

REPORT AND PRELIMINARY RECOMMENDATIONS
GOVERNANCE AND NOMINATIONS COMMITTEE
TOWN CENTER IMPROVEMENT DISTRICT

January 19, 2007

To: Board of Directors

From: Bob Kinnear, Chair

Date: January 18, 2007

Background

The events of the last month leading to a proposed agreement with the City of Houston to forego annexation of The Woodlands have presented TCID with, perhaps, its greatest challenge and opportunity to render a tremendous service to the community, as well as the prospect for radical changes in its traditional structure, functions and services. Since this proposal centers around TCID as a transitional governmental structure and involves substantial changes in our enabling legislation and our Board makeup, the Governance and Nominations Committee has undertaken between our regularly scheduled Board meetings to learn as much as possible about this proposal and its effects on TCID in order to make a report and preliminary recommendations to the full Board as to how TCID should proceed from this point.

The Committee met on January 12, 2007, with Senator Williams and our staff and consultants for an extended question and answer period, and again on January 18, 2007, for further discussions and to consider a proposal for additional legislative support services for TCID. The findings to date and preliminary recommendations of the Committee follow.

Findings

TCID has been proposed to serve as the transitional form of government for a number of practical and strategic reasons which appear to be sound, including that TCID:

Was previously established by special, local legislation that can be amended more easily than a new entity can be created by legislation.

Can provide through its existing Board and election procedures a seamless and timely transition to a fully elected governing board for the new governing entity.

Has a staff, offices, administrative services and procedures, and sources of revenues to fund both startup and ongoing operations.

Has general sales and use tax authority to fund the continuing regional participation payments called for by the proposed agreement.

Has hotel occupancy tax authority up to 7% and a demonstrated history of collections.

Has established credit and bond ratings and a business reputation locally and nationally.

Has the authority to issue bonds payable from sales and use taxes, or other revenues, to fund the initial regional participation lump sum payment, so as to spread the costs of this participation over visitors and patrons of The Woodlands in the future, without drawing upon the current reserves of existing agencies.

Currently provides a number of governmental services and facilities that are essential to governance, economic stability and quality of life in The Woodlands.

The key features of the new governing entity that have been proposed to be included in the revised TCID enabling legislation are as follows:

The boundaries of the current TCID would be expanded, subject to a confirming election in November, 2007, at which all registered voters in The Woodlands would have an opportunity to vote, to include all of the territory of The Woodlands within the extraterritorial jurisdiction of Houston which is situated within Montgomery County.

The name of TCID would be changed at the time of confirmation to something more reflective of the new boundaries, such as "The Woodlands District".

The Board of TCID, beginning in May, 2008, would transition from the current 11 members serving four-year terms to 7 members elected at large within all of The Woodlands District for two-year terms. All 5 current positions with terms expiring in May, 2008, would come up for election, followed in May, 2010, with 2 of the 6 positions expiring at that time coming up for election.

To achieve proper rotation, 3 of the directors elected in 2008 would serve for either one or three years, and 2 would serve for two years. Annual elections would follow for either 3 or 4 directors.

Assuming passage of the regional participation agreement authorizing legislation by the Texas Legislature in 2007, and passage of the confirmation election within The Woodlands District in November, 2007, The Woodlands District would then enter into a written, enforceable regional participation agreement with Houston on the terms previously publicized.

The Woodlands District would be specifically authorized to enter into and to perform its obligations under the regional participation agreement.

The Woodlands District would be authorized to call future elections, beginning in 2014, to determine whether The Woodlands should be released from Houston's extraterritorial jurisdiction and/or whether a new form of government should be established at that time.

The Woodlands District would be authorized, by mutual agreement with current service agencies, to undertake the provision of many of the existing community services now funded by property assessments in order to maximize the use of sales tax revenues, lower ad valorem assessments and provide for maximum tax deductibility of charges for governmental services.

To implement this transition and agreement, legislation must be passed of a local nature, to alter TCID's enabling legislation, and of a general nature, to authorize both Houston and The Woodlands District to enter into and to perform the proposed regional participation agreement. Because of the unique and significant character of this undertaking, even though the consequences are entirely local, passage of the necessary legislation will not be easily accomplished and will require a substantial lobbying effort. While TCID has already contracted with Bob Stout for general lobbying services, the Committee is convinced, based on the presentations by Bob Stout and Senator Williams to the Committee, that additional assistance is prudent. To these ends, the Committee has requested and received a proposal for services from Hillco Partners, Austin, Texas, to provide the additional services and resources needed under the overall direction of Bob Stout. Hillco appears to have the specific personnel, experience, relationships and reputation to meet our needs in getting our message disseminated widely throughout the legislative and executive branches, addressing any misperceptions about this legislation by other cities or the Texas Municipal League and reaching key caucus groups in the Texas Legislature. The compensation of approximately \$100,000, including expenses, proposed by Hillco appears reasonable under the timing and circumstances and is significantly less than had been estimated by the Committee. Copies of the Hillco proposal and statement of qualifications are attached.

Depending upon the extent to which The Woodlands District undertakes or contracts to provide community services now furnished by other agencies, our management, staffing and office space capabilities may have to be substantially expanded. Further, the calling and holding of the necessary hearings and elections, the arrangement for transition of community services delivery and oversight of legal, legislative and expanded service functions under this proposal will require additional

funding not within the current FY2007 budget of TCID. Finally, this transformation of the current TCID will significantly alter our existing activities, priorities and intergovernmental relationships. Great care will have to be taken by the Board to ensure preservation of our existing commitments and interlocal relationships and the traditional functions and services of TCID as important parts of the expanded functions of The Woodlands District.

Pending completion of the draft legislation in approximately two (2) weeks, it is not possible at this time to provide further details on this matter. Consequently, TCID's formal endorsement action on this proposed legislation should, perhaps, be reserved for a February meeting of the Board in either regular or special session.

Preliminary Recommendations

1. Even though the proposed new role of TCID and The Woodlands District will permanently and substantially alter the composition of the Board and the current functions, services and capabilities of TCID, it represents a serious and substantive calling to the service of the larger community in its efforts toward self-determination and should be embraced and supported by the Board, subject to continuing monitoring of the proposed legislation to ensure that TCID's current functions and programs will not be adversely affected.
2. Formal endorsement of the proposed legislation should be considered and acted upon not later than the regularly scheduled Board meeting in February, 2007, in order to facilitate timely introduction and passage of the proposed legislation.
3. The proposal from Hillco Partners should be approved and accepted at the earliest time in order to properly prepare for the legislative session.
4. To assure the broader community that this effort will be made on a community-wide basis, and to prepare ourselves for a different and expanded view of our role and responsibilities, the vision and approach of TCID and its Board, management and staff should be consciously and immediately expanded to think, speak and act in terms not of Town Center and TCID, but in terms of The Woodlands and The Woodlands District.
5. The Committee should be directed by the Board to continue to explore and monitor, and to report and make recommendations to the Board on, the details and progress of this most important opportunity for our community as it goes forward and unfolds.