



Tackling Tax Increment Reinvestment Zones

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Key Points

- Texas implements TIF through tax increment reinvestment zones (TIRZ). Texas' expansive TIRZ statute allows for their creation in areas that do not have problems attracting private investment.
- TIRZs are unaccountable to private citizens, and it is difficult for Texans to learn and understand how much revenue TIRZs collect, how much they spend, and why.
- In the short term, the Legislature should tighten TIRZ creation criteria to require a finding of blight and require greater government transparency.
- Over the long term, Texans should monitor TIRZ development to see if they add value to an urban area or simply add another layer of government.

Executive Summary

Tax increment financing (TIF) is a public financing tool that uses increased property tax revenue within a designated area for redevelopment projects. TIF advocates believe it helps redevelop blighted areas that would not otherwise see private investment, and thereby increases total economic growth in the area. However, serious concerns exist regarding Texas' use of TIF. First, Texas' statute provides local governments with expansive creation criteria for a tax increment reinvestment zone (TIRZ), such that local governments use TIF not only in blighted areas, but in areas that were already attracting private investment. Second, information on TIRZs is difficult to find, and it is therefore difficult for citizens to hold TIRZ boards accountable. Finally, recent studies of TIF suggest that it does not increase the overall level of development in a city, but merely reshuffles development from one area to another. In the near term, the Texas Legislature should tighten TIRZ creation criteria by requiring a finding of blight, and it should require TIRZs to post their financial information, meeting agendas, and agenda minutes on TIRZ websites that are accessible to all. Over the long term, the effect of TIF in Texas should be studied to determine whether or not TIRZs add value.

Issue

TIF is an economic development tool that has been used by every state and the District of Columbia, with the exception of Arizona. Most states justify TIF on the theory that it helps redevelop blighted areas that cannot attract private investment on their own ([Millsap](#)). There-

fore, TIF advocates believe it increases total economic growth in an urban area ([O'Toole](#), 8).

In general, to form a TIF district, a city or county must draw a boundary around an area that meets the state criteria for redevelopment. The local government also creates a redevelopment entity for the TIF district. At the moment the TIF district is created, property taxes generated in the district are frozen as the baseline level of revenue. Baseline revenues will continue to fund local government services over the life of the district. Any increase in revenue over the baseline level—the “tax increment”—due to new development or increased property values in the TIF district is captured by the redevelopment entity. The local government can sell bonds secured by the projected incremental tax revenue to finance development projects in the district ([Millsap](#)).

In Texas, a TIF district is called a Tax Increment Reinvestment Zone (TIRZ), and Chapter 311 of the Tax Code outlines the creation and use of TIRZs. Some features distinguish Texas' TIRZ legislation from the TIF legislation of other states, including the fact that property owners can petition to create a TIRZ, and that overlying taxing districts such as school districts and special purpose districts can opt out of participating in a TIRZ ([Eversberg and Goebel](#), 2).

Texas' statutory criteria for creating TIRZs are also expansive, pushing beyond the narrower finding of blight required in other states ([Eversberg and Goebel](#), 2). The primary statutory limitation on confining a TIRZ to a blighted area is not much of a limitation in practice. Section 311.005 of the Tax Code requires that an area's present condition must substantially impair the city's growth, retard the provision

of housing, or constitute an economic or social liability to the public health, safety, morals, or welfare ([Texas Tax Code §311.005](#)). However, this limitation has been interpreted broadly, resulting in tax increment money used in middle-income areas and to upgrade areas around downtown that already show signs of gentrifying ([Morris](#)).

For example, a *Houston Press* news report in June 2015 suggests that Houston's TIRZ system has been used to benefit high-dollar commercial areas while providing little to no value to poorer neighborhoods that are primarily residential ([Jansen](#)). A 2015 candidate for city controller demonstrated in a comprehensive report that the Uptown TIRZ—a high-income commercial area in Houston—captured about \$33 million in incremental property tax revenue in fiscal year 2014 ([Jansen](#)). Meanwhile the Fifth Ward TIRZ—a low-income residential area in Houston—captured only \$427,000 in revenue ([Jansen](#)). This shows that the TIRZ system in Houston may be channeling redevelopment into areas that already attract private investment, in contrast to the economic rationale for TIF.

Further, the opaque nature of TIRZ governance makes it difficult for Texans to hold TIRZ boards accountable. Under Texas' Tax Code Section 311.019, municipalities and counties that oversee reinvestment zones are required to regularly provide the Texas Comptroller information regarding the creation of new TIRZs ([Texas Tax Code §311.019](#)). The local governments must also provide the Comptroller copies of each project plan and reinvestment zone financing plan adopted, including later amendments and modifications. This information is published in a biennial central registry accessible to the public.

While the Central Registry is a valuable aid in documenting overall TIRZ proliferation in the state, the fact that it is only published every other year makes it less useful in evaluating TIRZ board decisions in real time. For instance, the *Houston Press* reported that Houston's Midtown TIRZ attempted to annex high-value portions of Montrose in November 2014 ([Jansen](#)). The Midtown TIRZ never held a public meeting and didn't bring the item to the Montrose Management District, an improvement district overseeing development in Montrose. The only reason the attempted annexation received public scrutiny is because it was brought to the attention of a former Houston city council member, who sounded the alarm and galvanized public opposition. This raises a concern that similar actions may escape public attention.

Finally, it is unclear whether the economic rationale undergirding TIF withstands scrutiny. According to TIF advocates, TIF redevelopment projects are “self-financing,” as the projects within the district allegedly create the higher property values that pay for the projects ([O'Toole](#), 8). However, bonds for current development are secured by uncertain future projections of increased property values, which may never materialize. Moreover, in a normal market property values would fall low enough that over time people would buy and invest within the area without a public subsidy. Therefore, it can be difficult to establish whether TIF is responsible for redevelopment, or whether it captures redevelopment that would have happened anyway ([Millsap](#)). In addition, some studies suggest that TIF does not increase the total amount of development in a region, but instead shuffles development from one location within the region to another location ([Dye and Merriman](#)). If true, any use of TIF would be unjustified.

Recommendations

In light of these concerns, the Texas Legislature should tighten TIRZ creation criteria and end the opaque governance of TIRZs. Over the long term, legislators should evaluate whether TIRZs bring development that would not otherwise occur, or whether they simply reshuffle development.

First, TIRZ creation criteria should be tightened to require a finding of blight. The broad interpretation of the current statute allows for the creation of TIRZs in middle-income and high-income areas that do not present problems in attracting private investment. In such situations, TIF adds no value.

Second, Texans have a right to know how much TIRZs are collecting, how much they are spending, and why. To that end, the Legislature should require TIRZs to post their financial information, meeting agendas, and meeting minutes on an entity website.

Finally, recent studies of TIF in Chicago suggest that it does not accomplish its purpose of increasing overall development in an urban area, but reshuffles development from one location to another within the urban area. Given this concern, Texans should monitor the future development of TIRZs to determine whether or not they increase overall development. ★

References

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About the Author



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Prior to joining the Foundation, Mathew negotiated and reviewed federal contracts for research at the University of Texas Medical Branch, and worked at the City of Houston Legal Department in the real estate section. His time with the City of Houston ignited his interest in pursuing conservative, market-oriented reforms at the local level.

Mathew hails from Galveston, Texas, where he learned the value of hard work, self-sacrifice, and perseverance from his Indian immigrant parents. He earned his undergraduate degree in government from the University of Texas in Austin, and he left his beloved Texas to attend Vanderbilt University Law School in 2011. While in law school, he had a unique 8-month internship opportunity with the Securities and Exchange Commission Enforcement Office in Atlanta, Georgia. Mathew graduated from Vanderbilt Law in 2014.

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