ALLEN BOONE HUMPHRIES ROBINSON LLP
ATTORNEYS AT LAW
PHOENIX TOWER
3200 SOUTHWEST FREEWAY
SUITE 2600
HOUSTON, TEXAS 77027
TEL (713) 860-6400
FAX (713) 860-6401
abhr.com

MUNICIPAL MANAGEMENT DISTRICTS IN THE GREATER HOUSTON AREA

A. Overview of Management Districts in Houston

1. Municipal Management Districts or "Improvement Districts" or "MMDs" ("Management Districts") have been used in the Greater Houston Area since the 1980's as a means to allow commercial property owners to work together to supplement City and County services and improvements. Property owners identify common problems and issues in their area and use their Management District to implement solutions to those problems.

2. There are approximately 67 Management Districts in Houston and surrounding areas.

3. Management Districts are used in three distinct contexts:

   - To support existing major activity centers;
   - To promote neighborhood revitalization; and
   - To support raw land development;

4. The original Management Districts in Houston were established to serve established major activity centers, such as Uptown, Downtown, Greenspoint, Westchase and the Energy Corridor. Districts were also created to serve mixed-use, urban areas, such as Midtown and the Greater East End.

5. Another group of Management Districts provide supplemental services and improvements to revitalize existing neighborhoods, such as Spring Branch, Brays Oaks, East Aldine and Sharpstown.

6. Many of the most recently created Management Districts are intended to provide the infrastructure needed to serve raw land, mixed-use development. In this manner, the Management District acts like a Municipal Utility District (MUD) to construct, finance and operate water, sewer, drainage, road and park improvements. As development progresses, the Management District can then provide many of the supplemental services and improvements typical of traditional Management Districts.

7. Management Districts epitomize grass-roots government. Management Districts must constantly prove to their constituents that the benefits they receive in the form of additional services and improvements are greater than the additional payments they pay to the district. Established Management Districts have been able to deliver on their promises and enjoy almost unanimous approval and appreciation from their constituents.

B. Management District Improvements and Services

1. Most Management Districts are authorized to develop a wide variety of improvements, including:

   - landscaping and beautification;
   - banners, signs, and seasonal and holiday decorations;
   - sidewalks, lighting, and pedestrian improvements; and
   - parks, public plazas, and recreation areas.

   A more detailed list of improvements undertaken by Management Districts is attached.

2. Management Districts are also authorized to provide supplemental services, including:

   - advertising, economic development, business recruitment, and promoting the area in the district;
   - public safety and security;
   - litter pick-up, street sweeping, and maintenance of the public right of way;
   - aiding mobility and relieving traffic congestion;
   - recreation, and cultural enhancement.

3. Each Management District's services and improvements are tailored to meet the goals and needs of the specific district. However, Management Districts typically focus their resources on:

   - Enhancing security and public safety;
   - Beautifying the local environment with streetscape, parks, greenbelts and landscaping;
   - Recruiting and retaining businesses for the community; and
   - Enhancing mobility and reducing traffic congestion.

4. In practice, a Management District acts as a "mini-chamber of commerce" for the area.

- The Board of Directors and employees of the District serve as ambassadors to the community.
- They promote the continued growth of the area, assisting the location of new businesses to the area.
- Management Districts host events, such as holiday celebrations, fun-runs and bike races to bring people to their community.
- They publish newsletters to highlight attractions and encourage commerce in the district.
- Management Districts help identify and "brand" their communities - erecting signs, banners and landscaping to highlight the unique characteristics of their district.

C. Management District Financing

1. Generally, Management Districts may finance services and improvements through the levy of assessments on commercial property or ad valorem taxes, subject to following the appropriate procedures. Some Management Districts are able to levy sales and use taxes or hotel occupancy taxes.

2. Most Management Districts levy an assessment on commercial property. Generally, assessments cannot be levied on property used for single-family residential purposes.

   a. An assessment is the most common method of financing supplemental services and improvements for commercial property.

   b. Before a Management District may levy an assessment, it must gather petitions in support of the District's Service Plan. The petitions must be executed by a requisite number of commercial property owners. Assessments can only be used to support the specific services and improvements delineated in the District's Service Plan. Only property benefitting from the services and improvements can be assessed.

   c. A Management District must notify every owner of property to be assessed within the district by publication and mail, and hold a public hearing before levying an assessment.

3. Some Management Districts levy an ad valorem (property) tax.

   a. An ad valorem tax is the most common method of financing major capital improvements, such as water, sewer, drainage and road infrastructure.

   b. A Management District may only levy an ad valorem tax if the tax is approved by the voters of the district at an election in the same manner as elections to approve taxes of other political subdivisions.

4. In some instances, where there is room under the general law cap on local sales and uses taxes, Management Districts may be able to fund their programs through the levy of sales taxes. A special law is required to authorize a Management District sales tax.

5. In unincorporated areas, Management Districts may also be able to levy a hotel occupancy tax to fund District services and improvements. This is particularly true of Districts specifically created to promote an area as a tourist and vacation destination. A special law is required to authorize a Management District hotel occupancy tax.

6. For the payment of all or part of the costs of an improvement project a Management District may issue bonds payable from ad valorem taxes.

D. Governance and Oversight of a Management District

1. A Management District is governed by a Board of Directors. Typically, the initial directors are appointed in the creation legislation and all future directors are appointed by the city, the county, or the Texas Commission on Environmental Quality (the "TCEQ") from nominations made by the district. The number of board members varies from district to district depending on the size and nature of the district.

   a. Generally, board positions are established in a manner that reflects the composition of the assessment-paying, commercial property owners of the district. Major landowners typically each have a representative on the board.

   b. Typically, a director must be a resident, a landowner, or an agent, employee, or tenant of a landowner within the district.

2. A Management District is governed by Chapter 375, Local Government Code, and Chapter 49, Water Code, as well as the enabling legislation that created it. (All of the Management Districts in the Houston area were created by special legislative act.)

3. Management Districts are also subject to all of the general laws relating to local governments, such as the Open Meetings Act, the Public Information Act, and the ethics and conflict of interest laws applicable to public officials.

4. Management Districts are subject to the continuing oversight of the TCEQ. Generally, district bonds issued to finance water, sewer and drainage facilities are required to be reviewed and approved by the TCEQ in the same manner as other types of water districts, such as municipal utility districts.

5. All bonds of Management Districts are required to be reviewed and approved by the Texas Attorney General in the same manner as the bonds of other governmental entities.

6. The general law for Management Districts provides that Districts are prohibited from exercising the power of eminent domain. If specifically authorized by the Legislature, the District may have a limited power of eminent domain to construct water, sewer and drainage facilities in the same manner as other types of water districts, such as municipal utility districts.

7. Generally, cities maintain oversight of Management Districts in several ways, including:

    a. In some instances, appointment of the Board of Directors from nominations made by the district;

    b. Consent to the district's authority to issue bonds;

    c. Approval of improvements constructed within City rights-of-way;

    d. Consent to any annexation of land into a Management District; and

    e. The ability to dissolve a Management District by a two-thirds vote of the City Council.

Eligible Management District Improvements

- All improvements that can be financed and constructed by a MUD:
  - Water;
  - Sewer;
  - Drainage;
  - Firefighting; and
  - Parks and recreational facilities.

- Roads and Transit Improvements
  - All improvements that can be financed by road districts and road utility districts, including:
    - macadamized, graveled, or paved roads and turnpikes, or improvements in aid thereof; and
    - mass transit systems
  - "Pedestrian ways along or across a street, whether at grade or above or below the surface, and street lighting, street landscaping, and street art objects are parts of and necessary components of a street and are considered to be a street or road improvement."

- Improvements listed in Section 375.112, Local Government Code:
  - Landscaping
  - Lighting, banners and signs;
  - Streets and sidewalks;
  - Pedestrian skywalks, crosswalks, and tunnels;
  - Seawalls;
  - Marinas;
  - Drainage and navigation improvements;
  - Pedestrian malls;
  - Solid waste, water, sewer and power facilities, including electrical, gas, steam, cogeneration and chilled water facilities;
  - Parks, plazas, lakes, rivers, bayous, ponds, and recreation and scenic areas;
  - Historic areas;
  - Fountains;
  - Works of art
  - Off-street parking facilities, bus terminals, heliports, and mass transit systems;
  - The cost of any demolition in connection with providing any of the improvements;
  - Other improvements similar to those described above; and
  - The acquisition of real property or any interest in real property in connection with an improvement.

- Economic Development Grants