**Annexation: "You had a lot of people voting with their feet."**

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Carmen Osenbaugh fought annexation with all the fervor the mother of five could muster.

She organized neighbors. She raised money to hire lawyers. She forfeited precious family time to attend strategy meetings and badgered the Memphis City Council with impassioned speeches.

Yet, even before the city finally annexed Hickory Hill in 1998, lassoing some 46,000 residents in a land grab equal to taking over a small city, Osenbaugh and her husband fled — first to suburban east Shelby County and then, with renewed resolve, over the state line into north Mississippi.

It was something of a self-fulfilling prophecy but Osenbaugh’s fears were realized: The neighborhood she and her friends and neighbors ran from is plagued by crime, by home foreclosures and declining property values.

“It’s horrible. They ruined Hickory Hill,” says Osenbaugh, 71, who now lives in Olive Branch. “All they wanted was money, money, money.”

The story of Memphis’ decades old grow-or-die strategy of annexation is filled with such accounts. But it’s also a story of prosperity. Central Gardens, River Oaks, Belle Meade, Chickasaw Gardens — all these affluent neighborhoods were originally located outside the city that began as a tiny frontier outpost and pushed its brand from one end of Shelby County to the other, from the Mississippi River 24 miles east to the Fayette County line.

For years, Memphis saw itself as one of those fortunate “elastic cities” with room to grow. Unhemmed by natural barriers or suburbs — we don’t want to become St. Louis was the common refrain — it stretched to find new tax revenue and wealth. New ways to sustain itself.

Yet the legacy of annexation, which climaxed in a series of spectacular additions before state lawmakers reined it in last year, may be seen, too, as one of the culprits that pushed Memphis to its financial brink.

It’s ironic, but all those years the city was growing, it was shrinking, too.

Though Memphis has added as many as 157,000 residents through annexation since 1970, swelling its land mass by roughly 50 percent to an estimated 320 square miles — bigger than New York City, the nation’s most populated city with 8.4-million residents — our population isn’t substantially different now than before we gained all that land. In fact, with an estimated 653,450 current residents, the city actually has 7,900 fewer people than it did in 1975, when 661,319 people called Memphis home.

“You’ve got infrastructure built out there to service all of these places but we didn’t add any human beings,” says city Community Development Director Robert Lipscomb, who thinks leaders need to closely re-examine the cost of delivering services. “Our population didn’t grow but our service area probably nearly doubled.”

Think about it this way:

As the city entered 1970, it had 37 fire stations. We’ve since added 21.

Memphis had some 1,000 police officers then patrolling fewer than 3,000 miles of streets and alleys from three stations.

Today, we have twice as many officers working from 10 precinct stations scattered from Downtown to Cordova, 17 miles away.

Those officers have much more ground to cover, too: 6,818 miles of paved streets counted as of last July — enough, if stretched end to end, to travel from New York to Los Angeles two and a half times.

We have all those extra employees and facilities, yet the city is serving fewer residents now than it did through much of the 1970s; all of it adding significantly to the cost of operating city government.

The open question — and it’s immensely difficult to sort out because Memphis doesn’t systematically account for its spending by region — is whether over time these annexations, some two dozen since 1970, raised more in annual tax revenue than they generated in expenses. Opinions vary sharply on the subject, but the newspaper could find no definitive study on the cost and benefits of Memphis’ polarizing history of annexation.

Still, this much is clear: The thinking on annexation has made a huge political shift. Many now wonder if Memphis simply didn’t overdo it, given how so many people were fleeing as Memphis pushed its boundaries outward.

“It’s a huge efficiency issue if you continue to stretch the land mass that the city needs to cover,” said Charlie Santo, director of city and regional planning at the University of Memphis’ School of Urban Affairs and Public Policy.

“We are annexing and have access to more land that we can tax, but that land is becoming less and less valuable. So it’s become entirely counterproductive — and inefficient.”

Few would have made such an assessment 40 or 50 years ago.

A state law passed in 1955 gave Tennessee’s cities broad power to annex, and Memphis wasted little time capitalizing. In 1957, through a simple act of ordinance by the then-City Commission, Memphis swallowed its neighbor to the north, unincorporated Frayser, adding 15 square miles and as many as 20,000 residents.

The city steamrolled into two dozen neighborhoods, open areas and industrial centers before striking big in 1969 outside the I-240 loop. It simultaneously seized sprawling Whitehaven, 19.5 square miles that reached all the way to the Mississippi state line on the south, and an 8-square-mile area known as East Metro, pushing the city limits to the current boundary of suburban Germantown on the east.

On Dec. 31, 1969, more than 55,000 people woke up as Memphians.

 “Many cities are located in states … (that) do not have the legal power to annex. Others are hamstrung by legislative restrictions so severe that, for all practical purposes, expansion is prohibited,” reads a 1967 planning document, “Annexation: A Must for a Growing Memphis.” It reasoned that urban growth — which planners then expected to be as large over the coming 25 years as it had been in the city’s previous 140 — would occur with or without an expanded Memphis.

“These cities are not able to expand along with the rapid urban growth taking place around them,” the ’67 document warned. “As a result they have suffered population declines, rapid obsolescence and corresponding losses in the tax base, and loss of key resident leadership.”

For years, this was a rallying cry: The development is already out there. Let’s bring urban-level services to those areas.

Historian Robert Sigafoos wrote the Frayser and Whitehaven annexations likely prevented those communities from incorporating and encircling Memphis with suburbs it couldn’t control.

That prospect could have cost Memphis more than annexation, says Josh Whitehead, director of the Memphis-Shelby County Office of Planning and Development.

“What if we let Whitehaven incorporate? It’s going to come at a bigger cost to us. Because you know what they’re going to do? They’re going to start approving more commercial developments than they ought to. And it’s going to suck the commercial developments out of the other parts of the city,” Whitehead said of the thinking of the time.

But in the years that followed the city triggered massive growth outside its limits by extending sewer lines, at a cost of more than $500,000 a year, then chased those new communities through annexation.

“The thinking was, we’re making money doing this,” said Mike Ritz, a recent county commissioner who, in an earlier role, served as planning director from 1977 to 1981. Though Ritz now questions the wisdom of some of the city’s later expansion, he’s critical of a budding school of thought calling for the city to forfeit — to de-annex — some of that hard-fought ground.

“In retrospect, if you sit back and look at it right now, decisions were made for what they thought were rational reasons, and I’m not sure there would be much benefit in unwinding any of that,” he said.

There’s no denying annexation opened spigots of new revenue.

A year after annexing Hickory Hill in 1998, the city’s tax base jumped by 11 percent.

By 2008, after a series of annexations that pushed the city limits to the Fayette County line, the city’s total appraised property value rose to $36.6 billion — 52 percent higher (15 percent higher when adjusted for inflation) than before it added Hickory Hill.

Property tax revenue more than doubled in those 10 years, up nearly 70 percent even when adjusted for inflation.

But the cost of operations rose, too.

Ten years after Hickory Hill, the city was collecting an additional $115 million a year in local taxes — mainly property and sales taxes — but it was spending an extra $153 million in its general operations. Simultaneously pouring millions into the long-neglected inner city and into newly annexed areas, Memphis engaged in deficit spending over several of those years. City leaders dipped heavily into reserve funds that all but evaporated for a time.

Measuring annexation’s role in that — did it pay for itself? — is extraordinarily complicated.

**Personal Perspective**
*"Right-minded public officials do not make decisions knowing they are bad decisions. Bad decisions are made in the absence of complete information."*
— **John Gnuschke, Director of the Sparks Bureau of Business and Economic Research at UM**

“It’s muddied. It’s so hard to quantify. I think that’s why no one has done it,” said planning director Whitehead, who wrote a graduate thesis that found service delivery is more cost effective in Memphis, because of annexation, than in Cincinnati, where there is more fragmentation of services among local governments.

One thing is certain: Hickory Hill was an expensive undertaking.

The City Council voted to annex the area in 1987 during Mayor Dick Hackett’s administration, but a lawsuit blocked the addition for 11 years, until Willie Herenton was mayor. To settle that lawsuit, Memphis agreed to make $150 million in improvements. That included $52 million to build four schools and to renovate another. The city spent $4 million for a police precinct station. It built a $10 million community center, two fire stations and five neighborhood parks.

“Before that, the city usually broke its promises,” said Dan Norwood, the attorney who fought the Hickory Hill annexation. Norwood believes his suit marked the first time an annexation plan of services was made part of an enforceable court order.

But Norwood had a problem, too. Among a dozen or more plaintiffs he represented in the suit, he could hardly find one still living in Hickory Hill when it came time to sign the settlement.

“I call one after the other,” he recalls. “They didn’t live there anymore.”

Like thousands of other Hickory Hill residents running from city taxes, from the perception of inferior city schools and their own fears, Norwood’s clients fled.

The impact of that mass exodus of the middle class was devastating:

The median household income fell by more than half in parts of Hickory Hill, from an adjusted $51,900 in 1990 in its northeast corner to as low as $22,100 in parts of that area in 2010.

Foreclosures soared, increasing by 32 percent to as much as 246 percent in some neighborhoods over one five-year stretch last decade.

The decline is seen in the largely vacant Hickory Ridge Mall, where anchor stores such as Macy’s, Sears and Dillard’s are gone, where large shopping crowds are a thing of the past.

“It was like a perfect storm,” says Patrick Jacobs, who manages the mall for a nonprofit group set up by World Overcomers Outreach Ministries, which bought the mall after a tornado struck in 2008.

Jacobs describes the trek of the storm like this: Annexation hit; followed by new city taxes; the departure of Hickory Hill’s middle class; their replacement by residents of lesser means; followed by widespread home foreclosures; and the opening of a new freeway, Highway 385, which only accelerated the migration.

Numbers of homeowners were replaced by renters as the city tore down inner-city public housing and gave its former tenants Section 8 rental vouchers, casting them into apartment complexes and single-family homes across Hickory Hill.

In January the mall was 38 percent occupied; its tenants include a nail salon, men’s and women’s apparel stores, a tax preparation service, some government offices and a “Prayer Station,” staffed by volunteers to educate the public on the power of prayer. Exercisers walk the long hallways at the mall, which has taken to calling itself the Hickory Ridge Towne Center, past darkened shops and its famous double-decked carousel, which sat idle on a recent morning.

“We’re busily working to find out what’s going to click with our clientele,” says the optimistic Jacobs.

The decline is seen, too, in the boarded-up houses around Flowering Peach Park, which the city agreed to redevelop as part of the annexation settlement, and in Carmen Osenbaugh’s old neighborhood near Raines and Ridgeway, where property values have plummeted.

Osenbaugh and her late husband bought their 4-bedroom Hickory Hill home in 1976 for $44,400, an amount equal to $185,000 in current dollars. It sold in 2011 for $45,000.

Among 30 homes located along a two-block stretch along Park Forest Drive where the Osenbaughs lived, 16 are owned by nonresident investors, some who live as far away as California and Connecticut; an equal amount have experienced foreclosure. Prices of homes sold there between 2005 and this January ran 61 percent lower, adjusted for inflation, than when the neighborhood was developed in the 1970s.

“Everything was getting run down. They had cops coming in,” said Osenbaugh, who’s found a quieter life in Olive Branch, where she doesn’t fear crime and where she’s satisfied with the schools, attended by two grandsons.

These patterns actually began before the city took over, posing a chicken-and-egg question: Did annexation cause the decline or would it have happened anyway?

“Annexation ignored the fact that people would just leave and go to the next suburb,” said Norwood, who believes the city made a major miscalculation.

That reality — people leaving — factored into a state law change that effectively ends Memphis’ annexation.

“It was counterproductive,” said state Sen. Mark Norris (R-Collierville), who co-sponsored a bill passed last year terminating annexation by ordinance. State law now requires the consent of residents in the area to be annexed, either by petition or referendum.

“You had a lot of people voting with their feet.”

Despite challenges, not all of Hickory Hill is in decline.

“I’ve had friends say, ‘Really? You live over there?’ ’’ said Carrie Moss, 32, who lives in a thriving middle-class neighborhood with her fiancé and teenage son on Hickory Hill’s eastern fringe. “Then they actually see the neighborhood and they said, ‘It’s really nice.’”

Hundreds of good-paying jobs remain. Sharp Manufacturing, which opposed annexation, is there still. So is the old Stroh’s brewery, now is operated by Blues City Brewery.

“Job creation is the single most important thing we can do,” said U of M professor John Gnuschke, who believes annexation on the whole was good for the city. While troubling, population loss is not insurmountable, he said, not a force of the order that destroyed some cities.

“We’re absolutely not Detroit,” he said. “When all that came up everyone said, ‘Oh my God, we’re like Detroit.’ No we’re not like Detroit. We’re fiscally conservative. We’re pretty tightfisted. The financial problems that we have are minor relative to other cities. We still have the ability to pay all our bills and do it within the budget that we’ve got. So that’s pretty rare in most communities.”

*Data reporter Grant Smith contributed to this story.*