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Municipal Utility Districts in Texas Have Sweeping Power to Sell Bonds, Levy Taxes.

MUD 187 came to be when a Houston developer arranged for two people to move their trailer onto a 519-acre site on the edge of Richmond in Fort Bend County, which at the time was an empty field.

As the only "residents" within the municipal utility district's boundaries, the couple headed for the polls in November 2008. The ballot asked whether the state's approval of MUD 187 should be confirmed and whether the district should be authorized to sell up to $188 million in bonds for water and sewage systems, drainage, parks, recreational facilities, roads and a fire station.

The vote was unanimous – 2-0.

"That's not how democracy is supposed to work," said Clifford Gay, a retired construction superintendent who now lives in Del Webb Sweetgrass, a retirement community that owes its existence to MUD 187 – and the taxes it is levying to pay off $24 million in bonds.

Gay and his neighbors wonder how high those taxes might go as more bonds are sold, especially with extraordinary bond issuance costs of 9 percent, according to IRS documents. MUD 187's bonds are rated Baa3 by Moody's, which says they may have "certain speculative characteristics."

Across bright-red Texas, where many politicians tout small government and low taxes, MUDs and other so-called special purpose districts are proliferating – and selling bonds – at a rate many experts inside and outside government find increasingly problematic. They cite high indebtedness, insufficient state oversight, cozy relationships with developers, a lack of responsiveness to citizens and potential conflicts of interest. MUDs can be created either by the Texas Commission on Environmental Quality or the Legislature.

Continue reading.

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