Chairman Murphy and Members of the Committee:

My name is Bryan Mathew and I am a policy analyst with the Center for Local Governance at the Texas Public Policy Foundation, a free-market research institute based in Austin, Texas. Thank you for the opportunity to address the committee today to provide a brief overview of special purpose districts in Texas. With my time, I would like to highlight Tax Increment Reinvestment Zones, or TIRZs, as an example of some of the problems we find with special districts.

Special purpose districts (SPDs) are the most numerous units of government in Texas, yet many people know relatively little about their function, structure, or governance, earning them the nickname: Invisible Governments. ¹

SPDs are independent governmental entities that exist locally, provide infrastructure, and deliver specific services, like firefighting, road construction, and water treatment. Districts can be created by local government bodies, the Texas Legislature, or the Texas Commission on Environmental Quality. Generally, SPDs are governed by the Commissioners Court of the county of their origin or by a board of directors.

The purpose and jurisdiction of SPDs tend to vary from district to district, but broadly speaking, they can include the power to:

- Impose a property tax;
- Impose a sales tax;
- Issue bonds and borrow money;
- Contract with other entities;
- Sue and be sued;
- Acquire, purchase, sell, or lease real or personal property; and/or
- Eminent domain.

Although SPDs have broad powers, they are not limitless. For example, district bonds must be approved by two-thirds of the voting public residing in the district, and may not exceed one-fourth of the assessed value of property in the SPD.

Today, there are approximately 3,350 special districts in Texas providing all manner of government goods and services. Of these thousands of districts, there are approximately 40 different types.

Today, I would like to highlight Tax Increment Reinvestment Zones, or TIRZs.

Tax increment financing (TIF) is a public financing tool that uses increased property tax revenue within a designated area—a TIF district—for redevelopment projects. In Texas, a TIF district is called a Tax Increment Reinvestment Zone (TIRZ). TIRZs are governed by Chapter 311 of the Tax Code.

In general, to form a TIRZ, 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 TIRZ. At the moment the TIRZ is created,

¹ See the Texas Senate Research Center's October 2014 study Invisible Government: Special Purpose Districts in Texas.
property taxes generated in the district are frozen as the baseline level of revenue. These baseline revenues 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 TIRZ 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.

Under Chapter 311, the creation criteria for TIRZs are expansive, pushing beyond the finding of blight required by other states. 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. 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.

The city of Houston gives a good example of how this works in practice. A Houston Press news report in June 2015 shows 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. 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. Meanwhile the Fifth Ward TIRZ—a low-income residential area in Houston—captured only $427,000 in revenue. 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.

Furthermore, like other special districts, the opaque nature of TIRZ governance makes it difficult for Texans to hold TIRZ boards accountable. A biennial central registry listing all TIRZs in Texas is compiled by the Texas Comptroller. This registry includes copies of each TIRZ’s project plans and financing plans. However, the fact that this registry is only published every other year makes it difficult to evaluate 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. 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.

### Types of Special Purpose Districts in Texas

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<tr>
<th>Groundwater Management Area (GMA)</th>
<th>Sports and Community Venue District (SCVD)</th>
<th>Noxious Weed Control District (NWCD)</th>
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<tr>
<td>Groundwater Conservation District (GCD)</td>
<td>Multijurisdictional Library District (MJLD)</td>
<td>Road District (RdD)</td>
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<td>Water Control and Improvement District (WCID)</td>
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<td>Fresh Water Supply District (FWSD)</td>
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<td>Municipal Utility District (MUD)</td>
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<td>Water Improvement District (WID)</td>
<td>Municipal Development District (MDD)</td>
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<td>Drainage District (DD)</td>
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<td>Irrigation District (ID)</td>
<td>Hospital District (HD)</td>
<td>Tax Increment Reinvestment Zone (TIRZ)</td>
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<td>Regional District (RD)</td>
<td>Health Services District (HSD)</td>
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<td>Navigation District (ND)</td>
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<td>Self-Liquidating Navigation District (SLND)</td>
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<td>Special Utility District (SUD)</td>
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<tr>
<td>Stormwater Control District (SCD)</td>
<td>Crime Control and Prevention District (CCPD)</td>
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<td>Municipal Management District (MMD)</td>
<td>Agricultural Development District (ADD)</td>
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*Source: Texas Senate Research Center*
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. 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. In addition, studies by the Lincoln Institute of Land Policy 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 through the lure of subsidies. If true, any use of TIF would be unjustified.

There are several reforms needed for TIRZ and special purpose districts generally.

First, special purpose districts that have been authorized to levy a tax or issue bonds should be charged with creating and maintaining basic financial information online, such as budgets, financial statements, and check registers. Achieving this standard of government transparency can be done either by posting such detail on the SPD’s website or on a centralized system hosted by a state agency, such as the Comptroller’s office.

Second, special purpose districts should undergo a periodic assessment of their need, roles, and responsibilities through a comprehensive review process. This periodic review process could take the form of regular self-evaluations (akin to HB 3397 from the 83rd Legislature’s regular session or HB 1548 from the 84th Legislature’s regular session), an interim committee-driven process, or independent study by a state agency or commission, such as the Sunset Advisory Commission. To make the process more manageable, annual reviews could be conducted for a subset of the overall total with the goal of evaluating all units over a multi-year timeframe.

Third, 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. Specifically, this would mean limiting TIRZ expenditures to 1) cleaning up brownfields—areas certified as so environmentally contaminated that they pose a danger to public health, 2) demolishing effectively abandoned structures, and 3) refurbishing/expanding traditionally publicly owned infrastructure, including roads, sewer, and water pipelines.

Finally, as stated above, recent studies of TIF in Chicago suggest that it does not accomplish its purpose of increasing overall development in an urban area, but resuffles development from one location to another within the urban area. Given this concern, the comprehensive review process for special purpose districts should pay special attention to TIRZ creation and determine whether or not they increase overall development. Tax increment financing should be a last resort to finance redevelopment in areas that private investors would otherwise not enter, not a way for cities to finance development in already well-to-do areas.

Thank you for your time today. I look forward to answering your questions.

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2 See interim charge to the 83rd Texas Legislature’s House Committee on Special Purpose Districts: Conduct a comprehensive review of existing special purpose districts in the state. Study how special districts interact with other local governments and local taxpayers during and after their creation. Examine circumstances under which special districts are accountable to local taxpayers and make recommendations on ways to increase spending transparency among districts.
About the Author

Bryan T. Mathew is a Policy Analyst in the Center for Local Governance at the Texas Public Policy Foundation.

Prior to joining the Foundation, Bryan 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.

Bryan 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. Bryan graduated from Vanderbilt Law in 2014.

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 nonprofit, nonpartisan research institute. The Foundation’s mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.