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Baylor County Special Utility District v. City of Seymour

Court of Appeals of Texas, Eastland - January 30, 2025 - S.W.3d - 2025 WL 336966

City filed breach-of-contract suit against special utility district, alleging district began purchasing water from third party in violation of contract requiring district to purchase all water from city.

District filed plea to jurisdiction based on governmental immunity. The 50th District Court granted plea in part, dismissing city's claims for declaratory judgment, injunctive relief, and attorney's fees, but denied plea as to city's breach-of-contract claim. District appealed denial of its plea, and city cross-appealed grant of plea as to declaratory judgment, injunctive relief, and attorney's fees.

The Court of Appeals held that:

- District was entitled to governmental immunity;
- Contract between city and district was a "requirements contract" for which there was a waiver of district's governmental immunity;
- Alleged lost profits claimed by city for breach of contract by district were consequential damages for which there was no waiver of district's governmental immunity; and
- City was not entitled to award of attorney's fees under statute providing waiver of immunity for reasonable and necessary attorney's fees but only if contract was executed after a specific date.

Special utility district, whose predecessor-in-interest entered into contract with city wherein city would issue bonds for construction of water treatment plant and district's predecessor would buy all water required for its own use and distribution of treated water to customers, did not convert into different type of domestic entity or non-business code organization, but instead did so under statute providing that special utility district may be created under and subject to authority, conditions, and restrictions of, and is considered a conservation and reclamation district under state constitution, and thus district was entitled to governmental immunity, where district did not file certificate of conversion, but instead filed certificate of termination with the Secretary of State.

Contract between city and special utility district wherein city would issue bonds for construction of water treatment plant and district would purchase all water required for its own use and distribution of treated water to customers was a "requirements contract" for which there was waiver of district's governmental immunity; contract's purpose was to establish water treatment facility in close proximity to district's raw water source to be of sufficient capacity to treat not only water used by city for resale to its customers, but also to treat district's water to be used for resale to its customers, it expressly stated that district agreed to purchase all water it required during period of agreement, and directly permitted parties to alter amount or to expand facility based on parties' needs.

Alleged lost profits impliedly claimed by city for breach of contract by special utility district, whose predecessor-in-interest entered into contract with city wherein city would issue bonds for construction of water treatment plant and district would buy all water required for its own use and distribution of treated water to customers, were not for damages due and owed, and instead, were

consequential damages for which there was no statutory waiver of district's governmental immunity; city sought damages it sustained being deprived of the benefit that it could have reasonably anticipated from full performance of the contract, and apparently sought profits it would have received had district continued to purchase treated water exclusively from city.

City and special utility district's contract wherein district would purchase from city all water required for its own use and distribution of treated water to customers was executed by district when it accepted its assignment of the contract by its predecessor-in-interest and operated in accordance of contract's terms, rather than when city and district's predecessor-in-interest entered into agreement, such that city was not entitled to award of attorney's fees under statute providing waiver of immunity for reasonable and necessary attorney's fees but only if contract was executed after a specific date; district's predecessor had no authority to execute contract on district's behalf, let alone do so more than 20 years prior to its existence, rather, only district could execute contract on its behalf.

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