

Village Voice

What exactly are TIFs, PIDs, MMDs, and LGCs — and are they the way to create neighborhood-scaled governments in Houston?

John Mixon

If God didn't want Houston to spread from Galveston to Conroe, why did He provide it with such an abundant source of underground water? In other cities, new development could occur only at the connecting ends of existing water and sewer trunk lines. By contrast, in the last 30 years any Houston developer could drill a water well wherever a new freeway pointed and install a "package" plant to treat subdivision sewage. He could even avoid front-end investment costs by coaxing a friendly legislator to sponsor a local bill creating a kind of water district that was later called a municipal utility district, or MUD. After perfunctory legislative approval, the developer had only to house a few employees on the land and instruct them to vote to issue millions of dollars of general obligation bonds to pay for the water and sewer facilities. The "voters" also elected developer-friendly directors to run the district until the homeowners who bought into the subdivision took charge. Because the MUD's long-term debt was passed on to these homebuyers, the developer kept district size down to 200 to 300 acres so he could sell all his properties before the homeowners took control of the water district board. This practice produced a proliferation of small treatment facilities and precluded a regional approach to water treatment.

The MUD played a key role in Houston's unique development history and irrevocably determined the city's urban form. Now its progeny, special-service districts such as PIDs and MMDs (see sidebar), may play a similarly far-reaching role in our city's development.

In the sixties, seventies, and eighties, Houston enthusiastically endorsed MUD-financed growth and in its metro-dreams expected that systematic annexation of outlying subdivisions (when their bonded debt declined) would keep city tax coffers perpetually filled. Unfortunately, the combination of MUD sprawl and metro government didn't necessarily add up to a better city.

Houston in the 1950s was a compact city, but leapfrogging MUD subdivisions over the next 30 years generated urban sprawl that has no American peer. And sprawl wasn't all: ill-supervised MUDs dumped inadequately treated sewage into streams that flow directly into the city's surface drinking-water supply. Upstream MUD subdivisions dumped more flood-

waters than local bayous could handle. MUDs — along with industries and farmers — withdrew so much underground water that the surface started to sink, cracking streets and utility lines. The resulting subsidence saucers puddled the increased runoff around Houston instead of rushing it to the Gulf.

Houston's low population density stretched out streets and utility lines, with each mile serving fewer people and less taxable value than the urban standard. Year by year, Houston's aging infrastruc-

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By the mid-1980s, age, cracking soils, expiring or unenforced deed restrictions, economic decline, and lack of zoning had left many pre-1970 residential neighborhoods in crisis. Equally disquieting were slow police response, ineffective mass transit, and a suspicion that no one listened or cared when trash stacked up and water-main geysers sprayed for weeks. The economic downturn of the 1980s also left shopping centers deserted, office buildings empty, and industrial and commercial sites abandoned.

During the 1960 to 1980 boom, state annexation laws that allowed Houston to reserve vast areas for potential annexation enabled the city (with Harris County's cooperation) to create a central government with remarkable geographical coverage. Today, with home-rule power over roughly 600 square miles inside its corporate limits and extensive regulatory power in 1,300 square miles of "extraterritorial jurisdiction," Houston may be the best-equipped city in the nation to address metro-sized problems. But the city's vast geographical range, from Clear Lake to Katy and from The Woodlands to Pearland, inevitably has distracted City Hall from neighbor-

hood-scale issues. For every advantage the city gained on a metropolitan level through large-scale government, individual Houstonians suffered a corresponding loss of local control.

Houston residents may not have associated the decline in local services with their city's obsession with metro-control, but residents of the few incorporated bedroom cities — West University Place, Southside Place, Bellaire, and the Memorial villages — clearly understood the value of responsive government that

is close to home. Speculative home-builders correctly predicted that affluent buyers would pay dearly for new houses in those cities, triggering a housing boom that far outstripped the sales pace in nearby Houston neighborhoods. Today, many inner-city Houston neighborhoods could match the bedroom communities' success if they were able to improve government services and bring them down to a local level. Without the reassurance of protective land-use regulation, better police protection, and infrastructure repair, private investors are unlikely to make the substantial capital investments required for renewal.

Mayor Bob Lanier's Imagine Houston project, begun in 1994, recommended conceiving of the metropolis as a network of "urban villages" in order to rejuvenate both the body and the soul of Houston neighborhoods. The idea contemplates a geographical focus and a local service component, and it requires a formal structure for channeling government services. Could special-service districts — the current incarnations of the MUD, such as TIF districts, PIDs, LGCs, and MMDs — provide a good structure for framing these urban villages?

The basic concept behind the various special-service designations is to create a district with special localized powers — of zoning, taxation, or management — to address some perceived local need. These public-private mini-governments can provide a variety of municipal services for specially defined areas and charge the

beneficiaries for the cost. Although these mini-governments were not designed with homeowners in mind, Houston's residential neighborhoods can tap TIF zoning power and PID assessment power to enhance local services. This potential has not been overlooked by Houston homeowners, who are eyeing the existing Lamar Terrace TIF/PID and other special-service districts already in place (see sidebar).

But the MUD lesson should be heeded: special-purpose districts can do both great good and great evil. TIFs and PIDs are not necessarily ideal mechanisms for empowering urban villages, because they were designed to do different, developer-friendly tasks that do not directly translate into neighborhood governance. As beneficial as current TIFs and PIDs may be for the community, their first priority is private profit. Public input is neither sought nor welcomed, and public benefit may be only an accidental by-product.

A multiplicity of localized special districts helped create the jurisdictional jumble that necessitated metro-government in aging urban corridors. Although the urban village concept is headed in the opposite direction, Houston could create a similar mess by employing special districts to excess.

Among the possible pitfalls, TIF districts may not perform as predicted. Unless immediate private investment occurs, as in Lamar Terrace, TIF projects may fail to spur private development and tax revenues. Moreover, TIF tax increments accumulate slowly, and a pledge of chancy future increments may not attract long-term lenders to finance capital improvements. Benefited areas must also beware lest a strapped city government cut services because of TIF or PID presence.

TIFs and PIDs might not serve lower-income areas well and may be unavailable for affluent homeowners. Legal procedures for creating special districts are complex and disabling. Southwest Houston homeowners have the cash and sophistication to start up a special district, but Fifth Ward would need substantial city help. Paradoxically, upscale neighborhoods may not qualify for TIF zoning because reinvestment zones are specifically designed to spur redevelopment in substandard areas.

The entire notion of capturing and plowing anticipated tax revenue back into a

SPECIAL-SERVICE DISTRICTS IN A NUTSHELL

TIFs, PIDs, MMDs, and LGCs are "mini-governments," authorized by state legislation, that provide limited services and/or improvements in defined areas. Other than PIDs, they are managed by directors appointed or approved by the governing body of the city or other designated entities.

Tax Increment Financing (TIF) Districts
Cities can designate substandard areas as reinvestment zones to encourage development or redevelopment, and taxing authorities can commit a zone's future increases in tax revenues to a tax increment fund that can be used or pledged to pay for approved projects in the zone. The board of directors has land-use zoning power. TIFs are aimed at promoting commercial development; residential areas qualify only if owners of more than 50 percent of appraised value in the zone petition for TIF designation. A residential TIF must devote one-third of its tax increment to low-income housing (not necessarily in the TIF zone). Cities cannot have more than 15 percent of total appraised land value in TIFs.

Public Improvement Districts (PIDs)
Cities can create PIDs to assess specially benefited landowners for district improvements and services if petitioned by owners in the proposed district, with a majority block determined by land valuation and property ownership. PIDs lack administrative structure, so a separate management entity must be created to administer continuing services. Future assessments may be pledged to pay revenue bonds issued for improvements. Homestead law may prevent foreclosure on personal residences, but homeowners are personally liable for unpaid assessments and accumulating interest.

Municipal Management Districts (MMDs)
The Texas Water Commission can create MMDs with power to levy ad valorem taxes and assess property owners for a variety of improvements and services such as security, planning and urban design, infrastructure, and parks. The commission acts on a petition from property owners in the proposed service area. MMDs are not authorized to serve traditional residential neighborhoods, and most homeowners are exempt from MMD taxes and assessments.

Local Government Corporations (LGCs)
City council may file articles of incorporation to create a local government corporation and then contract with the LGC to exercise powers on the city's behalf. The statute primarily relates to transportation, but LGCs can perform other functions.
J.M.

CURRENT MODELS OF TIFs, PIDs, MMDs, AND LGCs

Today, commercial landowners, not homeowners, use special-service districts to enhance value in their service areas and provide incidental benefits for the greater community.

• Lamar Terrace TIF/PID

The Lamar Terrace redevelopment project employs both a TIF and a PID in a reinvestment zone near the Galleria. Through the TIF, the developer plans to plough increased tax revenues back into the district as public improvements and apply land-use zoning to protect new investments. The PID will support enhanced services for district properties through assessments. Lamar Terrace should renew land long overdue for redevelopment, while contributing one-third of the tax increment to a low-income-housing fund.

• Midtown TIF

City council recently approved a 300-acre reinvestment zone that starts south of downtown at the Pierce Elevated and extends east and west of Main Street to the U.S. 59 connection with S.H. 288. The Midtown district is a paradigm of appropriate TIF designation, for it is aimed at revitalizing 175 blocks of this potentially valuable inner-city area, where property values have declined greatly over the past 20 years. Midtown wants to capture 25 years of future tax increment to improve local infrastructure and attract new residential investment, which the TIF will protect by deed restrictions and regulations.

• Downtown PID and LGC

At the request of downtown landowners, city council in 1991 authorized a PID to assess them for enhanced services. The city also created a nonprofit LGC to administer the program. Downtown landowners pay about \$2 million annually to upgrade public safety, improve street maintenance, support planning and economic promotion, and recruit tenants to a cleaner, safer, more vital downtown area.

• Uptown-Galleria Improvement District

A special 1987 state law created an improvement district to serve a downtown-size area near Galleria-Post Oak. The district's governing board applies its \$1.8 million annual tax revenue to enhance public safety, improve streets, and beautify this hotel, office, and retail center. Uptown's legal structure provided a model for later legislation authorizing MMDs.

• Greater Greenspoint MMD

The Greater Greenspoint Management District provides management, taxing,

and special assessment authority to support improvements and services for a 12-square-mile service area near Intercontinental Airport. Commercial property owners pay \$1.3 million in annual assessments to improve security and public safety, planning and urban design, infrastructure, and parks. Unlike TIF/PIDs, MMDs cannot tax or assess single-family, duplex, or fourplex properties.

• University Place

Some Southgate and Southampton residents have contemplated a TIF/PID for the Rice Village area bounded by Main Street, Kirby, the Southwest Freeway, and Brays Bayou, under the name University Place. TIF zoning could protect residential users from commercial intrusion and hush Village night spots while PID assessments elevate neighborhood services to the West University Place and South Side Place standard. Moreover, identification with a localized mini-government could invigorate citizen involvement, enhance property values, and increase University Place's power at City Hall.

• Other neighborhoods

A few Sharpstown sections and the Neartown Business Alliance (a Montrose property owners' association) have contemplated creating TIF/PIDs. The Heights, Meyerland, River Oaks, and Tanglewood could employ urban village concepts to good advantage. Homeowners in Third Ward and the Navigation area could control hot-sheet motels, liquor stores, and noisy bars, while capturing tax increments to improve their neighborhoods. The West Houston Association and Upper Kirby are also rumored to be seeking special legislation for their areas. *J.M.*

TIF district raises legitimate social concern. Increased tax revenue from a particular district does not intrinsically belong to that district alone. For example, when redevelopment increases River Oaks tax values, the increment belongs to the city at large.

Finally, only a limited number of residential neighborhoods can enjoy TIF benefits, including zoning, because the city cannot devote more than 15 percent of total appraised property value to TIFs. This is not immediately disabling, since Houston could accommodate \$9 billion in total TIF property value and has tapped only a minuscule portion of that figure thus far.

Considering their private orientation, awkwardness, and legal limitations, residential TIF/PIDs may best be used to showcase a significant urban village experiment. If the experiment shows promise for neighborhoods, the city can devise a more appropriate village-government mechanism. Uptown Houston's success in the Galleria area, for example, prompted the state legislature to pass general legislation authorizing MMDs. Houston can already bring many services — such as police substations and neighborhood planning assistance — down to a village scale, and could do even more if authorized by express legislation. If, for example, the primary value sought from a TIF is zoning power, the legislature could simply authorize less-than-citywide zoning.

Urban villages make sense in Houston, where city council serves metropolitan rather than local interests. Good sense, though, seldom translates into government action. The local real estate interests that defeated citywide zoning and successfully lobbied to prevent neighborhood zoning from being brought before the state legislature may be equally reluctant to share power through TIFs and PIDs. But many of the residents seeking special-service designation have power and influence as well, such as the homeowners in University Place who are currently investigating TIF or PID status for their neighborhoods. If pressed, they may test whether the developers' obsessive fear of land-use controls can be overcome by an equally strong desire to rescue a rich neighborhood at risk. ■

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