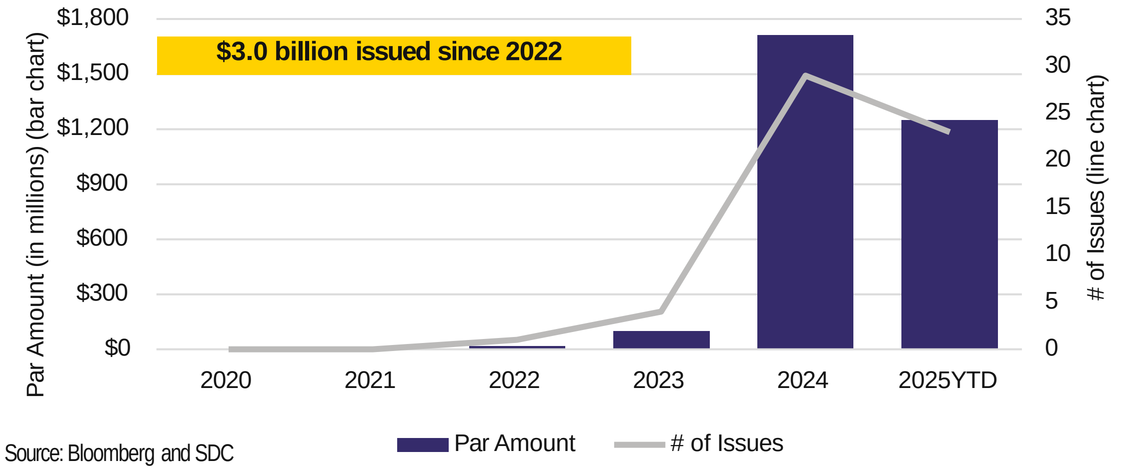

Source: Bloomberg as of 10/21/2025 (Competitive and Negotiated transactions)

# Texas Overview

**Annual MUD Bond Par Issued ($MM)**




**Annual MUD Receivables Bond Par Issued ($MM)**




Source: Bloomberg and SDC

**District Types**

- **Municipal Utility District**
- **Water Control & Improvement District**
- **Municipal Management District**
- Public Improvement District
- Tax Increment Reinvestment Zone

**MUD Bond Issuance Statistics**

| | |
|---|---|
| Par issued since 2020: | $20.474 BN |
| New money / refunding: | 83% / 17% |
| Median issue size: | $5,160,000 |
| Total no. of issuances: | 2,481 |
| Rating mix: | 94% IG; 6% NR |
| Insured mix: | 94% insured |
| Defaults since 1990: | 0% |

**MUD Receivables Bond Issuance Statistics**

| | |
|---|---|
| Par issued since 2020: | $2.961 BN |
| Total no. of issuances: | 56 |
| Median issue size: | $45,000,000 |
| Bond structure (#): | 54% CIBs / 46% CABs |
| Bond structure ($): | 61% CIBs / 39% CABs |

# Background on Texas Municipal Utility Districts (MUDs)

- Municipal Utility Districts (and other types of districts) issue bonds to finance eligible public improvements (roads, water, sewer, drainage, parks) and are critical to the economics of large housing projects
- Legislation authorizing MUD issuances has been amended over time to require substantial development prior to a district issuance
- Generally, MUDs are limited in the amount of bonds that can be issued based on:
  - Debt to assessed valuation ratio thresholds
  - Rolling coverage tests based on targeted maximum tax rate levy
  - Eligible reimbursement costs reviewed by Texas Commission on Environmental Quality (TCEQ) that reviews and approves the issuance of bonds
    - The application includes an engineer’s report and certification of completed eligible reimbursement costs
- At the same time, these restrictive legislative conditions create strong MUD bond credits and promote market access for MUD issuances
- These issuance parameters create a condition where developers advance significant funding for infrastructure improvements with the reimbursement lagging by multiple years
  - The obligation of a MUD to repay a developer for eligible public infrastructure investments is documented in the reimbursement agreement between the two parties
  - It is common for a developer to pledge its reimbursements to financing providers or assign the reimbursement rights to a new party when a project changes hands

# MUD Receivables Financings

## Strategy Outline

- In recent years, developers have securitized their reimbursement rights through a tax-exempt bond financing executed through a conduit issuer
  - Developer sells and assigns the reimbursement agreement to the conduit issuer / bond trustee (Sale and Assignment Agreement)
  - As consideration for the sale and assignment of the reimbursement agreement, the conduit issuer agrees to sell bonds with the proceeds available to the developer to fund eligible public infrastructure
  - May be reimbursement of completed eligible expenses or future eligible projects
- The developer enters into a Project Agreement documenting its ongoing obligation to continue to execute public infrastructure projects

## Bond Structure

- Bonds are offered as a bullet maturity structured as either current interest bonds or capital appreciation bonds
- Bonds are subject to mandatory redemption upon receipt of net proceeds of future MUD bond issuances
  - Projected redemptions are calculated based on a financial forecast of future MUD bond issuances estimated based on debt to assessed valuation ratios and tax rate sufficiency
- Maturity date based on stress test; default period post-maturity with a stepped up interest rate
- Typically the bonds are projected to have a short average life based on estimated redemptions

# Questions for the Panel

## Investment Considerations

- Do you typically review and participate in the underlying MUD bond issuances?
- Why are MUD receivables appealing to bond market investors?
- What are the most important credit considerations for these financings?
  - Examples could include strength of developer and builder, coverage levels, buildout timeline, stage of development, stress tests, etc.
- Do you identify any benefits or challenges for either a current interest or capital appreciation structure?

## Developer Considerations

- Why are MUD receivables appealing to builders and developers?
- How should financings be differentiated among market participants?
- How are your interests aligned with those of the investor?
- What efficiencies do you consider when evaluating the application of this strategy to your projects?
  - Examples could include project status, size per offering, pooling vs. standalone credits

# Questions for the Panel

## Issuer Considerations

- What amount of your activity is in the land secured sector generally?
- What is your outlook on the MUD receivables sector in the near-term?
- How does the strength of the sponsor impact your evaluation of the financing?
- Are you tracking the actual performance of the financings vs. the projections at issuance?

## Housing Market Considerations

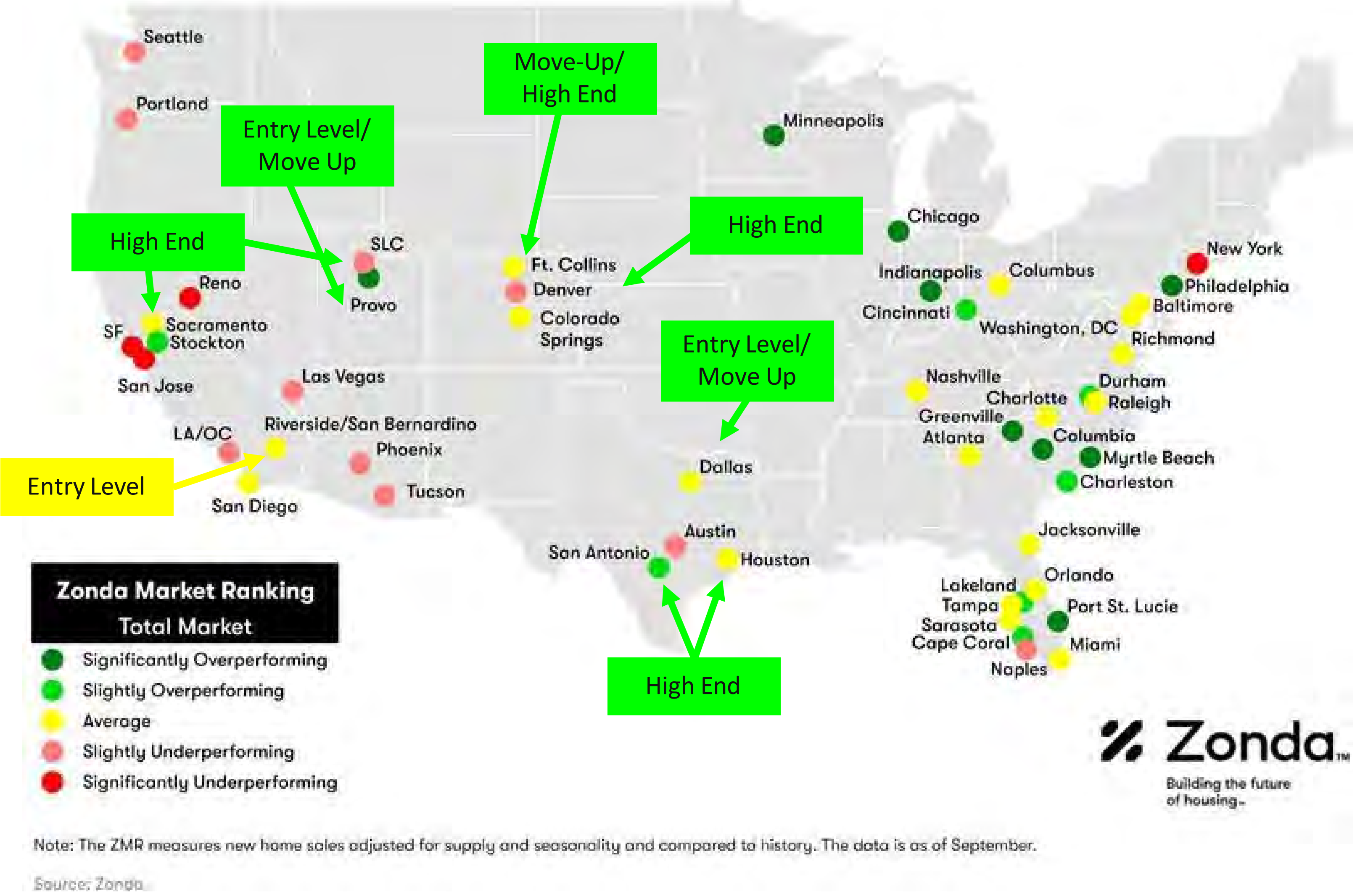
- How are the Texas markets performing relative to national housing market trends?
- Are you finding any trends in the volume of market study requests nationally?

# Appendix

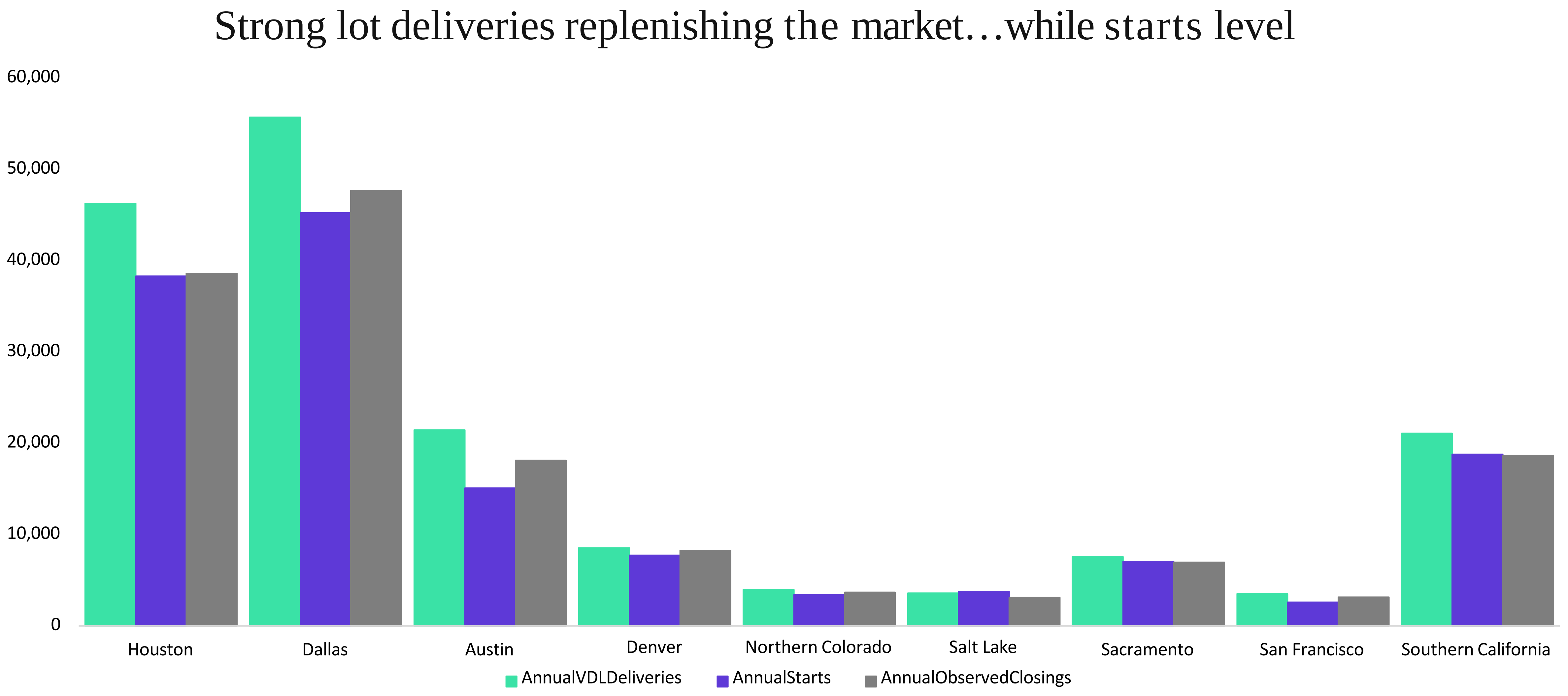
# Multimarket Overview

## Current market rankings are mixed but average for September

| Area | Status |
|---|---|
| Houston | Average |
| Dallas | Average |
| Austin | Slightly Underperforming |
| Denver | Slightly Underperforming |
| Northern Colorado | Average |
| Salt Lake | Slightly Underperforming |
| Provo | Significantly Overperforming |
| Sacramento | Average |
| Bay Area | Significantly Underperforming |
| LA/OC | Slightly Underperforming |
| San Diego | Average |
| Inland Empire | Average |



# Multimarket Overview (Continued)



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**Conference Presentation Disclaimer**



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