

Invisible Government: Tax Increment Reinvestment Zones

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.

Under Chapter 311, the creation criteria for TIRZs are expansive, pushing beyond the finding of blight required by other states. This has resulted in TIRZ creation in middle-income areas and other places that do not have difficulty attracting development.

In Houston, TIRZ revenue is exempted from the property tax revenue cap. This has created a perverse incentive for TIRZ proliferation, so as not to trigger broader property tax rate cuts. So far, Houston has created 27 TIRZs.

PROBLEMS

- Loose creation criteria raise the prospect for abuse. Under current law, a TIRZ can be created as long as an area's present condition has been judged to 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.
- These criteria have been interpreted broadly, so that tax increment money has been used in middle-income areas and to upgrade areas around downtown that already show signs of gentrifying.
- In Houston, redevelopment has been channeled into areas that already attract private investment, in contrast to the economic rationale for TIF.
- It can be difficult to establish whether TIF is responsible for redevelopment, or whether it captures redevelopment that would have happened anyway.
- Studies suggest TIF may not increase the total amount of development in a region, but instead shuffles development from one location within the region to another location.
- 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.

"People don't understand that these [special districts] are government entities. For people to hold government accountable, they need to know that a group is a government entity to begin with. Many of these are operating under the radar. And they don't seem to want the public to know they exist."

~ Ellen Witt, former deputy attorney general for legal counsel at the Office of the Attorney General of Texas.

SOLUTIONS

- Tighten TIRZ creation criteria to require a finding of blight.
- Require TIRZs to post financial information, meeting agendas, and meeting minutes on an entity's website.
- Monitor TIRZ activities to examine whether TIRZs are increasing overall economic development in order to determine whether additional reforms, including the abolishment of TIRZs, is necessary. 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.