

# Growth & Development in the ETJ

June 2, 2026





## LEGISLATIVE SHIFTS

**Since 2017, Texas has seen a steady shift to limit local land-use authority in an effort to promote housing supply and market flexibility.**

## **Annexation & ETJ Reform**

SB 6 (2017): Annexation requires voter/owner approval

SB 2038 (2023): unilateral ETJ release allowances by property owner

## **Zoning & Housing Preemption**

SB 840 (2025): Multifamily allowances in commercial zoning districts

HB 24 (2025): Reduced powers of protest petitions ('tyrant's veto')

SB 15 (2025): Small lot residential allowances

## **Construction & Standards Preemption**

HB 2439 (2019): Removed power to regulate building materials

## **Property Tax Reform**

SB 2 (2021): lowering allowable annual property tax revenue growth from 8% to 3.5%

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- More development freedoms:
  - Land use control
  - Infrastructure requirements
  - Service delivery
  - Platting
- Higher infrastructure costs
- More options for upfront capital financing (i.e. special districts)
- Stronger bargaining power

## **WHAT THIS MEANS FOR DEVELOPERS**

- More “leap-frog” developments
- Loss of growth management authority
- Fractured ability to master plan public infrastructure (roads, utilities)
- Increased difficulties aligning:
  - Land use and development
  - Infrastructure planning
  - Service delivery
  - Fiscal sustainability
- Reduced bargaining power for annexation

## **WHAT THIS MEANS FOR TEXAS CITIES**

- Facilitate responsible growth and development patterns through partnerships and annexation
- Protect long-term fiscal health of the city
- Maintain fidelity of policy positions and partnerships
  - North Texas Municipal Water District (NTMWD)
  - Boundary and Settlement Agreements
  - Special Districts
  - Infrastructure

## **HOW THIS IMPACTS OUR PRIORITIES**



# Annexation and ETJ Reform

What do we do now?



- Encourage Annexation
- Protect our Future

## Encourage Annexation

- Land use allowances
- Development variances
- Infrastructure partnerships
- Eminent domain assistance
- Pre-Annexation agreements
- Special financing districts



## Protect our Future

- CCN decertification + cessation ordinance
- Boundary agreements
- Emergency Services District
- Infrastructure adjustments
- In-City / Out-of-City Fees



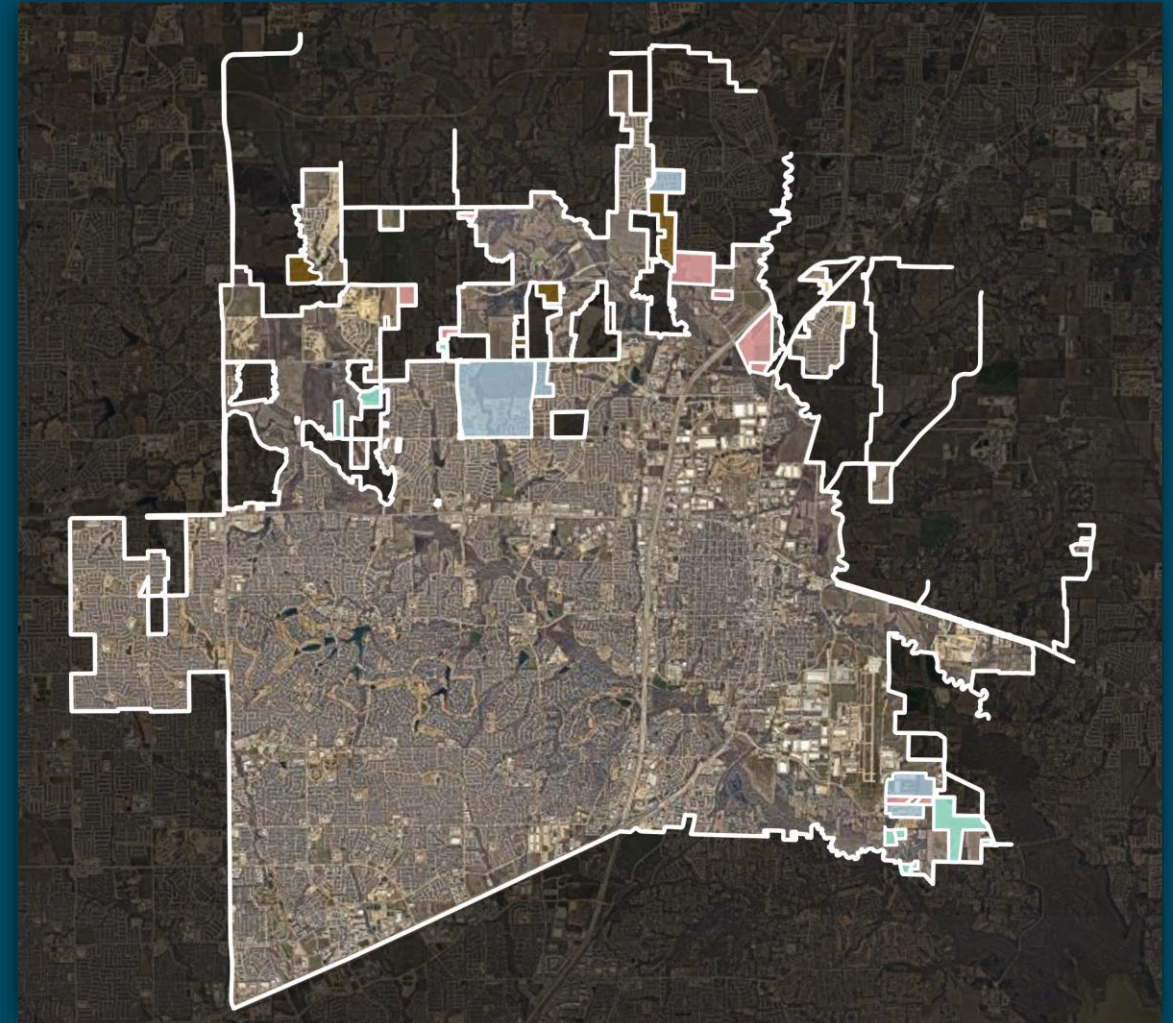
# ENCOURAGE ANNEXATION: SB6

- SB6 Effective Date: December 1, 2017
- Annexations Post-SB 6

|                          |    |
|--------------------------|----|
| Voluntary                | 24 |
| City-Initiated           | 1  |
| Pre-Annexation Agreement | 9  |

- Voluntary Annexation Characteristics

|                                 | Completed | Time<br>(average) |
|---------------------------------|-----------|-------------------|
| Standard Annexation + Zoning    | 11        | 165 days          |
| Standard Annexation + PD Zoning | 8         | 140 days          |
| Non-Standard Annexation         | 5         | 390 days          |



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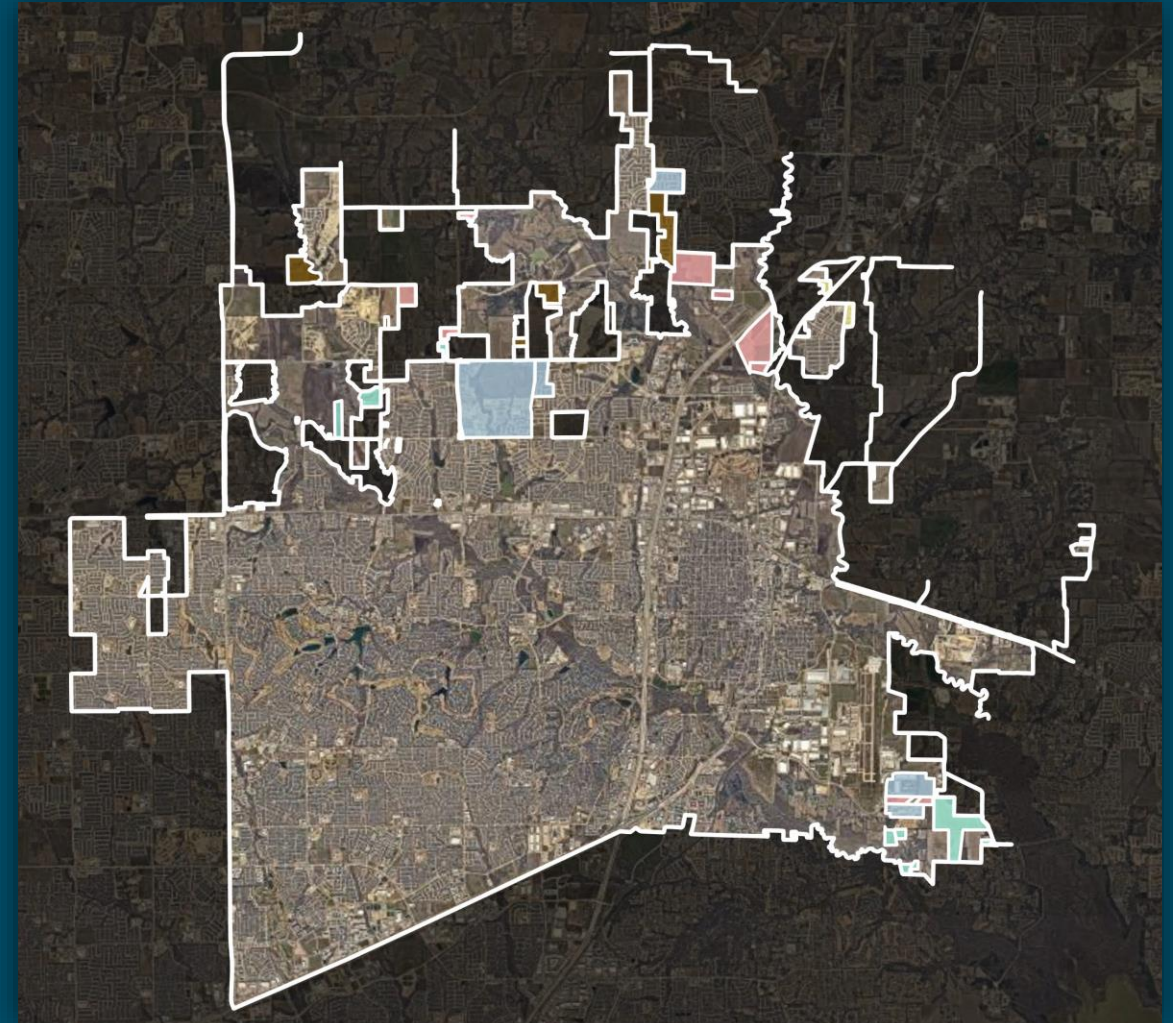
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| Standard Annexation + Zoning    | 11        | 165 days          |
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| Non-Standard Annexation         | 5         | 390 days          |

*fee waivers, tree preservation variances, infrastructure obligations, easement acquisition assistance, utility connections, land use allowances, special districts*

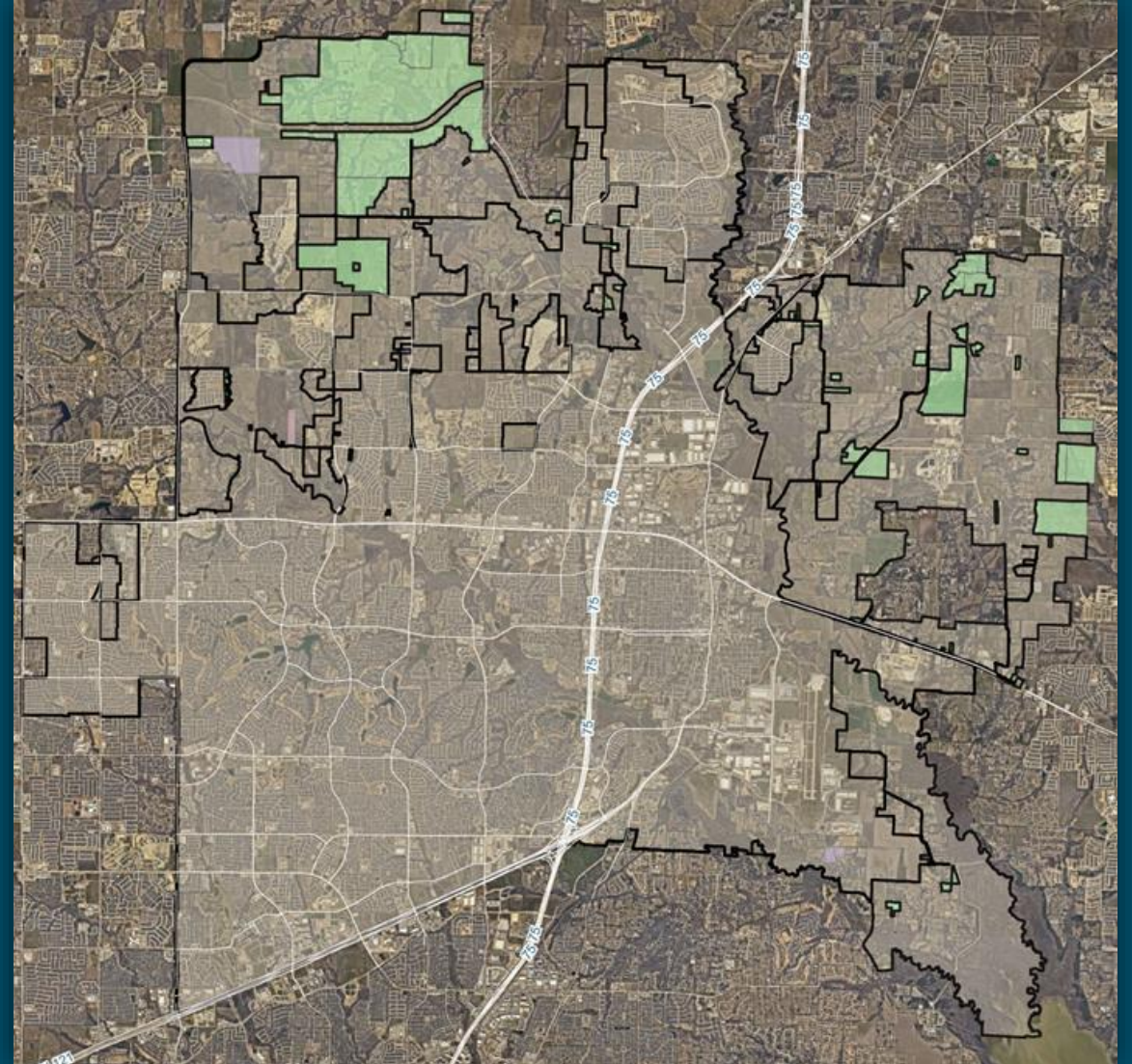


# PROTECT OUR FUTURE

## SB 2038

- SB 2038 Effective Date: September 1, 2023
- Unilateral right of property owner to release from ETJ by operation of law (45-day window)
- Impacts of SB 2038 in McKinney

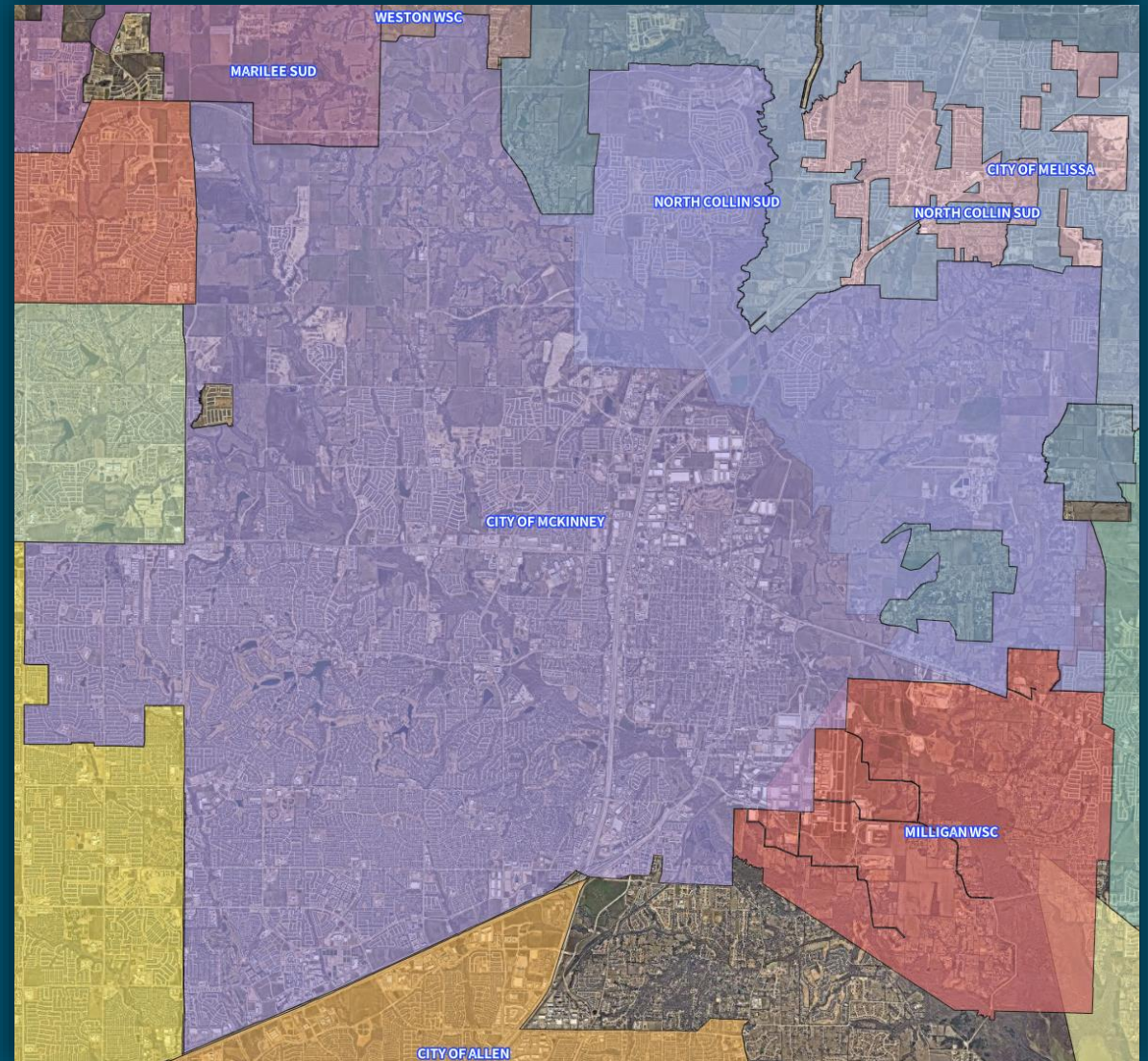
| # of Tracts | Land Area  |
|-------------|------------|
| 57          | ~5.8 sqmi. |



# PROTECT OUR FUTURE

## *water and sewer CCN*

- **What is it?** A Certificate of Convenience and Necessity (CCN) is a permit issued by the Public Utility Commission of Texas (PUCT) granting exclusive right to provide water or sewer service within a geographic area.
- **Legal Obligation.** CCN holder has an obligation to provide continuous and adequate service.

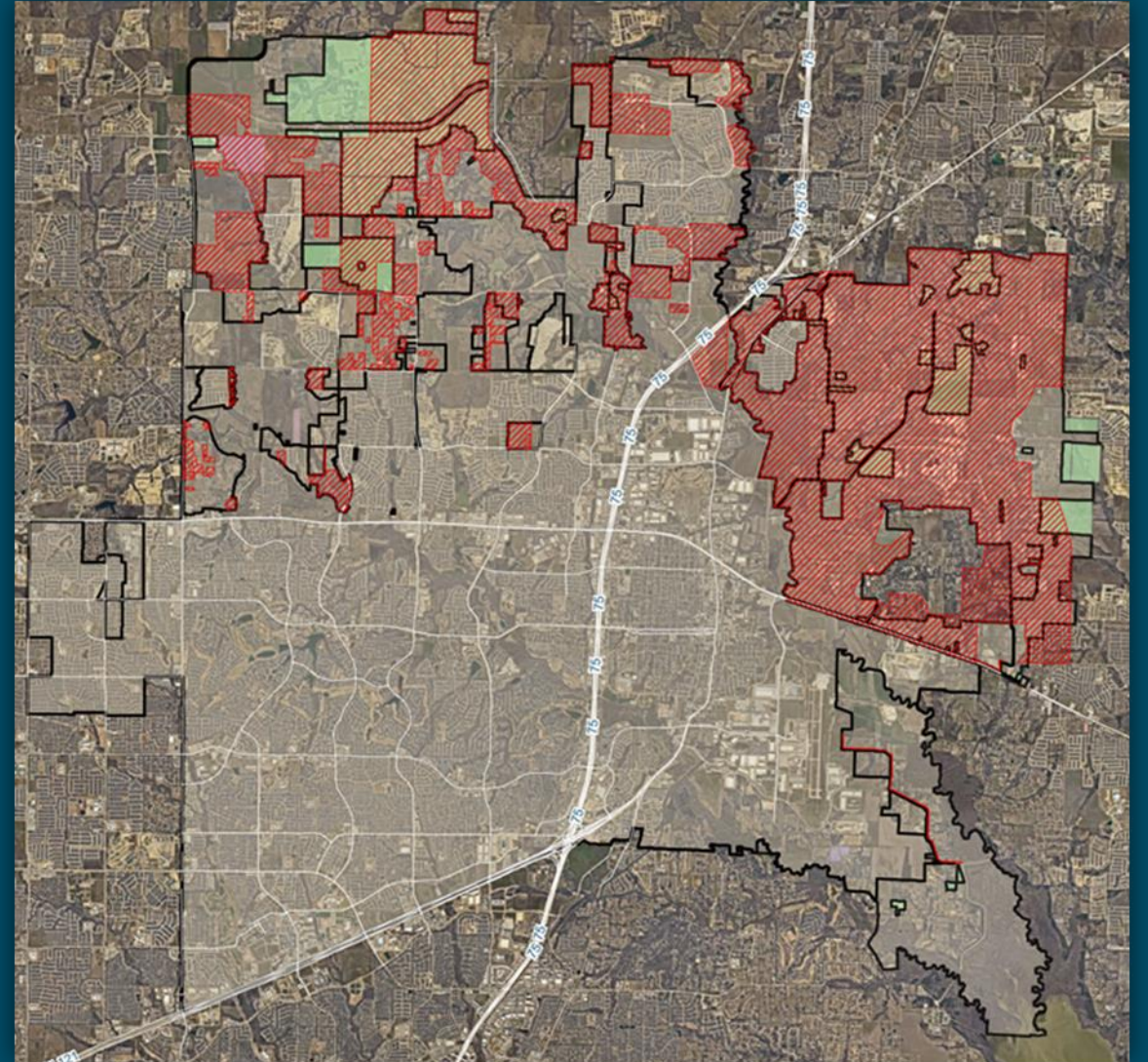


# PROTECT OUR FUTURE

## *water*

- CCN Decertification
  - Original Filing (October 2023)
  - SOAH Hearing (May 2026)
  - Final Ruling (anticipated EOY)
- Cessation Ordinance
  - Original Adoption June 2024
- Service delivery options
  - City
  - Well
  - Outside provider\*
    - *Neighboring jurisdiction*
    - *Water supply corporation*

*\*subject to terms of existing jurisdictional and/or service agreements*

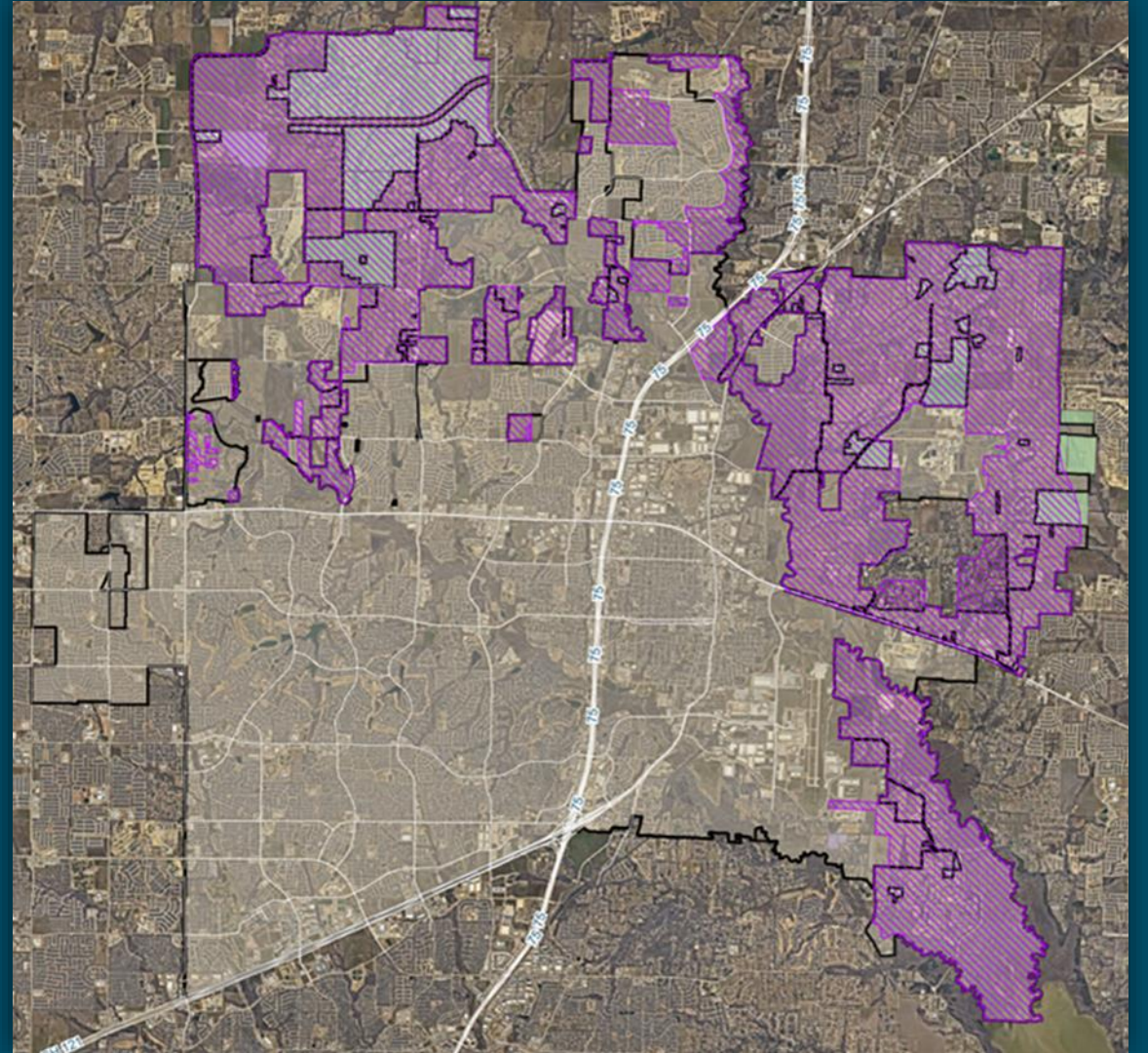


# PROTECT OUR FUTURE












## sewer

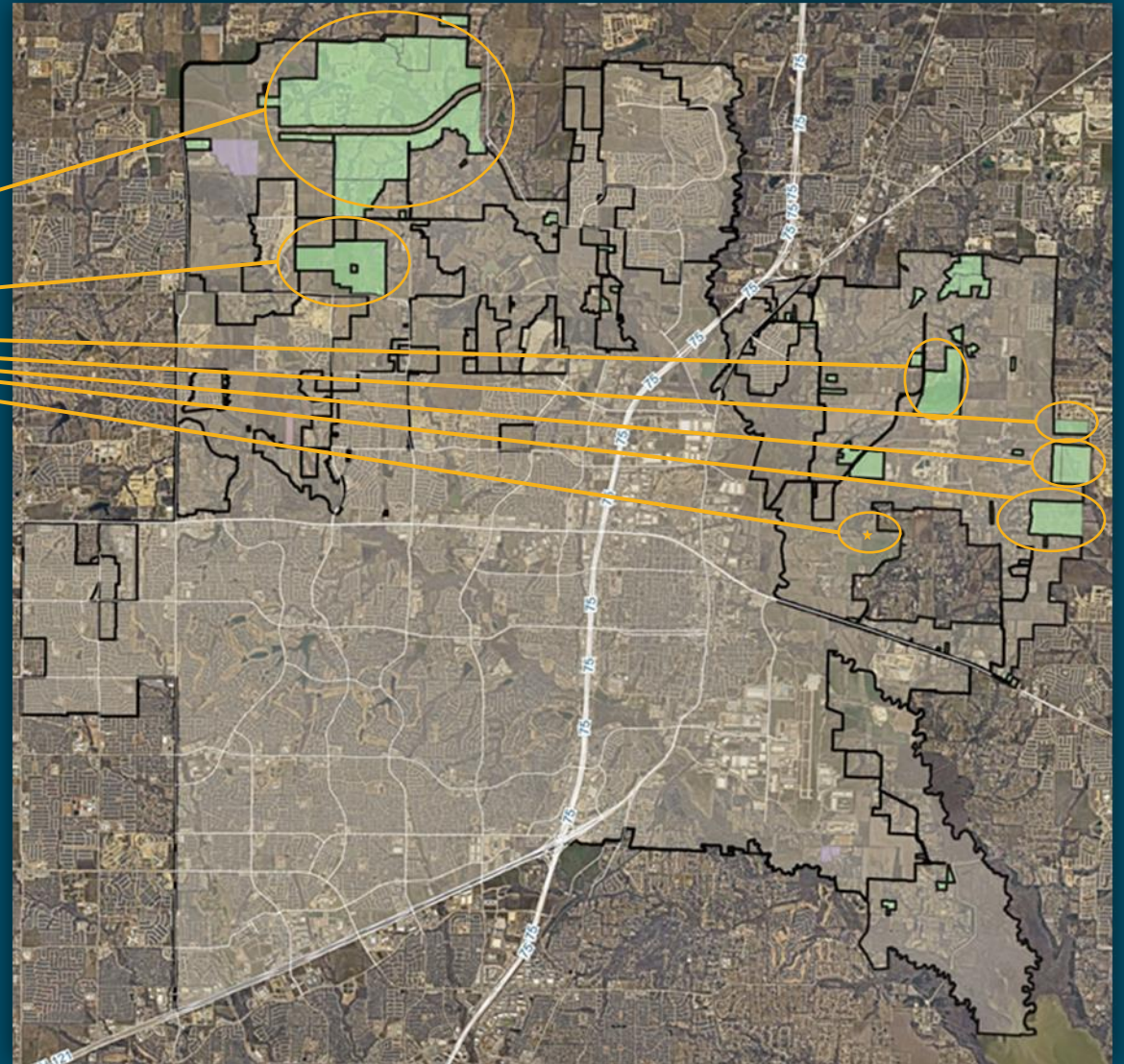
- CCN Decertification
  - Original Filing (October 2023)
  - SOAH Hearing (May 2026)
  - Final Ruling (anticipated EOY)
- Service delivery options
  - City
  - Septic
  - Package Plant
  - Outside provider\*
    - *Neighboring jurisdiction*

*\*subject to terms of existing jurisdictional and/or service agreements*



# NEW LANDSCAPE OF SPECIAL DISTRICTS


| TOPIC  |  <b>MUD</b><br>MUNICIPAL<br>UTILITY DISTRICT |
|--|---|
|  AUTHORITY TO CREATE THE DISTRICT                               | Chapter 54 (Water Code)   |
|  WHO CREATES THE DISTRICT?                                      | Texas Legislature or TCEQ   |
|  CITY CONSENT RESOLUTION REQUIRED?                              | Yes, however a MUD may still be created without a City's consent.   |
|  WHERE CAN THE DISTRICT BE CREATED?                             | In-City, ETJ, County  |
|  GOVERNANCE BODY  | Board of Directors  |
|  WHO ADMINISTERS THE DISTRICT?                                  | Board of Directors (often a 3 <sup>rd</sup> party consultant)   |
|  WHO APPROVES DEBT ISSUANCE?                                    | Board of Directors, subject to City Consent Resolution, and Attorney General  |
|  BOND DEBT SERVICED BY  | Ad Valorem Tax on Property  |
|  OBLIGATION TO COLLECT UNPAID TAXES/ASSESSMENTS                | Board   |
|  SPECIAL AUTHORITIES  | May collect impact fees; eminent domain authority permitted   |
|  ABILITY TO ANNEX MORE PROPERTY INTO THE DISTRICT?            | Yes, however property may still be annexed without a City's consent.  |
|  AUTHORITY TO DISSOLVE DISTRICT?                              | Board or City (if In-City MUD)  |
|  FLEXIBILITY REGARDING THE TIMING OF PROPERTY OWNER PAYMENTS? | No  |
|  CAN PROPERTY OWNER PAYMENT AMOUNTS CHANGE OVER TIME?         | Yes   |





# SPECIAL FINANCING DISTRICTS IN TEXAS



| TOPIC   |  <b>MMD</b><br>MUNICIPAL<br>MANAGEMENT DISTRICT |  <b>MUD</b><br>MUNICIPAL<br>UTILITY DISTRICT |  <b>PID</b><br>PUBLIC IMPROVEMENT<br>DISTRICT |  <b>TIRZ</b><br>TAX INCREMENT<br>REINVESTMENT ZONE |
|---|--|---|--|---|
|  <b>AUTHORITY TO CREATE THE DISTRICT</b>                               | Chapters 375 (Local Government Code) and 49 (Water Code)   | Chapter 54 (Water Code)   | Chapter 372 (Local Government Code)  | Chapter 311 (Tax Code)  |
|  <b>WHO CREATES THE DISTRICT?</b>                                      | Texas Legislature or TCEQ  | Texas Legislature or TCEQ   | City   | City  |
|  <b>CITY CONSENT RESOLUTION REQUIRED?</b>                              | Yes  | Yes, however a MUD may still be created without a City's consent.   | Yes  | Yes   |
|  <b>WHERE CAN THE DISTRICT BE CREATED?</b>                             | In-City  | In-City, ETJ, County  | In-City, ETJ, County   | In-City, ETJ, County  |
|  <b>GOVERNANCE BODY</b>  | Board of Directors   | Board of Directors  | City Council   | City Council  |
|  <b>WHO ADMINISTERS THE DISTRICT?</b>                                  | Board of Directors (often a 3 <sup>rd</sup> party consultant)  | Board of Directors (often a 3 <sup>rd</sup> party consultant)   | City Staff (often a 3 <sup>rd</sup> party consultant)  | City Staff (often a 3 <sup>rd</sup> party consultant)   |
|  <b>WHO APPROVES DEBT ISSUANCE?</b>                                    | TCEQ (water/wastewater) and Attorney General (roadways)  | Board of Directors, subject to City Consent Resolution, and Attorney General  | City and Attorney General  | City and Attorney General   |
|  <b>BOND DEBT SERVICED BY</b>   | Ad Valorem Tax on Property Values and/or Assessment on Property  | Ad Valorem Tax on Property  | Assessment on Property Values  | Assessment on Property Values   |
|  <b>OBLIGATION TO COLLECT UNPAID TAXES/ASSESSMENTS</b>               | Board  | Board   | City   | City  |
|  <b>SPECIAL AUTHORITIES</b>  | May collect impact fees; eminent domain authority may be available   | May collect impact fees; eminent domain authority permitted   | No impact fee authority; eminent domain authority not available  | No impact fee authority; eminent domain authority not available   |
|  <b>ABILITY TO ANNEX MORE PROPERTY INTO THE DISTRICT?</b>            | Yes, with City consent   | Yes, however property may still be annexed without a City's consent.  | Yes, with City consent   | Yes, upon request of the owner of property to be included   |
|  <b>AUTHORITY TO DISSOLVE DISTRICT?</b>                              | Board, City, or Property Owners  | Board or City (if In-City MUD)  | Property Owners  | City (by ordinance)   |
|  <b>FLEXIBILITY REGARDING THE TIMING OF PROPERTY OWNER PAYMENTS?</b> | Yes for assessments; no for taxes.   | No  | Yes  | Yes   |
|  <b>CAN PROPERTY OWNER PAYMENT AMOUNTS CHANGE OVER TIME?</b>         | Assessments are set but taxes can change.  | Yes   | No   | No  |



# DEVELOPERS

- More development freedoms:
  - Land use control
  - Infrastructure requirements
  - Service delivery
  - Platting
- Higher infrastructure costs
- More options for upfront capital financing (i.e. special districts)
- Stronger bargaining power

# CITIES

- More “leap-frog” developments
- Loss of growth management authority
- Fractured ability to master plan public infrastructure (roads, utilities)
- Increased difficulties aligning:
  - Land use and development
  - Infrastructure planning + service delivery
  - Fiscal sustainability
- Reduced bargaining power

- Cost benefit analysis tool for annexation
  - Delivery of infrastructure (present or deferred)
  - Long-term operating and maintenance costs
  - Reduced tax revenues
  - Special districts
- Pay-to-Play
- Boundary and Service Agreements

## **NAVIGATING THE FUTURE**

# QUESTIONS