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FROM BIDs TO RIDs: Creating Residential Improvement Districts

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**FROM BIDs TO RIDs:
Creating Residential Improvement Districts**

ROBERT H. NELSON, KYLE R. MCKENZIE, AND EILEEN NORCROSS

EXECUTIVE SUMMARY

Compared to other urban redevelopment approaches, Business Improvement Districts (BIDs)—special geographically defined zones that are authorized to collect taxes from their members and then manage those revenues to serve a variety of purposes—have had relative uncontroversial success. Since the establishment of the first BID in Toronto in 1969, BIDs have become popular around the world, with more than 1,500 such districts in North America alone. Given that the needs of the inner-city poor are certainly as great as—if not greater than—those of urban businessmen, states and municipalities should act promptly to enact the necessary authorizing legislation that would allow Residential Improvement Districts (RIDs), organizations similar to BIDs but focused on the renewal of residential neighborhoods, to exist and thrive.

This Policy Comment describes the general problem faced by both business and residential neighborhoods in urban areas—the collective action problem. It then provides examples of failed development attempts of the past and how BIDs have overcome similar problems and succeeded. It then proposes a specific legal mechanism to establish RIDs and discusses the precedents for RIDs, as well as similar proposals. It concludes by highlighting how the flexibility of RIDs would fit many locations and could remedy varying problems.

FROM BIDs TO RIDs: Creating Residential Improvement Districts

INTRODUCTION

IN NORTH AMERICA alone, there are more than 1,500 Business Improvement Districts (BIDs), and other parts of the world host many more.¹ Authorized by state or municipal law and initiated by a group of business owners in a defined neighborhood, BIDs are private organizations that have the power to collect taxes from their members. BIDs then funnel these revenues back into the neighborhoods for a variety of purposes, including sidewalk cleaning, street lighting, signage, security officers, landscaping, and advertising.

A number of studies document that BIDs are an effective mechanism for improving the environmental quality of many urban business neighborhoods. Given the many successful experiences of BIDs in recent years, we propose in this Policy Comment that states and cities should enact laws to provide for the creation of a similar institution, the Residential Improvement District (or “RID”). RIDs would allow residential property owners in inner cities to undertake collective action to improve their neighborhoods more effectively. RIDs may not be able to tackle the problems of the very worst neighborhoods, but they do have the potential to provide solutions for a significant number of disadvantaged neighborhoods.

This paper first explains the general collective action problem facing urban business and residential neigh-

borhoods and how neighborhood property owners can join together to improve their immediate surrounding environment. The next section discusses failed past community rehabilitation attempts. The third section shows how BIDs have enabled business property owners in many cities to surmount the collective action problem. The fourth section argues that as BIDs have worked well for business owners, then RIDs should work as well to resolve the problems of residential neighborhoods. The paper then proposes a specific legal mechanism by which residential property owners in urban neighborhoods would be authorized to form their own RIDs. The sixth section provides some useful precedents for RIDs. The seventh section provides similar proposals that have been made by other leading urban authorities. Finally, the paper describes alternative legal authorities and operating mechanisms of RIDs as would be provided for in state or municipal authorizing legislation.

I Neighborhood Failures of Current Urban Governance

MANY URBAN INNER-CITY neighborhoods suffer from the poor provision of city services such as police protection and garbage collection.² In 1998, 38 percent of the victims of violent and property crime in the United States

1. Polly McMullen, “Attracting and Keeping Members,” in David Feehan and Marvin D. Feit, eds., *Making Business Districts Work: Leadership and Management of Downtown, Main Street, Business District, and Community Development Organizations* (Binghamton, NY: Haworth Press, 2006), 116.

2. Pietro S. Nivola, *Laws of the Landscape: How Policies Shape Cities in Europe and America* (Washington, DC: Brookings Institution Press, 1999), 79.

lived in central cities, much higher than the percentage of the U.S. population living in these cities.³ Although there have been some significant improvements made over the past few years in many cities, the physical environments of many inner-city neighborhoods remain physically deteriorated. Such neighborhoods often have additional social problems such as the presence of violent gangs.

The large city bureaucracies that typically serve poorer urban neighborhoods are often inefficient and unresponsive to the problems of their residents. Columbia law professor Richard Briffault states that part of the reason for the poor services in older cities is “cities are likely to be more diverse, in terms of race, class, and land uses than suburban governments. There is, therefore, likely to be much greater heterogeneity of preferences concerning local tax, service, and regulatory policies.” However, big cities are seldom able to accommodate this diversity because they apply common policies and provide similar service levels over their full jurisdictions. They often meet the needs of better-off and politically more influential citizens while leaving the poor ill served by city governance.

City residents often share the drive to improve both their homes and the cities in which they live, but the incentives in place do not reinforce such beneficial behavior. For instance, a homeowner in a neighborhood might consider taking action to increase maintenance and otherwise improve the exterior quality of his or her property. Much of the benefit of the improved property appearance, however, is unlikely to accrue to the property owner if it is the only improved house in a blighted neighborhood. Hence, acting alone, there may not be sufficient incentive to upgrade the condition of individual properties. When each property owner lacks an adequate individual incentive, neglected urban neighborhoods may remain for long periods in a deteriorated state.

Yet, collectively, it might be worthwhile for the property owners to improve their neighborhoods. The total gains in the values of their individual properties might sub-

stantially exceed their total individual shares in the costs of neighborhood property improvements. But taking such steps would require that the neighborhood property owners be organized collectively for this purpose.

Under the current state of affairs, it may not be feasible to implement such a collective solution. Without a public mechanism for organizing the neighborhood, it would typically be necessary to obtain the voluntary participation of almost all the property owners in the neighborhood. In any large group, however, the presence of holdouts and other problems of collective organization are likely to frustrate the achievement of unanimous—or even near unanimous—consent. Yale law professor Robert Ellickson describes why, as he puts it, “block-level public goods . . . are now undersupplied in old neighborhoods” in America’s inner cities.⁴

According to standard economic theory, market forces fail to provide an adequate supply of public goods [such as neighborhood environmental quality]. The basic problem is that either a provider of a public good cannot practically exclude free riders from consuming its benefits, or it is good policy to provide the good to additional users at a price of zero because consumption of the good is nonrival. Restated in simpler terms, the supply of a public good generates positive externalities for which a provider either cannot or should not charge. If so, the provision of a public good somehow must be collectively financed, preferably by those who benefit from it.⁵

In order to address this problem, Ellickson proposed in the late 1990s that states and municipalities allow urban residential neighborhoods to create “Block Improvement Districts” (BLIDs).⁶ Thus far, however, they have not implemented this concept even as they have encouraged the wide creation of BIDs to meet the needs of groups of business property owners. This Policy Comment argues that residential neighborhoods in inner cities should have the same importance as business neighborhoods. Reflecting the spirit of Ellickson’s earlier proposal, states

3. Detis T. Duhart, *National Crime Victimization Survey: Urban, Suburban, and Rural Victimization, 1993-1998*, Bureau of Justice Statistics, October 2000.

4. Robert C. Ellickson, “The (Limited) Ability of Urban Neighbors to Contract for the Provision of Local Public Goods,” in F. H. Buckley, ed., *The Fall and Rise of Freedom of Contract* (Durham, NC: Duke University Press, 1999), 198.

5. *Ibid.*, 193-194.

6. See Robert C. Ellickson, “New Institutions for Old Neighborhoods,” *Duke Law Journal* 48 (October 1998).

and municipalities should now establish the legal authority for the creation of RIDs as well as BIDs.

2

Failed Attempts to Fix Urban Problems

THE POVERTY AND other problems of many inner-city neighborhoods in the United States have largely resisted the efforts of a whole generation of American urban reformers.⁷ Broadly speaking, these reformers have pursued a two-pronged strategy. First, they have tried to improve the conditions of inner-city neighborhoods through better central provision of public services. Second, they have sought to create opportunities for the residents of inner-city areas to move elsewhere. If they could move out of their deteriorated city neighborhoods, the hope was that they would be able to share in the superior environmental quality of the suburbs. This latter effort has involved a long and sustained attack on “exclusionary” zoning and other regulatory devices by which suburban jurisdictions have kept the poor bottled up in the inner cities of America.

Both elements of this strategy, however, have largely failed.⁸ The poor have not been granted entry into the suburbs, and, as Brookings Institution scholar Pietro Nivola reports, big-city bureaucracies have continued to deliver “unsatisfactory public services, from ghastly schools to mediocre police departments.”⁹ In the inner cities, providing an institutional framework of property rights that would enable inner-city residents to help themselves might well have done much more good. Indeed, Anthony Downs argues that the most promising option for aiding “declining cities” is to build upon “the resources intrinsic to concentrated-poverty areas, such as their central locations, the untapped energies and talents of their residents, and the possible collective

results of community efforts.” Unlike other approaches to central city revitalization, this “community development approach” would not challenge the political prerogatives of other powerful vested interests and would not require changing the entrenched urban culture of poor centralized delivery of services as much as other approaches would. As a result, Downs rates action on a neighborhood level as “the most likely to occur” of any of the revitalization options that are presently available to poorer areas in American cities.¹⁰

The prospects for internal revitalization in such neighborhoods are not independent of institutional arrangements, however. As long ago as 1936, the St. Louis Regional Planning Report noted that “the older residential districts which are depreciating in value and in character constitute one of the most serious problems in this region. . . . [Yet], even if [individual] owners wished to build new homes within them, it would be inadvisable because of the present character of the districts.”¹¹ In other words, a solution to the problems of deteriorated urban neighborhoods must be collective in character. Individual efforts would be much less effective because of the surrounding environment of urban decay and deterioration. Obtaining a greater collective control over crime within the neighborhood would be particularly important. As Downs notes, “fear of crime is . . . probably the biggest obstacle to attracting middle-class households back into declining cities or retaining those that are there now.”¹²

The urban renewal programs of the 1950s and 1960s represented an initial effort to address the problem of deteriorating inner-city areas. However, these programs proved unsatisfactory in a number of respects. In most cases, their aims were not to empower the existing poorer residents of urban neighborhoods, but to remove them and to replace their housing with higher-income

7. See Edgar F. Kaiser, *A Decent Home: The Report of the President's Committee on Urban Housing* (Washington, DC, 1968); Ira Michael Heyman, “Legal Assaults on Municipal Land Use Regulation,” in Marion Clawson, ed., *Modernizing Urban Land Policy* (Baltimore: Johns Hopkins University Press for Resources for the Future, 1973); Daniel W. Fessler, “Casting the Courts in a Land Use Reform Effort: A Starring Role or a Supporting Part,” in Clawson, ed., *Modernizing Urban Land Policy*; and Lawrence Sager, “Tight Little Islands: Exclusionary Zoning, Equal Protection and the Indigent,” *Stanford Law Review* 21, no. 4 (1969).

8. Jon C. Teaford, *The Rough Road to Renaissance: Urban Revitalization in America, 1940-1985* (Baltimore: Johns Hopkins University Press, 1990); Douglas S. Massey and Nancy A. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge, MA: Harvard University Press, 1993).

9. Pietro S. Nivola, *Laws of the Landscape: How Policies Shape Cities in Europe and America* (Washington, DC: Brookings Institution Press, 1999), 79.

10. Anthony Downs, “The Challenge of Our Declining Big Cities,” *Housing Policy Debate* 8, no. 2 (1997): 402, 404.

11. National Resources Committee, *Regional Planning, Part II – St. Louis Region* (Washington, DC, 1936), quoted in Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985), 201.

12. Downs, “The Challenge of Our Declining Big Cities,” 390.

A CLOSER LOOK AT FAILED URBAN REVITALIZATION ATTEMPTS

In addition to Urban Renewal, the number of grants-in-aid for infrastructure, social services, and community development to reverse inner-city decline multiplied during the 1960s, leading to confusion and lack of coordination on the local level.¹

The Johnson Administration experimented with two approaches to involve residents and better coordinate urban aid and anti-poverty funds. The Economic Opportunity Act of 1964 launched the War on Poverty, creating Community Action Agencies (CAAs) in neighborhoods. CAAs sought the "maximum feasible participation" of residents and local groups in determining how to target and spend social service, education, and job training funds. The initiative failed for a variety of reasons, including resistance from mayors concerned that organizing local groups created political instability and bypassed city authority.²

In 1966, the Johnson Administration tried another approach to resolve its dual problem of grant coordination and resident participation with the Model Cities program. Though citizen participation was mandated in Model Cities, control over the planning and usage of grants ultimately rested in the mayor's office in newly created Community Development Agencies (CDAs). This approach also failed to comprehensively plan the use of urban aid grants in localities, as "vast expectations in planning overwhelmed the limited capacities of local governments."³ The attempt to involve citizens also led to tension between those who favored control by the mayor's office with a planning board that included citizens, and community activists who favored the more confrontational "advocate planning" approach. This conflict and the accompanying "repeated shifts of emphasis about citizen participation generated confusion and bitterness among many participants in the Model Cities process."⁴

By 1974, the federal government handed control of urban aid dollars to the states. The Urban Renewal program, the Model Cities program, and grants for water, sewer, open space, neighborhood facilities, and rehabilitation were all pooled into the Community Development Block Grant program (CDBG), allowing localities, via the mayor's office, to determine how to spend federal urban revitalization dollars.

One legacy of the 1960s movements to organize residents around the common goals of neighborhood improvement, community building, and poverty alleviation was the rise of Community Development Corporations (CDCs), non-profit community-based organizations "formed by residents, small business owners, congregations and other stakeholders to revitalize a low and/or moderate income community."⁵ During the 1970s and 1980s, CDBG funds dwindled and new funding mechanisms emerged, such as the Low Income Housing Tax Credit. As a result, CDCs narrowed their focus to affordable housing goals.⁶ In the 1990s, CDCs began to return to their more comprehensive

facilities. Urban renewal was forced on many neighborhoods, whether the residents wanted it or not. When forcing residents out, urban renewal paid "fair market value" to the owners of properties taken by eminent domain as part of these projects, but the amounts paid were not acceptable in the eyes of many affected property owners. By the 1960s, the urban renewal method of neighborhood land assembly was discredited, and it was largely abandoned by the 1970s.¹³

beginnings, undertaking neighborhood improvements (e.g., community safety, neighborhood cleanup), commercial development, and workforce and youth development projects.⁷ The growth of CDCs has spawned the creation of support organizations, such as Community Development Partnerships, that act as intermediaries between funding sources and CDCs.

CDCs claim mixed success. Their proliferation—from 200 in the mid 1970s to 4,600 in 2003—and their output—developing or rehabilitating over 550,000 housing units—are offered as indications of their impact on communities.⁸ Through these physical improvements, CDCs are also credited with "strengthening the sense of community itself."⁹ Others hold that CDCs' impacts are much more limited, with little evidence to suggest their activities reverse neighborhood decline.¹⁰ Another critique suggests that by relying on outside funding, CDCs decrease community control in decision making.¹¹ Through their affordable housing projects, CDCs may even discourage residential mobility and create a permanent presence of low-income residents.¹²

The extent to which CDCs actually involve residents in decisions and deliver improved services to the neighborhoods they represent is subject to debate. Their mixed successes may indicate opportunities for other community organizing organizations and policies.

1. Judson L. James, "Federalism and the Model Cities Experiment," *Publius* 2, no. 1 (1972): 88-89.
2. Richard M. Flanagan, "Lyndon Johnson, Community Action, and Management of the Administrative State," *Presidential Studies Quarterly* 31, no. 4 (2001): 596.
3. James, "Federalism and the Model Cities Experiment," 88-89.
4. *Ibid.*
5. See <http://www.ncced.org/aboutUs/faqs.html>. CDCs do not have a legal definition. Randy Stoecker defines them as "characterized by an IRS 501(c)(3) non-profit tax-exempt status, a volunteer board, and emphasis on physical redevelopment, CDCs have taken on the heroic task of trying to rebuild communities devastated by capital disinvestment . . . receiving special set-aside funding the 1990 Housing Act."
6. CDCs finance their projects from a variety of sources including private foundations, federal tax credits, grants, and loan programs.
7. Christopher Walker, *Community Development Corporations and their Changing Support Systems* (Washington, DC: The Urban Institute, December 2002).
8. William M. Rohe and Rachel G. Bratt, "Failures, Downsizings, and Mergers among Community Development Corporations," *Housing Policy Debate*, 14, nos. 1 and 2 (2003): 2.
9. A. C. Vidal, "CDCs as Agents of Neighborhood Change: The State of the Art," in W.D. Keating, N. Krumholz, and P. Star, eds, *Revitalizing Urban Neighborhoods* (Lawrence, KS: University Press of Kansas, 1996).
10. Randy Stoecker, "The CDC Model of Urban Redevelopment: A Critique and Alternative," *Journal of Urban Affairs* 19, no. 1 (1997): 2.
11. *Ibid.*
12. Howard Husock, "Don't Let CDCs Fool You," *City Journal* 11, no. 3 (2001): 68-75.

3 BIDs as a Solution

BUSINESS PROPERTY OWNERS faced similar problems of neighborhood collective action when they sought to improve their neighborhoods. In the mid-1960s, a group of small businessmen came together in Toronto, Canada and devised a new approach to solve their free-rider problem. Their free-riders were businesses that bene-

13. Martin Anderson, *The Federal Bulldozer: A Critical Analysis of Urban Renewal, 1949-1962* (Cambridge, MA: MIT Press, 1964).

fitted from the local voluntary business association but did not contribute themselves. Therefore, the involved businessmen “explored the feasibility of an autonomous, privately managed entity with the power to impose an additional tax on commercial property owners to fund local revitalization efforts.”¹⁴ The legislation to create such a business district passed in 1969.

Since that time, these districts have proliferated across the U.S. and in other countries, such as Britain and South Africa,¹⁵ but they are not well known outside urban planning circles. These districts go by many different names, including special improvement districts, public improvement districts, business improvement areas, and business improvement districts. Also, there is some disagreement about what exactly constitutes such districts, However, for the purpose of this paper, we will refer to all such districts as business improvement districts or BIDs and define BIDs as “publicly sanctioned but privately directed organizations that pay for services to improve shared, geographically defined, outdoor public spaces. They are self-help organizations, which govern a majority-voted self-taxing mechanism that generates multi-year revenue.”¹⁶

In the United States, the first assessment-financed business district was established in 1974 in New Orleans, calling itself the Downtown Development District.¹⁷ The first such organization that was officially labeled as a BID was created in New York City in the 1980s. There are now more than 50 BIDs in New York alone, and, as of 1997, there were about 1,000 BIDs in the United States. A 1999 survey found that 60 percent of BIDs had been created since 1990 and 28 percent since 1995, demonstrating that

BID development doesn’t show signs of slowing down. A study in 2003 identified the average size of a BID as 20 blocks, though BID sizes ranged from a single block to 300 blocks. The BIDs were managed by governing boards that on average had 16 members. The median annual budget of a BID was \$200,000, although it ranged from \$8,000 to \$15 million.¹⁸

While BIDs provide a variety of services, their core functions are usually the provision of sanitation, security, and capital improvements.¹⁹ Most BIDs provide a variety of cleaning services, with sidewalk cleaning being the biggest expenditure for many large BIDs.²⁰

In addition to improving the physical environment of a neighborhood, security is a major concern that BIDs tackle. Those BIDs that address security concerns usually have plans that provide for private supplementary security personnel; supplemental security paid for privately but provided by official police agencies; and well-lighted sidewalks.²¹

In her extensive study of BIDs in Philadelphia, Lorlene Hoyt found that “lower property crime rates not only differentiate but also predict BID areas from Non-BID areas, and that the lower crime rates are not matched by higher crime in surrounding blocks.”²² In the instance of Philadelphia, the presence of BIDs has noticeably decreased crime. This is also estimated to be the case in South Africa, where BIDs in Johannesburg’s central city spend nearly three quarters of their budget on security alone.²³

Although street cleaning and security provision are leading budget items, almost all BIDs use some of their funds

14. Lorlene Hoyt and Devika Gopal-Agge, “The Business Improvement District Model: A Balanced Review of Contemporary Debates,” *Geography Compass* 1 (2007): 946-958.

15. Lorlene Hoyt, “Importing Ideas: The Transnational Transfer of Urban Revitalization Policy,” *International Journal of Public Administration* 29 (2006): 221-243.

16. This definition was borrowed from the work of Lorlene Hoyt, “Planning Through Compulsory Commercial Clubs: Business Improvement Districts,” *Economic Affairs* 25, no. 4 (2005).

17. Lawrence O. Houston, *Business Improvement Districts*, 2nd ed. (Washington, DC: ULI-The Urban Land Institute in cooperation with the International Downtown Association, 2003), 19.

18. Jerry Mitchell, *Business Improvement Districts and Innovative Service Delivery*, a report prepared for the PricewaterhouseCooper’s Endowment for the Business of Government (Arlington, VA: November 1999), <http://www.endowment.pwcglobal.com>.

19. Lorlene Hoyt and Devika Gopal-Agge “The Business Improvement District Model: A Balanced Review of Contemporary Debates,” *Geography Compass* 1 (2007): 946-958.

20. Lawrence O. Houston, *Business Improvement Districts*.

21. *Ibid.*

22. Lorlene Hoyt, “Do Business Improvement District Organizations Make a Difference? Crime In and Around Commercial Areas in Philadelphia,” *Journal of Planning Education and Research* 25, no. 2 (2005): 185-199.

23. Hoyt and Gopal-Agge, “The Business Improvement District Model,” 946-958.

for the purpose of marketing their districts.²⁴ These marketing activities can vary from branding the BID district as a definable geographic entity that store owners and restaurants can use in their advertising (such as “Copper Square in downtown Phoenix”) to traditional advertising such as billboards and commercials. BIDs sometimes place street signs to physically demarcate their boundaries for local business purposes. Often these marketing campaigns are designed to get people to visit downtown urban locations instead of suburban malls for their shopping and entertainment purposes.²⁵

Where they have been created, BIDs are given wide credit for improving urban conditions. In a 1999 survey of the impacts of BIDs, Jerry Mitchell found 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.²⁶

The evidence of BIDs’ relatively quick success—not many policy ideas are created and deemed successful in such a short period of time—has been documented by other researchers as well. As an article written to highlight both the success of BIDs and also the controversy surrounding them summarizes: “Large or small, the fact remains that in the domain of urban revitalization, the BID model has been at the forefront and has managed to make a positive contribution that is being emulated at an astonishing rate worldwide.”²⁷

4

If BIDs Have Been Successful, Why Not RIDs?

THE SUCCESS OF BIDs leads to an obvious policy proposal: If BIDs are considered to be working well and are encouraged by many cities, why not facilitate the creation of analogous Residential Improvement Districts, or “RIDs?” These districts would be similar to BIDs in that, much as businesses can now get together to assess themselves to pay for neighborhood improvements, the owners of deteriorated residential housing in inner-city neighborhoods could get together to do the same.

Some states could readily adapt the existing laws for BIDs to create RIDs. After all, some BIDs do presently include residential housing facilities, and cities have created special residential districts on an ad hoc basis. For example, after a rash of violent crime, local business initiated the Charles Village Improvement District in Baltimore. During the negotiations to create this district, the improvement district was expanded to include not just business, but over 14,000 residents as well.²⁸

It would be desirable, however, to institutionalize these arrangements through the adoption of generic authorizing legislation for RIDs. As residential neighborhoods have somewhat different needs than business neighborhoods, RID legislation would depart some from existing BID laws so as to be specifically tailored to the circumstances of small groups of inner-city residential property owners.

Much like a BID, the RID could be structured as a non-profit private corporation and governed by a board of directors elected by the residential property owners. The votes of the residential owners could be weighted by their assessed values. Depending on the law allowing for the creation of RIDs in each state or municipality, the vote required for approval might be a supermajority instead of a simple majority—perhaps 66 percent.

24. Richard Briffault, “A Government for Our Time? Business Improvement Districts and Urban Governance,” *Columbia Law Review* 99, no. 2 (1999): 365-477.

25. Houston, *Business Improvement Districts*.

26. Mitchell, *Business Improvement Districts and Innovative Service Delivery*, a report prepared for the PricewaterhouseCooper’s Endowment for the Business of Government (Arlington, VA: November 1999), <http://www.endowment.pwcglobal.com>.

27. Hoyt and Gopal-Agge, “The Business Improvement District Model,” 946-958.

28. Susan E. Baer and Vincent L. Marando, “The Subdistricting of Cities: Applying the Polycentric Model,” *Urban Affairs Review* 36, no. 5 (2001): 728.

RIDs could serve many of the same functions as BIDs. For example, RIDs would most likely become responsible for some residential neighborhood services traditionally provided by the city, such as trash collection, sidewalk improvements, and neighborhood lighting. Because RIDs could contract out these jobs to private providers, RIDs would often be able to provide these services at a lower cost and in a more timely and efficient manner than the cities provide currently.

Like BIDs, another key service that RIDs could provide would be improved security. Each RID would have to decide how much additional security it would want to provide, but in particularly insecure neighborhoods, additional security patrols (which the public police force may neglect) could play a large part in making a RID a much safer place to live.²⁹

However, the crime facing urban residential neighborhoods has different aspects and causes than that in urban business districts. Sudhir Venkatesh, a sociologist at Columbia University, has written many books detailing the urban crime of Chicago. He paints a clear picture of crime deeply woven into the neighborhood itself.³⁰ In severely debilitated neighborhoods where intimidated residents do not report crimes, RIDs might have little effect. However, in neighborhoods where there is a community organization already focused on reducing crime, RIDs could take innovative approaches like those taken by the BID in downtown Portland, Oregon. Downtown Portland's BID took a two-tiered approach to security, providing assistance to the mentally ill and implementing clean-up efforts that removed large amounts of graffiti. In addition, they employed retired police officers who were armed and uniformed, but they also deployed people dressed in friendly distinct clothing who functioned as "goodwill ambassadors."³¹

Another important function that RIDs could provide for their members is marketing and advertising. Advertisements for residential neighborhoods already occur for newly built neighborhoods in the suburbs, entire cities (such as the current advertising campaign to persuade Washingtonians to buy housing in the city of Baltimore),

and, to a lesser extent, already-existing community associations. These neighborhood-marketing attempts might help residential neighborhoods in creating a stronger sense of neighborhood community and identity. Just as BIDs promote their areas through public information efforts so that the area will receive more consumer traffic, a beneficial consequence of RIDs promoting their areas might be increased consumer interest in buying neighborhood properties, thereby increasing neighborhood property values.

The benefits of new RIDs could be greatest in deteriorated neighborhoods of inner-city areas where there are many margins on which to make significant improvements. However, RIDs may not work well in the most desperate of neighborhoods. For a RID to be formed, there must be a group of property owners who perceive the current problems as solvable. There is also a substantial fixed cost to the initial formation of a proposed RID. These two facets of RID creation might well pose a problem for the most derelict of neighborhoods. In addition, the most involved owners would probably be owner-occupants, rather than absentee owners. Although absentee owners do have a strong incentive to improve their properties to encourage development, RIDs often need community-organizing efforts to get off the ground. As owner-occupants are best suited for this type of action, neighborhoods with substantial fractions of owner-occupants are the most likely to adopt RIDs.

Even if RIDs might not work under all circumstances, they could still be essential in removing crime, drugs, and other social dysfunctions from many inner-city neighborhoods. The services provided by distant bureaucracies at city hall are often unresponsive and generally ill-suited to the needs of residents. RIDs in inner-city neighborhoods would decentralize some of the "micro" functions of city government, thus allowing residential property owners to take greater control of their own affairs.

New RIDs in older neighborhoods would extend further a trend towards "sublocal governance" already seen in many urban jurisdictions.³² When governing institutions with wider authority fail to meet citizen needs, citizens

29. Hoyt, "Do Business Improvement District Organizations Make a Difference?" 185-199.

30. See Sudhir Venkatesh, *Off the Books: The Underground Economy of the Urban Poor* (Cambridge, MA: Harvard University Press, 2006) and Sudhir Venkatesh, *Gang Leader for a Day* (New York: The Penguin Group, 2008).

31. See Robert H. Nelson and Kyle McKenzie, *Business Improvement Districts: Building on Past Success*, Mercatus Policy Series (Arlington, VA: The Mercatus Center at George Mason University, forthcoming 2008).

32. Richard Briffault, "The Rise of Sublocal Structures in Urban Governance," *Minnesota Law Review* 82 (December 1997).

increasingly are taking matters into their own hands at the most decentralized levels possible. Many urban theorists have long advocated greater consolidation of metropolitan governing authority, but events have gone in the opposite direction in recent years.

Private community associations govern most new housing development in the suburbs today. Between 1980 and 2000, fully half the new housing built in the United States was subject to the governance of a community association.³³ 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 home buyer in a new development to agree to its rules as a condition of purchase. The same terms also automatically bind any subsequent purchaser.

State and city legislation to authorize the creation of RIDs would extend some of the same advantages of private community associations, as now found in newer suburban areas, to the residents of older urban neighborhoods. A RID might in fact be seen as a limited version of a community association. The full extent of a RID's powers would be set by the authorizing legislation of each governing jurisdiction and might vary considerably from place to place.

5

A Proposed Process—How Policy Makers Could Implement RIDs

IN GENERAL, THE legal procedures for creating a new RID would look something like this: 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 rules for selecting the board of directors. It would specify any direct regulatory authority that might be proposed for the RID. A minimum amount of time would be established for informing neighborhood property owners of the details of the RID proposal, and for holding public hearings. Finally, a vote would be held among the residential property owners in the neighborhood on RID approval. The authorizing legislation would

set the minimum required percentage of favorable votes to create a RID—a supermajority in most cases.

A Proposed Five-Step Process

FOR THE PURPOSES of discussion and recognizing that many variations in the details are possible, we propose the following five-step process as an approval procedure for a new RID as would have to be laid out in state and municipal authorizing legislation for RIDs.

- 1. Petition Request:** A group of individual property owners in an established neighborhood could petition the state, the body responsible for the enabling legislation, to form a RID. The petition should describe the boundaries of the proposed RID and the instruments of collective private governance intended for it. The petition should state the services the RID would perform and an estimate of the monthly assessments required. The petitioning owners should include more than 40 percent of the neighborhood property owners, representing at least two-thirds of the total value of existing neighborhood properties. This petition would not create the RID, but just establish the possibility that it could exist in the future. Creation of the RID would require a vote in which a higher percentage of residents vote for approval. (See below.)
- 2. State Review:** The state (or relevant authorizing jurisdiction) would then have to certify that the proposed area of private neighborhood government met certain standards of reasonableness, including having a contiguous area; boundaries of a regular shape; an appropriate relationship to major streets, streams, valleys, and other geographic features; and other relevant considerations. The authorizing jurisdiction would also verify that the proposed private constitution met official standards for RIDs.
- 3. Municipal-Neighborhood Negotiations:** If the application met the official requirements, a neighborhood committee would be formed to negotiate a service transfer agreement with the municipal (or other local) government that had jurisdiction over the neighborhood. The agreement would specify the future possible transfer

33. See Robert H. Nelson, *Private Neighborhoods and the Transformation of Local Government* (Washington, DC: Urban Institute Press, 2005).

of ownership of municipal streets, parks, swimming pools, tennis courts, and other existing municipal lands and facilities located within the proposed private RID, possibly including some compensation to the municipality. It would specify the future private assumption of garbage collection, snow removal, policing, fire protection, and other services—to the degree that the private neighborhood government wanted to assume responsibility for such common services. The transfer agreement would also specify future tax arrangements, including any property or other tax credits that the RID might receive in compensation for assuming existing municipal service burdens. Other matters of importance to the municipality and to the proposed RID would also be addressed. As needed, a higher level of government would serve as an overseer and mediator in this negotiation process.

4. **The Neighborhood Vote:** Once certification of the neighborhood proposal to create a RID was received and a municipal transfer agreement negotiated, a neighborhood election would be called for a future date. The election would occur no less than one year after the submission of a complete description of the neighborhood proposal, including the founding charter for the RID, the municipal transfer agreement, estimates of assessment burdens, a comprehensive appraisal of the values of individual neighborhood properties, and other relevant information. During the one-year waiting period, the state would oversee the process of informing property owners and other neighborhood residents of the details of the proposal and would facilitate public discussion and debate.
5. **Neighborhood Approval:** In the actual election, approval of the creation of a RID would require:
 - a. an affirmative vote by 50 percent or more of the individual unit owners in the neighborhood, and
 - b. these affirmative voters must cumulatively represent 66 percent or more of the total value of neighborhood property.

This ensures that there is both broad support for the RID within the neighborhood in terms of the numbers of owners and that those most directly affected, the property owners with the largest holdings, are also strongly behind the effort, if not necessarily in unanimous agreement (which would be impossible in most circumstances). If these conditions were met, all property owners in the neighborhood would be required to join the RID and would be subject to the full terms and conditions laid out in the RID founding charter.

6 Favorable and Useful Precedents for RIDs

A. Historic Districts are somewhat similar and are popular.

ANOTHER LEGALLY AVAILABLE means at present to establish tighter environmental controls in inner-city residential neighborhoods is the creation of historic districts. Nominally, these districts are established to protect “historic character.” Their more important function, however, is often to promote neighborhood revitalization in decaying areas of the city. As Carol Rose explains, “[a]nother motive that leads cities to designate historic districts is attracting taxpaying businesses and middle-class residents to the city. . . . Cities hope that historic district designation of a decaying residential or commercial area will call attention to the underlying quality of the structures of the area” and will provide a new security of investment. Given their locations, if they had a way to assert the same tight control over their immediate environment as small suburban municipalities do, many inner-city neighborhoods could be as attractive to developers as the outer suburbs. Thus, as Rose observes, “historic district self-government” can help to “alleviate the power imbalance of older neighborhoods against newer areas.”³⁴

The regulatory controls in historic districts go well beyond ordinary land use regulations in other areas. Indeed, they resemble most closely the private land use controls in community associations in the suburbs. Some neighborhoods have won “historic” status even when it was largely a fiction. Many other neighborhoods, however, lack the rhetorical and imaginative skills for

34. Carol M. Rose, “Preservation and Community: New Directions in the Law of Historic Preservation,” *Stanford Law Review* 33 (February 1981): 512, 524.



Residential Areas in St. Louis: The house at 5705 Cates (left) is a typical example of the houses located in North St. Louis where many neighborhoods evidence extreme poverty and disrepair. This house is neither on a private street nor in a historic district.

Located just three and a half blocks away from 5705 Cates is 6005 West Cabanne Place (right). West Cabanne Place is a two-block area of St. Louis City that was a private street from its construction in 1888 until the end of the 20th century when the residents, tired of maintaining the area, placed it under city ownership. Moreover, since 1979, the area has been a National Register Historic District.

West Cabanne Place is a rarity in St. Louis—a well-maintained neighborhood in North St. Louis, where the condition of most of the neighborhoods resembles that of the house at 5705 Cates.

(Photos: Amy Fontinelle)



the necessary fiction writing. With the legal authority to create a RID, there would be no need to make any formal claims to a “historic” status in order to establish new neighborhood controls over land use. New RIDs could tailor the degree of regulatory control to the demands of the current residential owners, perhaps choosing a lesser degree of control than required in a historic district.

Increases in environmental quality and property values in city neighborhoods are often described as “gentrification.” Complaints about the gentrification of historic and other urban neighborhoods—the rich move in and the poor move out—partly reflect the existing shortage of desirable city neighborhoods as a whole. Given the past obstacles to neighborhood renewal in older cities, there are still many more existing neighborhoods that could be significantly improved in their environmental quality. If there were an improved and routine way to create RIDs, there might be many more attractive urban neighborhoods available.

B. The St. Louis Experiment

ONE AMERICAN CITY that has conducted an experiment on a limited scale in neighborhood privatization is St. Louis. In 1867, the first private street, Benton Place, went on the market.³⁵ Subsequently, and with the strong encouragement of prominent architect Julius Pitzman, many other private streets were formed. Associations of property owners responsible for maintenance and other improvements managed the streets. In the 1950s, the residents along sections of two public streets, Pershing and Westminster Avenues, petitioned the city and won approval to privatize their portions of the streets. As of 1986, there were more than 400 private streets in the St. Louis area, most of them located in St. Louis County (outside the City of St. Louis).

A 1989 study of these private streets undertaken for the U.S. Advisory Commission on Intergovernmental Relations (ACIR) reported that “one of the major services provided by subdivisions that control their own streets is access restriction. . . . Access to subdivisions from city

streets [is] chained off or barricaded.”³⁶ Such private streets could also “accommodate diversity in [service] preferences among neighborhoods.” For example, some neighborhoods exceeded the municipal standards for street lighting, while others did not think the greater illumination was worth the expense. Overall, based on the experience of the St. Louis private streets, the ACIR study concluded that the private collective ownership of streets could “offer a number of advantages that their members value highly.”³⁷

Another study of these streets by community planner Oscar Newman found that in the opinion of the residents themselves, “the physical closure of streets and their legal association together act to create social cohesion, stability and security.”³⁸ Newman summarizes his findings concerning the St. Louis experiment in street privatization:

For many students of the dilemma of American cities, the decline of St. Louis, Missouri, has come to epitomize the impotence of federal, state, and local resources in coping with the consequences of large-scale population change. Yet buried within those very areas of St. Louis which have been experiencing the most rapid turnover of population are a series of streets where residents have adopted a program to stabilize their communities, to deter crime, and to guarantee the necessities of a middle-class lifestyle. These residents have been able to create and maintain for themselves what their city was no longer able to provide: low crime rates, stable property values, and a sense of community. Even though the areas surrounding them are experiencing significant socio-economic change, high crime rates, physical deterioration, and abandonment, these streets are still characterized by middle-class ownership—both black and white. The distinguishing characteristic of these streets is that they have been deeded back from the city to the residents and are now legally owned and maintained by the residents themselves.³⁹

35. David T. Beito, “The Formation of Urban Infrastructure Through Nongovernmental Planning: The Private Places of St. Louis, 1869-1920,” *Journal of Urban History* 16 (May 1990): 265; David T. Beito, *Owning the “Commanding Heights”: Historical Perspectives on Private Streets* (Chicago: Public Works Historical Society, 1989); Ronald J. Oakerson, “Private Street Associations in St. Louis County: Subdivisions as Service Providers,” in U.S. Advisory Commission on Intergovernmental Relations, *Residential Community Associations: Private Governments in the Intergovernmental System* (Washington, DC: May 1989).

36. Oakerson, “Private Street Associations in St. Louis County,” 58.

37. *Ibid.*, 60.

38. Oscar Newman, *Community of Interest* (New York: Doubleday, 1980), 126.

39. *Ibid.*, 124.

Similar Proposals by Other Leading Urban Authorities

THERE HAVE BEEN related proposals for new neighborhood forms of governance such as would be provided in a RID.

A. The Ellickson Proposal

AS NOTED EARLIER, Robert Ellickson proposed a plan for “new institutions for old neighborhoods,” typically of a few city blocks—for, as he called them, “Block Improvement Districts,” or “BLIDs.” As he argued, the basic concept would be “to enable the retrofitting of the residential community association—an institution commonly found in new housing developments—to a previously subdivided block.” Ellickson also drew on the analogy with BIDs: Since it would require the creation of new legal authority by state governments, the “legislative drafters could pattern these statutes after the ones that many states have enacted during the past decade to authorize the establishment of mandatory-membership Business Improvement Districts (BIDs).”⁴⁰

As Ellickson explains, present efforts to improve many residential inner-city areas face the usual problems of collective action, including the free-rider problem. It is difficult to capture the full benefits of a decision “to paint facades or trim shrubbery” by a property owner if he is the only one that undertakes these improvements. But if BLIDs can provide a way to surmount the collective action problems, they may facilitate the transformation of run-down inner-city neighborhoods into bright, attractive environments. To do this, Ellickson thinks it would be necessary to go beyond “voluntary coordination” to create instead new neighborhood institutions that have “coercive powers.”⁴¹

Similar to the above proposal for RIDs, Ellickson proposes that the formation of a BLID should begin with a petition sent to the city authorities by the property owners, who would also hold the voting rights in BLIDs. There might be a minimum size (say, two acres of land involving at least 10 different ownerships) for a BLID. To win approval for a new BLID, Ellickson suggests that two-thirds of the owners in the area would have to vote

in its favor. He further suggests that all current residents (including renters) should also have to vote as individuals to approve the action. The BLID should have the authority to levy taxes within the neighborhood. 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 all have substantial political autonomy. More recently, private community associations have proliferated in the suburbs of cities throughout the South and West. As Ellickson argues, the 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 BLIDs.

B. The Liebmann Proposal

OTHER WRITERS, INCLUDING Baltimore land-use lawyer George Liebmann, have also offered proposals similar in many respects to the idea of RIDs. In 1993, Liebmann advocated a substantial “devolution of power to community and block associations.”⁴² Such associations, he suggested, could assume a greater role in providing neighborhood service functions such as day care, traffic regulation, zoning adjustments, schooling, and law enforcement. Liebmann proposed that state governments enact new legislation authorizing the formation of new community associations in existing neighborhoods. To establish such associations, he recommended that a minimum of two-thirds of residents in a proposed community association area sign a petition giving their approval.⁴³ Government review and verification of such petitions would result in mandatory association membership for all residents of such neighborhoods.

According to Liebmann’s proposal, new neighborhood associations in inner-city areas would possess the legal authority to provide many services within their

40. Robert C. Ellickson, “New Institutions for Old Neighborhoods,” *Duke Law Journal* 48 (October 1998): 77-78.

41. *Ibid.*, 79.

42. George W. Liebmann, “Devolution of Power to Community and Block Associations,” *The Urban Lawyer* 25 (Spring 1993). See also George W. Liebmann, *The Little Platoons: Sub-Local Governments in Modern History* (Westport, CT: Praeger, 1995).

43. Liebmann, “Devolution of Power to Community and Block Associations,” 382-83.

boundaries. They would have greater flexibility than municipal land use regulation allows in administering controls over new uses. Liebmann suggested that his proposed local neighborhood associations might have the authority to:

1. Operate or permit the operation of family day care centers.
2. Operate or permit the operation of a convenience store or 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 obstruction interferes with a street necessary to through traffic.
6. Petition local government for imposition of a juvenile curfew on association property.
7. Contract with local government to assume responsibility for street paving, trash collection, street lighting, snow removal, and other services.
8. Acquire from local government contiguous or nearby public lands.
9. Petition local government for realignment of election precinct and voting district boundaries to conform to association boundaries.
10. Maintain an unarmed security force and appropriate communications facilities.
11. Issue newsletters, which may contain paid advertising.

12. Operate a credit union, to the extent otherwise permissible under state or federal law.⁴⁴

In Liebmann's view, a neighborhood-level residential government with such responsibilities and with a wider flexibility in its administration would promote a better blend of activities traditionally divided artificially into public and private realms.

C. The O'Toole Proposal

IN 2001, ANOTHER leading proponent of new methods of urban governance, Randal O'Toole, offered a neighborhood privatization plan that he labeled "the American Dream Alternative."⁴⁵ O'Toole argued that many recent "smart-growth" proposals—those that use heavy planning in an attempt to prevent urban sprawl and create highly walkable mixed-use areas—in metropolitan areas would not work as expected and might well entail undesirable social consequences. He suggested instead that new property rights institutions would be a better—a truly "smarter"—approach to urban reform.

In older, established residential neighborhoods, O'Toole proposed substituting an initial endowment of private collective rights in place of the current zoning; in essence, recommending that a newly created neighborhood association—similar in many respects to a RID as described above if perhaps having wider authority—take over the existing public regulatory controls. Since the regulatory regime would change little, O'Toole suggested that a vote of 60 percent would be high enough to approve a new neighborhood authority of this kind.

Under O'Toole's proposal—and going beyond the authority of current BIDs—his urban neighborhood authorities would have a private character in that they would be able to charge new commercial entrants or new housing developers for access to the neighborhood. With such a system in place in an older neighborhood, a market process could control entry into the neighborhood. O'Toole offers the following example:

Suppose a city has a surplus of areas with single-family homes and a shortage of apartments. Developers could approach neighborhood associations and offer to pay money or provide ser-

44. *Ibid.*, 381–82.

45. Randal O'Toole, *The Vanishing Automobile and Other Urban Myths: How Smart Growth Will Harm American Cities* (Bandon, OR: The Thoreau Institute, 2001), 486–90.

VICES in exchange for building apartments in the neighborhoods. No doubt the developers would also provide assurance that the apartments did not reduce property values. Some associations would accept, others would not. In this way, a city could evolve in response to changing conditions on a more voluntary basis than used by current planning and zoning.⁴⁶

By turning over land use controls to a private neighborhood authority, residential property owners would be protected from wider municipal “imposition of developments that the neighborhood does not want.” Admittedly, existing zoning has protected many neighborhoods well enough. When the time for major land use change has come, however, municipal land use regulations almost everywhere have lacked the flexibility to accommodate brand-new uses without great stresses and strains. A private neighborhood authority with the ability to sell entry rights, in contrast, would provide for more “orderly neighborhood transitions.” When a neighborhood has to make way for a new use, the neighborhood association could sell the development rights and the residents would not feel “that their land had been devalued” by an incompatible use and yet they had received no “compensation,” monetary or otherwise.⁴⁷

Finally, O’Toole proposes that a significant part of existing federal and state funds for acquiring land for open spaces could be turned over to the neighborhood authorities who could make more effective use of these funds for open space. For instance, they could create new parks and improve existing ones within neighborhoods. Several neighborhoods might join together to purchase land outside of their own boundaries to form perhaps a regional private park. Such actions might supplement the efforts of current organizations, such as the Nature Conservancy, that seek to protect valuable ecosystems and biodiversity through private land acquisitions.⁴⁸

8

RIDs Are Flexible: Tailoring RIDs to Meet Diverse Needs

DIFFERENT INNER-CITY NEIGHBORHOODS will have varying governance wishes and needs. Some neighborhoods may want only a modest expansion of collective services, such as the provision of a few additional secu-

46. *Ibid.*, 488.

47. *Ibid.*, 489.

48. *Ibid.*

rity patrols in the evening. Others may want a host of new and improved neighborhood services. Still others might want expanded regulatory authority in the neighborhood, including on matters such as the maintenance of existing residential properties and any significant alterations of their exterior features. There is no reason to expect that all neighborhoods would want to make the same choices. In enacting authorizing legislation for the creation of RIDs, state and municipal governments should set out a menu of legally permissible options. Some authorizing jurisdictions may be comfortable with assigning to residential neighborhoods a wide range of RID choices, while others may prefer to limit tightly the scope of RIDs. Some of the features that might vary from RID to RID include the following:

A. Revenue Raising Capacity

BIDS ARE PRIVATE ventures with a very serious public character. Their approval rests not only on the approval of the constituent neighborhood, but also on state-enabling legislation and the cooperation of the local jurisdiction. BIDs at present usually employ modest property taxes to raise revenues. These property taxes are taken just like state or municipal taxes but are funneled back through the BID board of directors. Most RIDs would probably follow a similar procedure. In the authorizing legislation, states or municipalities might specify a maximum RID tax rate. Another option would charge each residential unit in the RID a common dollar amount. This would work best if properties were of similar size and value. Still another possibility would be to assess residential properties within the RID according to the square footage of each property. In the suburbs, community associations usually collect their private assessments on a per-individual-unit basis or on a per-square-foot basis. Whatever choice is made by a specific neighborhood, it should try to tie taxes as closely as possible to the future benefits.

B. Extent of Regulatory Authority (If Any)

MOST BIDS DO not have regulatory powers over the individual business properties within their boundaries. Their greatest benefits are seen in the common areas such as the BID streets. If they want to improve the exterior appearance of neighborhood business properties, it is up to the BID to pay for the improvements. Business

owners cannot be required to undertake improvements to their own properties with their own individual funds. Most RIDs might follow a similar procedure.

States and municipalities, however, might choose to allow some RIDs to have regulatory authority over elements of the exterior appearance of individual RID properties. If a residential property owner never mowed the lawn, for example, the RID might be able to compel the owner to mow it—or the RID might take the action on its own and assess the owner for the mowing cost. This type of authority would clearly have to be written into the RID contract. However, these types of clauses might lead to lower RID passage rates due to a lower likelihood that a majority or residents would agree to these additional powers.

8C. Power of the Private Security Force

THE POWER ASSIGNED to the security force within a RID could vary according to both the needs of the neighborhood and what the residents are comfortable with. In current BIDs, the presence of security varies greatly based on the amount of privately hired security and the relationship between the BID and its municipal police force. Unarmed hospitality guides who give assistance to people in the neighborhood, but can provide support to official police if need be supply the security for many BIDs. On the other end of the scale, some large BIDs employ off-duty sworn city police officers.⁴⁹

It is easy to imagine a variety of security arrangements for RIDs, ranging from additional eyes on the street all the way to a privately contracted police force working alongside the municipal police. Finding the correct amount of additional security may be an experimental process, but the flexibility of the RID structure would enable such experimentation.

8D. Extent of Neighborhood Involvement with Non-Residents or Homeless Individuals

ONE OF THE most critical elements affecting the quality of many inner-city neighborhoods is the maintenance of a secure environment—something that should be decided

on a neighborhood level with a high level of local input. For example, the presence of panhandlers can have a large disruptive influence on an area. The RID might have the authority to curb the actions of panhandlers whose aggressive behavior may threaten or intimidate pedestrians and drivers. BIDs have used such methods in a number of cities. A RID might direct individuals sleeping overnight on the streets of the neighborhood into a homeless shelter assisted by the RID or perhaps into a consultation with a mental health organization. If a homeless person temporarily leaves a sleeping bag, shopping cart, or other property on the sidewalk, the RID might have the authority to pick up this property and deposit it in a neighborhood warehouse created for this purpose (and where it can be retrieved by the owner). Besides punitive measures, BIDs have also lobbied for more and better shelters for the homeless and for improved methods of transporting people to these places. RIDs could possibly do much of the same.

8E. Renter Policies

SOME RIDS MIGHT work well enough to achieve large improvements in the quality of the RID neighborhood environment. This would have the secondary consequence of increasing the value of neighborhood properties. The municipality or other local governing jurisdiction would benefit from increased property taxes. Residential owners would benefit from increased sales values of their properties. (They would have the pleasant choice of either continuing to live in the much-improved RID neighborhood, or cashing out and moving elsewhere.)

One group, however, might lose: increasing rents might force renters to move out of the RID neighborhood. If too many renters feared this possibility, they might endanger the wider political prospects for enacting RID authorizing legislation. One method of addressing the renter problem would be to provide saleable entitlements to renters as well. Under RID authorizing legislation, it might be possible that a renter would be given a right to remain for a certain number of years in their existing residential rental unit. For instance, one option could give each renter the right to stay in their existing unit at a rent-controlled price for the same number of years that they have been living in that unit (or perhaps in any

49. *Houstoun, Business Improvement Districts*, 81.

building in the neighborhood). The RID property owners would still have the option of seeking to buy out the renters on a voluntary basis.

Analogously, when rental buildings are converted to condominiums today, renters in the buildings are typically given the right to remain in the building after the conversion. They also often receive a right to purchase their own rental unit at a significantly discounted price. If given such rights, many of these renters might end up selling the rights to investors, preferring cash payoffs in the short run to a longer-run higher level of neighborhood amenities. Like the neighborhood's residential property owners, renters might make different choices, some choosing to stay and others choosing to cash out a windfall gain immediately.

Renters might also play a role in the voting to decide whether a RID would be created in the first place. Creation of a RID might require an affirmative vote not only of the RID property owners, but also of all the individuals living in the RID, including renters. In this way, existing and prospective RID property owners might be required to negotiate with and offer concessions (potentially taking many forms) to renters in order to gain their consent to form the RID.

Although the idea of rent control has been a bad policy both theoretically and empirically (reducing the housing supply and leading to inefficient use of available housing) and is therefore now on the decline, this mild form of rent control might be necessary to get RIDs off the ground. Creating additional rights or entitlements for renters is not recommended where it can be avoided as it falls into many of the same traps as rent control, but where equity concerns effectively control the political possibility of creating a RID, these options may be the only feasible way for a RID to exist.

8F. Supermajority Required to Create a RID

TYPICALLY DEMOCRATIC VOTING in the United States has been by majority rule. Many political scientists, however, have argued that it may be more appropriate to require a supermajority for many decisions. Indeed, as a theoretical ideal, some would argue that unanimous consent is the preferred voting rule—the political equivalent to a “Pareto optimal” move in economics where everyone benefits and no one loses. In the real world, of course, the high transactions costs of achieving unanimous consent make it impossible to operate in such a fashion.

The lowest transactions costs are found with a voting rule of a simple 51 percent majority. But in that case, there might be too many people on the losing side—and their losses could, in theory, even exceed the majority gains (imposing a “tyranny of the majority”). A special concern in the creation of a RID is that it would coercively require at least some people to join together in collective action who oppose this step. Hence, it is probably desirable in most cases for RID authorizing legislation to require a supermajority vote, although well short of unanimity, to create a RID.

As suggested above, there might be different degrees of RID authority over the lives and property of the people and residential owners within the RID. Yet another alternative would be for RID legislation to authorize alternative types of RIDs and require higher supermajority votes according to the degree of powers granted to a specific category of RID.

8G. Amendment of RID Rules

THE PROCEDURES FOR the changing of the internal rules of RIDs create related issues. It is desirable that RID property owners should have secure expectations with respect to the future decision-making arrangements and other elements of RID operation. On the other hand, times and circumstances change. It should not be too difficult to change the rules of a RID when such changes are needed. The authorizing legislation for RIDs might specify a supermajority to change its rules. It would also be possible to vary the supermajority required according to the degree of impact of the rule change. Rules that have limited impacts might require a 60 percent vote while more “foundational” rules might require say an 80 percent vote. Analogously, private community associations often have different voting requirements according to the degree of significance of the amendments or other changes under consideration to their declarations.

Related is the idea of a sunset provision for RIDs. Because RIDs do constitute another layer of government, many worry about RIDs becoming entrenched with no recourse from residents, and subsequently the value of the services being provided would decline. A RID might fall prey to the same incentives that led the residents into dissatisfaction with their city and municipal governments. One way to alleviate this concern would be to establish a sunset provision within the rules of a RID, perhaps requiring an affirmative vote 5 years after the creation of a RID and then every 10 years after that. It is

true that RIDs would be more accountable to their constituents compared to the larger city governments due to the local nature of the RID-neighborhood arrangement, but a sunset provision would go a long way towards alleviating many people's concerns.

9 Conclusion

BIDS HAVE ENABLED many urban areas to achieve increased security and otherwise improve the quality of the urban business environment. The needs of the inner-city poor are certainly as great as—and probably greater than—those of urban businessmen. Indeed, many inner-city neighborhoods have suffered from severe physical and social deterioration. It is ironic that opportunities similar to BIDs have not been provided to urban residential neighborhoods. A RID might not meet all the needs of such neighborhoods, but it offers a promising new approach to an urgent problem that has defied many previous attempts at government resolution. Whether they choose to take advantage of the program or not, urban residential neighborhoods should be offered at least the opportunity to take greater control over their own affairs through the creation of RIDs. States and municipalities should act promptly to enact the necessary RID authorizing legislation, complementing their existing BID legislation.



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