

FROM BID'S TO RID'S: CREATING "RESIDENTIAL IMPROVEMENT DISTRICTS"

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In a paper presented at a February 2006 conference at the DeVoe Moore Center, economics professor Leah Brooks described the spread of "business improvement districts" (BIDs) in California. Among 253 southern California cities Brooks studied, 30 percent had at least one BID. BIDs supplement existing city services in areas such as cleaning the streets, improving lighting, putting up signs, landscaping, security patrols and other services.

The process of creating a BID in California involves setting the boundaries of a proposed BID, and then establishing a proposed budget and tax assessments. If a majority votes its approval, all businesses in the district are then required to join and must comply with the taxing and other rules of the BID. The votes of business property owners are weighed by their relative share of the total assessment burden. The BID is legally a non-profit corporation and is governed by a board of directors.

Nationwide, BIDs were first authorized by state and local legislation in New York City in the early 1980s. The 14th Street-Union Square District in New York in 1984 was the first true BID and there are now more than 50 in New York alone. BIDs then spread rapidly to other parts of the country and by 1997 there were about 1,000 in total across the United States. A 1999 study found that the average size was 20 blocks, though BIDs ranged from a single block to 300 blocks. The median annual budget was \$200,000, although ranging from \$8,000 to \$15 million. This 1999 study concluded that:

BIDs have definitely become an integral part of the service delivery system of municipalities across the country. They are engaged with a diverse set of programs and projects, and even though the evidence is limited, they seem to be doing very well. It is obvious when walking around these districts that most of them are more visually appealing. No longer plagued by trash and grime, garish facades, deteriorating sidewalks, rundown parks, and nefarious individuals, there is a sense that the commercial centers of small, medium and large size communities have come back to life.

Creating Residential Improvement Districts ("RIDs")

If BIDs are providing important benefits for business property owners, why not extend the concept to districts of residential property owners as well? Indeed, I propose that state legislatures

enact legislation authorizing the creation of "residential improvement districts," or "RIDs." A group of property owners would get together and lay out the boundaries of a proposed RID. They would develop a proposed budget and set of tax assessments. A proposed charter would establish the governing rules, including any direct regulatory authority that might be proposed for the RID. Some RIDs might want to operate in the manner of a current historic district, although this feature would be optional.

Much like a BID, the RID would be structured as a non-profit corporation and governed by a board of directors elected by the property owners. The votes of residential owners would be weighted by their assessed values. Unlike the BIDs in California, I propose that a supermajority weighted vote be required to approve a new RID – perhaps 60 percent.

The benefits of new RIDs might be greatest in deteriorated inner city areas. Crime, drugs, and other social dysfunctions still beset many urban neighborhoods. The services provided by distant bureaucracies at city hall are often poorly suited to the needs of the residents. RIDs in inner city neighborhoods would decentralize some of the "micro" functions of city government, and thus allow the property owners there to take greater control of their own affairs. If necessary, the neighborhood might establish tight controls over individual entry into the streets and yards of the neighborhood, thereby keeping out potentially disruptive individuals and otherwise creating a newly secure environment.

Growing "Sublocal Governance"

New RIDs in older neighborhoods would extend further a trend towards "sublocal governance" already seen in many urban jurisdictions. When governing institutions with wider authority fail to meet citizen needs, these citizens increasingly are taking things into their own hands at the most decentralized levels possible. Many urban theorists have long advocated greater consolidation of metropolitan governing authority but the force of events has gone in the opposite direction in recent years.

In 1998 Yale law professor Robert Ellickson proposed in the *Duke Law Journal* a plan for "new institutions for old neighborhoods" of typically a few city blocks – to be called "Block Improvement Districts," or "BLIDs" in his terminology. At present, as Ellickson explains, a decision by one property owner "to paint facades or trim shrubbery" creates significant external benefits for other nearby property owners but the first owner has no way of capturing these gains. If BLIDs – similar to RIDs -- could provide a way to surmount such collective action

problems, they might facilitate the revitalization of many run-down neighborhoods.

Ellickson proposes that the process of forming a BLID should begin with a petition sent to the city authorities. There might be a minimum size (say, two acres of land, involving at least 10 different ownerships). To win approval, Ellickson suggests that perhaps two-thirds of the owners in the area would have to vote in favor. He further suggests that a simple majority of individual residents (including renters) might also have to vote to approve the action. There should also be provision for terminating a BLID that works poorly or has outlived its usefulness.

Ellickson recognizes that any such proposal would redistribute governing authority away from city hall and towards neighborhoods, thus fragmenting overall governance. Yet, the suburbs have prospered with many small municipalities that each have substantial political autonomy. As Ellickson argues, the past experience of the suburbs actually demonstrates "the merits of enabling the stakeholders in inner-city neighborhoods to mimic – at the block level – the micro-institutions commonly found in the suburbs." It is precisely the "poor people living in inner cities [who] would benefit" the most from the establishment of a new legal mechanism for creating RIDs.

Neighborhood Service Options

Writing in 1993 in *The Urban Lawyer*, George Liebmann also proposed new state legislation to authorize a substantial "devolution of power to community and block associations." The new neighborhood associations might provide a variety of services and have other powers, including:

1. Operate or permit the operation of family day care centers.
2. Operate or permit the operation of convenience stores, of not more than 1,000 square feet in area, whose signage is not visible from a public road.
3. Permit the creation of accessory apartments where a principal residence continues to be owner occupied.
4. Cooperatively acquire building materials and services for the benefit of its members.
5. Partially close roads and streets, impose right of way regulations, and enhance safety barriers, except where local government finds that the closure, regulation, or

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obstruction interferes with a street necessary to through traffic.

6. Contract with local government to assume responsibility for street paving, trash collection, street lighting, snow removal, and other services.
7. Acquire from local government contiguous or nearby public lands.
8. Petition local government for realignment of election precinct and voting district boundaries to conform to association boundaries.
9. Maintain an unarmed security force and appropriate communications facilities.
10. Issue newsletters, which may contain paid advertising.

Community Associations Lite

Most new housing development in the suburbs today is governed by a private community association. Between 1980 and 2000, fully half the new housing built in the United States was located in a community association. This trend shows the strong desire among many Americans for new and flexible instruments of governance at the most decentralized level possible – the neighborhood. At present, however, a community association must be created at the time of initial development. Because it is private, there must be unanimous consent. This unanimity is obtained in practice by requiring each homebuyer in a new development to agree to its rules as a condition of purchase. The same terms also automatically bind any subsequent purchaser.

State legislation to authorize the creation of RIDs would extend some of the same advantages of private community associations to the residents of older neighborhoods. A RID might in fact be seen as a limited version of a community association. With the demonstrated success of BIDs for business owners, state legislatures should extend the same opportunity to residential property owners as well. States should enact new legislation to authorize the creation of RIDs, setting out their legal powers and the terms of their operation.

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