

- SUBJECT:** Allowing certain cities to create municipal development districts
- COMMITTEE:** Urban Affairs — favorable, without amendment
- VOTE:** 7 ayes — Carter, Bailey, Burnam, Callegari, Edwards, Ehrhardt, E. Jones
0 nays
2 absent — Hill, Najera
- WITNESSES:** For — Mayor Pete C. Alfaro, Baytown; *Registered but did not testify:* Matthew Emal, City of Houston; Shanna Igo, Texas Municipal League; Monte Mercer, City of Baytown

Against — None
- BACKGROUND:** Local Government Code, chapter 377 allows certain cities to create a municipal development district to plan, acquire, establish, develop, construct, or renovate one or more development projects in the district. Voters must approve creation of the district and authorize and set the rate for any sales and use tax levied by the district. Sec. 377.002 limits the creation of these districts to cities with less than 10,000 people and located in more than two counties, at least one of which borders the Gulf of Mexico. Under sec. 377.021, the district's development projects must be within the district's borders.
- DIGEST:** HB 693 would amend the Local Government Code to remove the population cap and eliminate the border county requirement for creation of a municipal development district. Under HB 693, any city located in more than one county could create such a district. The bill also would authorize a city to include a provision in the order calling the initial election for a municipal development district that automatically would adjust the district's boundaries to conform to changes in the boundaries of the part of the city included in the district.

HB 693 also would specify that a municipal development district could conduct a development project beneficial to the district, eliminating the current requirement that a project be in the district.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001. An election to create a municipal development district conducted as provided by Local Government Code, chapter 377 as amended by the bill, but held before the effective date of the bill, would be validated. Any district action authorized by the bill, but taken before the effective date, also would be validated.

SUPPORTERS
SAY:

HB 693 would give cities located in more than one county another tool to promote economic development by allowing them to create, with voter approval, a municipal development district in some part of the city that would be financed through a sales tax and district-issued bonds. This authority is necessary because a city in more than one county may not impose a sales tax for economic development projects under the Development Corporation Act of 1979 if any part of the city already has reached the 2 percent sales-tax cap imposed by the act. Because counties and other local authorities may levy sales taxes at different rates, some parts of a city already may have reached the 2 percent cap, thus preventing the entire city from imposing a sales tax for economic development purposes. HB 693 would allow a city to create a voter-approved district out of a portion of the city that has not reached its 2 percent sales-tax cap in order to finance economic development projects.

The bill would allow a city to include a provision in the original election for the district to adjust the district's boundaries automatically if the boundaries of the part of the city in the district changed. Given this authority, the city would not have to call a new election each time it wanted to add annexed land to the municipal development district. Bringing these people into the district without a vote would be no different from imposing other municipal regulations and taxes on people when the territory they live in is annexed.

HB 693 also would grant these districts more flexibility to promote economic development by allowing them to support any project that would benefit the district, rather than requiring the project to be in the district, as in current law. Because of land, utility, environmental, and other considerations, it may be more practical sometimes to locate a project outside of a district that still would create a positive economic benefit for the people of the district. A district should have the opportunity to evaluate these projects and help fund

them if it decides that a project outside the district would be beneficial to the city.

The concern that HB 693 would lead to misuse of public money is unfounded, because the city always has the option of rescinding the tax or dissolving the district if it is unhappy with the way its money is being spent. Although no statute explicitly provides for the dissolution of a municipal development district, cities have an implicit authority to dissolve districts created under their authority. Even without an explicit provision allowing voters to petition to dissolve a district, voters always may bring petitions to their local governments, and elected public officials will respond or be held accountable at the polls.

OPPONENTS
SAY:

HB 693 could prevent people in territory annexed by a city from voting on whether they want to be part of a municipal development corporation that imposes a sales tax if the city included a provision in the original election to adjust the boundaries of the district automatically if the city's boundaries changed. People annexed into a city should have the same right as the original residents to vote on whether they want a municipal development district and its sales tax.

HB 693 could allow money to be spent on projects outside of the municipal development district that may create little benefit for the people of the district. The bill would not define the term beneficial, nor would it state who would determine that a project would be beneficial to the district. Also, the bill would not limit how distant a project could be from the district, leaving open the possibility that a district could use taxpayer money to fund a project in another city, county, or even state if it believed the project would provide some direct or indirect benefit to the district.

Unlike the Development Corporation Act of 1979, the Local Government Code contains no authority for a city to dissolve a municipal development corporation nor an explicit provision for dissolving a district upon the presentation of a petition of the voters of the city, and HB 693 would not add such a provision. Voters should have the ability to dissolve an economic development corporation if they no longer consider it useful or want to use their tax dollars to support it.

NOTES: The companion bill, SB 417 by Jackson, passed the Senate on the Local and Uncontested Calendar on March 8 and was reported favorably, without amendment, by the House Urban Affairs Committee on March 28, making it eligible to be considered in lieu of HB 693.