



# MUD vs PID...what You Need to Know.

A Municipal Utility District (MUD) is one of several types of *special districts that function as independent, limited governments* within the State of Texas authorized by the Texas Commission of Environmental Quality (TCEQ) to provide water, sewage, draining and other utility-related services within the MUD geographic boundaries. The purpose of a MUD is to provide a developer an alternate way to finance infrastructure. There are more than 900 municipal utility districts in Texas with 65% of those in the Houston area.

A MUD can be created by a developer or by the majority of property owners in an area petitioning the TCEQ to create a MUD. A developer must pay for or put a letter of credit equal to 30% of the cost of subdivision utilities to ensure they are committed to the success of the MUD. Unless developers are voting residents within a MUD they have no authority or contract over the MUD's Board of Directors.

A Board of Directors are publicly elected by property owners and manage and control the affairs of the MUD subject to supervision of the TCEQ. Developers are prohibited from serving or placing employees, business associates, or family members on the MUD Board of Directors. The Board established policies in the interest of its residents and utility customers. A MUD may adopt and enforce all necessary charges, taxes and fees in order to provide facilities and service.

MUD taxes are used to payoff the bonds that originally funded the MUD. As the debt decreases, MUD taxes may decrease over time. *MUD rates generally could decline over time as the MUD is built out and operating and debt service costs are shared by more homeowners, but it is also depending on the ongoing expenses or continued development directed by The Board of Directors.* In addition to receiving a monthly bill from your MUD for your water and sewage usage; you will also receive an annual tax bill. If you itemize on your Federal Income tax return, make sure you include your MUD tax because it is a deductible property tax. Many MUD boundaries are no in city limits and therefore only pay MUD taxes that essentially take the place of a city tax. MUDs within a city limits will burden the residents of the MUD with double tax burden.

A Planned Improvement District (PID) is a development *financing tool* created by the Public Improvement District Assessment Act as found in Chapter 372 of the Texas Local Government Code. The PID enables any city to levy and collect special assessments on property that is within the city or within its Extraterritorial Jurisdiction (ETJ). The PID establishes a mechanism to finance improvement projects through the issuance of bonds secured by special assessments levied on all benefited properties. PID bonds can be used to reimburse the developer for eligible infrastructure early in the development process even before the closing of the first home. PIDs do not require TCEQ approval and are governed by the governing body of the city or county, thereby alleviating concerns regarding board turnover and the integrity of the board. If the city chooses to annex the property that is within the boundaries of a PID, the city is not forced to pay off the assessment, and the assessments do not affect the city's debt capacity or rating.

PIDs can be used for the same purposes as a MUD (e.g. water and waste water infrastructure and other utilities). However, a PID can also be used for sidewalks, landscaping, parks and recreation, public safety/security, affordable housing and a wide range of other possibilities. Some developments even use a PID instead of a Homeowner's Association since PID assessments paid are tax deductible.

PID bonds are repaid with assessments, not taxes. Assessments, unlike taxes rates for MUDs, are fixed once the bonds are sold. A homeowner would know the annual assessment bill at the time of purchase. And unlike taxes, *the assessment fees end when the bonds are paid off.* PIDs assessments are also tax deductible.



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