



City of Dripping Springs, Texas

Municipal Utility Districts Fact Sheet

What is a Municipal Utility District?

A Municipal Utility District (“MUD”)¹ is a type of District that functions as an independent, limited government which assists in financing road, utility, drainage, and related infrastructure. Managed by a board elected by property owners within the MUD, a MUD may issue bonds for authorized improvements, including to reimburse a developer for the improvements.

How is a MUD funded?

A MUD can issue bonds to pay for the infrastructure. The bonds are not an obligation of the City and are paid for solely by the residents within in the MUD, typically through the levy of an ad valorem tax. The Texas Commission on Environmental Quality (TCEQ) has final authority on how much and what bonds a MUD can issue (except in the case of bonds issued for road improvements or for refunding purposes). The Attorney General of Texas also reviews bond issuances. A MUD may issue bonds for any purpose authorized by the Texas Constitution and other applicable laws, including Chapters 49 and 54 of the Texas Water Code or, if the MUD were legislatively created, by the MUD's creation legislation. Additionally, MUD bonds secured by ad valorem taxes must be approved by the MUD's qualified voters. An annual audit of the MUD is required to be done by an independent CPA. A copy is required to be provided to the City Administrator. Prior to the sale or offer to sell any bonds of the MUD, the MUD must certify compliance with the applicable ordinance or resolution consenting to the creation of the MUD agreements.

What is the City’s role in MUD creation?

The City has the power to consent or not consent to a MUD created in the City Limits or ETJ. The City has the authority to comment and negotiate during MUD creation in the City Limits or ETJ

¹ While these FAQ references MUDs, other water districts within the City’s ETJ operate similarly to MUDs. For information on all types of water districts, please see <https://www.tceq.texas.gov/downloads/water-districts/guidance/gi-043.pdf>.

but the final decision maker on the creation of a MUD and its bonding is the TCEQ (and the Texas Legislature for legislatively created MUDs). If the City does not consent to the MUD, then the applicant may attempt to have the MUD created by the Texas Legislature, with the City's lack of consent addressed through a petition process governed by Chapter 54 of the Texas Water Code. When the City is able to negotiate during the creation, the City is able to better ensure quality infrastructure is constructed and monitor the amount of bonds and the size of the MUD.

What requirements does the City have related to consenting to a MUD?

Because the City has the ability to negotiate during the creation process, the City has adopted a policy on consenting to MUDs. The MUD Policy is available here: <https://www.cityofdrippingsprings.com/planning-and-development-department/MUDS>.

Requirements include that the MUD be designed to achieve at least three Community Benefit priorities including (a) improvements that advance or exceed City development requirements; (b) enhancements to parks, trails, open space, and recreational facilities; (c) improved environmental conditions; and (d) enhanced roadways and pedestrian amenities. In addition, the improvements must comply with all City infrastructure requirements.

What authority does the City have after a MUD is created?

A MUD may not extend the boundaries of the MUD unless the City Council first adopts a resolution giving its consent to the extension. The MUD may also not exceed its bond limitation in the Consent Agreement without consulting with the City. It is the policy of the City that a MUD created within the City or its ETJ should not be abolished until such time as it has retired all of its outstanding bonded indebtedness, so that the City taxpayers outside the MUD will not have to pay off all or any part of the bonded indebtedness incurred by the MUD. The City does reserve the right to abolish any MUD as allowed by state law, regardless of whether it has any outstanding debt, if it is deemed to be in the best interest of the City and its residents.

Can the City dissolve a MUD?

For MUDs in the ETJ, under state law, the City Council may dissolve a MUD only upon the approval or consent of a majority of voters or landowners in accordance with Chapter 43 of the Texas Local Government Code. Such election or petition process, however, would not apply during the term of a strategic partnership agreement between a MUD and the City. However, a MUD may provide a written request that the City consider dissolution if certain guidelines, addressed below, are met. If the City Council decides that dissolution will be beneficial to the City, the City will prepare a written implementation plan for the District's dissolution within six (6) months of the date the City Council considers the request.

For in-City MUDs, the City can dissolve the MUD by ordinance by a vote of 2/3rd of the City Council. However, if the dissolution is protested by city residents then the dissolution has to go to the next regular election as provided more fully in Chapter 43 of the Texas Local Government Code.

Once dissolved the City takes over all obligations and assets of the MUD. The City may, at its option, in connection with its assumption of the MUD's obligations and assets, refinance the

District's bond debt. It is the City's policy not to dissolve a MUD unless all debt has been paid off or any remaining debt can be covered by the residents of the MUD.