

Growth slows in suburbs

City governments have more time to plan but less new revenue



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For more than a decade, the amenities that accompanied **Kyle's** rapid population growth seemed to come for free.

The city, which has quadrupled in size since 1998, lowered its tax rate 11 consecutive years while it simultaneously went on a \$64 million building spree that included miles of new highways, a railroad overpass, a City Hall, fire station and municipal swimming pool.

This year, the free ride came to an end with the halt of the development boom that had made it all possible.

"We were averaging right at about 1,000 single-family homes a year every year for about a five- to six-year stretch," said Kyle City Manager Tom Mattis. "Last year we were under 600, and this year we're not even sure we'll make 500. By most standards everywhere, that's still significant growth for a town of our size, but it has impacted us certainly financially."

In September, Kyle officials approved a 10-cent tax increase, amounting to a \$137 jump on a house valued at \$133,960.

Kyle is hardly alone.

Home construction has slowed all around Central Texas and with it, so has the flow of new money that has allowed small cities to rapidly expand services to their constituents without making the hard choices their leaders now face.

"We provide services at a level now that were never even remotely thought about by people living in Kyle 10 years ago, and likewise we have a budget the size people couldn't have fathomed," Mattis said. "Those traditional issues of how much can we afford and how much can we increase taxes \u2026 just weren't decisions that we had to make before because revenue flow was so strong or at least exceeded service demand. Now those have caught up to each other."

Annual home starts at the end of September were down from the previous year by more than 30 percent in the Hutto area, nearly 50 percent in the Manor area, nearly 55 percent in the Bastrop area and more than 60 percent around Elgin, according to the latest report available from market research firm Residential Strategies.

The number of permits issued by some cities for housing inside their limits has fallen even more, which could indicate a further drop in home construction in the coming months.

Commercial construction has proven more resilient, in part because large projects take longer to plan and are harder to stop.

But few doubt that those projects too will slow, and the downturn in home construction will make it harder to get those projects back on track once the economy recovers.

"We won't see new retail growth in Austin and the suburban markets until there is a significant amount of new homes being built again," said Chris Ellis, a principal with commercial developer Endeavor Real Estate Group.

Working on development codes

Few Texas towns grew faster than **Hutto** in the past decade.

A small farming community of 1,250 in 2000, the population has swelled to more than 17,000 as young families moved there in droves in search of affordable housing.

Nearly 950 new houses were built in the flat, treeless fields from mid-2005 to mid-2006.

Home builders started construction on just under 500 new houses in the 12 months ending in September, and city leaders expect that number to fall further in the coming year.

Today, the narrow country lanes once clogged with heavy construction trucks and obscured with clouds of dust are largely clear.

Few new houses were halted in progress, but a few subdivisions were abruptly abandoned, leaving paved cul-de-sacs lined with streetlights but no houses.

City officials originally projected that Hutto would collect more than \$1.5 million in development and permitting fees in the 2007-08 budget year. Instead, the city collected \$782,409, and city leaders expect that amount to drop to just below \$767,000 this year.

Hutto officials have tightened the budget.

Recent city budgets had added five to 10 positions a year, but no positions were added this year.

The city's Police Department will continue to rely on the Williamson County sheriff's office for dispatch services after the city scratched plans to create its own dispatch division next year.

Hutto leaders now say they can delay and possibly scale back the size of a planned \$16 million wastewater treatment plant they originally thought would have to open by 2011 or 2012.

"We see this as a grand opportunity to push some of these projects back, not to the point where we can't accommodate growth, but the further we can push it back the more of a customer base is there to absorb the impact (cost) of new construction," said Hutto City Manager Edward Broussard.

The slowdown is also challenging the Hutto school district. Some new schools are operating at half capacity, creating a cash crunch because the school system relies on per-student payments from the state to help pay for operations, and it had budgeted for more students than it now has.

The slowdown has presented opportunities.

Hutto's small city planning staff is now rewriting the city's development codes for the first time since 1983, a task Matthew Lewis, the director of community development, said was impossible during the boom years.

"We have been constantly reviewing subdivisions, and that took up 100 percent of our time," Lewis said.

The new regulations are expected to direct development away from wide streets and cul-de-sacs and toward walkable, mixed-use communities. They also will encourage developers to expand the variety of housing built in Hutto to include multifamily and higher-end houses.

Elgin also is reconsidering its development guidelines during the building lull.

Once considered an up-and-coming market by a few national home builders in search of cheap land, Elgin was all but abandoned by them after gas prices jumped and potential homebuyers were no longer willing to commit to such a long commute.

Elgin issued 262 building permits in 2005. By 2006 it had dwindled to 112, and by last year it had dropped to eight, about the same number issued so far this year.

Revenue collected from building permit fees dropped from \$132,313 in 2006-07 to an estimated \$25,000 last year.

Earlier this year, Elgin's leaders voted to increase property taxes by about \$50 on the average \$96,936 home.

The city has stopped buying tools, vehicles and books for the library. It has delayed planned street repairs and canceled plans to add a patrol officer to its Police Department.

Elgin residents could feel more financial pain if building doesn't pick up in the next couple of years.

The city has spent \$5 million in the past three years on the expansion of its water system, and expects to spend an additional \$2.2 million in the next year.

Impact fees from the new houses built during the boom have defrayed the cost, but those funds are dwindling.

"The more folks we have, the more folks are here to pay for our capital improvements and to cover our debt service," City Manager Jeff Coffee said.

City leaders in Elgin say they think development will return and want to be better prepared than they were for the initial wave.

New regulations being considered would require developers to build better streets, dedicate parkland and encourage mixed-use and higher density projects.

"We're in a really good place because we have yet to be overrun with growth," Coffee said. "We will wait patiently so that we can make the very best of that opportunity when it comes."

Commercial projects under way

As residential development in the more established suburban cities of Kyle and Hutto has slowed, commercial development is still on the uptick.

Kyle issued 66 commercial building permits through August of this year, nearly as many as it issued in the previous three years combined.

Seton Family of Hospitals is building a 210-bed hospital at Interstate 35 and Kyle Parkway, bringing a major employer to town, and SCC Development is building a 900,000-square-foot retail center next door.

Lowe's and Kohl's are expected to open in Kyle next year.

Lowe's, Walgreens and Holiday Inn Express opened sites in Hutto this year along with many smaller retail and service businesses along U.S. 79.

Plans for additional major retail projects in or near Hutto, Manor and Bastrop have been announced with great fanfare in the past two years, but the future and timing of those projects are now uncertain.

"Even though you might see some retail being built right now, that's just carry over from when the market was going strong and deals were approved a year or two ago," said Ellis. "Trying to get any new deals approved for new projects, new construction, it has virtually ground to a halt."

Financial troubles among national retailers are compounding the problem, and many are likely to postpone entering these markets as they weigh their own economic health and the fact that residential populations aren't growing as quickly as once projected.

Blaming the economy and scarce financing, Atlantic Coast Developers said it will almost certainly postpone beginning construction on its 466-acre Crossings of Carmel Creek project at Texas 130 and U.S. 79, which it had announced would start next year.

When fully built, the Crossings of Carmel Creek would include 6 million square feet of retail and office space, 2,100 residential units and 900 hotel rooms.

And earlier this year, Endeavor pulled out of a major planned retail development in Bastrop near the southeast corner of Texas 71 and County Road 304. The group has also delayed a major retail project near Manor on 607 acres at the northeast corner of Texas 130 and U.S. 290. Retail follows rooftops, Ellis said, and many retailers won't open stores in these cities until they have more residents to support them.

Meanwhile, city leaders can only wait and see how quickly the economy turns around and the home building industry regains its momentum.

Although the demand for some services such as water and wastewater line extensions may have abated, other demands have not.

"In spite of everything we've done, we still have people who want to talk about a new rec center, a new library, and a new police station," Mattis said. "That's always the case in our business. If we don't add any new debt, we should be OK, but those needs don't stop."

Courtesy of JB Goodwin