

**SUBJECT:** Reinvestment zones and tax increment financing revisions

**COMMITTEE:** Ways and Means — committee substitute recommended

**VOTE:** 8 ayes — Oliveira, Bonnen, Craddick, Heflin, Keffer, T. King, Ramsay, Sadler

0 nays

3 absent — McCall, Y. Davis, Hilbert

**WITNESSES:** For — Guy Hagstette, Central Houston Inc.; Robert Randolph, Houston Reinvestment Zones 2 and 3

Against — None

On — Mark Mendez, Tarrant County Commissioners Court

**BACKGROUND:** The Tax Increment Financing Act, enacted by the Legislature in 1981, allowed cities to establish tax increment financing (TIF) or reinvestment zones to promote urban renewal projects. In general, tax increment funding is used for public works projects, such as sidewalk systems or parking structures, that encourage private development in reinvestment zones. To be designated a reinvestment zone, an area must impair substantially the sound growth of the municipality because of obsolete platting, deterioration of structures, health and safety concerns, or a lack of adequate housing. Current law allows a TIF to fund expenditures only for projects located within the zone.

One expected result of tax increment funding is an increase in property values and tax levies after the creation of a reinvestment zone. Each participating taxing unit deposits into a tax increment fund most of this incremental property tax revenue. This fund is used to repay bonds issued for project costs and to cover other expenses of the reinvestment zone. Tax increment funding differs from tax abatements, which involve a taxing unit's agreeing to waive part or all of a tax it levies on private property owners.

DIGEST: CSHB 2684 would allow revenue in a tax increment fund to pay for any project that benefitted a TIF zone, whether inside or outside the zone, including costs associated with:

- ! school facilities of a public school district, community college district, or other political subdivision of the state;
- ! railroad and transit facilities;
- ! affordable housing;
- ! remediation of conditions that contaminate public or private property;
- ! preservation of the facade of public or private buildings;
- ! demolition of public or private buildings; or
- ! replacement of housing or areas of public assembly.

Any projects located outside the reinvestment zone could be funded with TIF revenues only if each participating taxing unit approved.

CSHB 2684 would enable a municipality to authorize the board of directors of a reinvestment zone to exercise any of the municipality's powers with respect to the administration, management, or operation of the zone, by ordinance or resolution, except that the municipality could not authorize the board to issue bonds, impose taxes, or give final approval to the project plan. The board of a reinvestment zone could exercise any power granted by Tax Code, sec. 311.008 unless the municipality restricted the board from doing so. The bill would establish that Tax Code, chapter 311 would control in the event of a conflict between that chapter and a municipal charter.

The bill would enable any taxing unit, other than a school district, to enter into a tax abatement agreement with an owner of real or personal property in a reinvestment zone. Tax abatement agreements would have to be approved by the board of the reinvestment zone and by each taxing unit that made deposits into the tax increment fund. Abated taxes would not be included in calculations of a taxing unit's tax increment or its deposit to the tax increment fund. The bill would specify that a taxing unit would not be prohibited from depositing all of the tax increment produced by a reinvestment zone into its tax increment fund.

CSHB 2684 would authorize the board of a reinvestment zone and the governing body of a municipality to contract with a local government corporation to manage the reinvestment zone or to implement the project plan

and financing plan. The bill would amend Transportation Code, sec. 431.101 to stipulate that a local government corporation could be created only if the articles of incorporation and bylaws were approved by each local government on behalf of which the corporation was created to act.

The bill would apply to the directors and officers of these local government corporations the provisions of the Texas Non-Profit Corporation Act (art. 1396-1.01 et seq., VACS) relating to powers, standards of conduct, and interests in contracts. It would specify that a member of the board of a reinvestment zone is not a public official by virtue of that position and could be appointed to serve on the board of a local government corporation, and vice versa. The bill would allow directors on the board of a local government corporation to live outside the municipality, so long as a majority of the board lived within the municipality.

CSHB 2684 would specify that none of its provisions were intended to affect the calculation of school districts' taxable values nor to prohibit a member of a taxing unit that levies property taxes in the reinvestment zone from serving on the board of a reinvestment zone.

CSHB 2684 would take immediate effect if finally passed by a two-thirds record vote of the membership of each house.

**SUPPORTERS  
SAY:**

TIF zones have proven to be effective means of economic redevelopment for cities of all sizes. CSHB 2684 would clarify a number of questions that have arisen in recent years as cities and boards of directors of TIFs and local government corporations have experimented with their authority under the Tax Increment Financing Act. The bill would smooth some procedural rough edges for the management of TIFs, particularly in larger urban centers, without harming the TIF activities of other municipalities.

The bill would allow cities to address public-works needs outside of TIF zones that enhance economic development inside the zone. So long as every taxing unit participating in the TIF agreed, zone funding could be used to pay for projects outside the zone, such as street and bridge repairs, sewer upgrades, and school construction and rehabilitation. The bill also would address the needs of TIFs to remediate private property conditions that pose a potential hazard, such as crumbling facades and condemned structures.

CSHB 2684 would clarify that the directors and officers of local government corporations are governed by the Texas Non-Profit Corporation Act and must comply with the same laws as a housing finance corporation with regard to awarding contracts. It also would clarify the powers and duties of the TIF board and would codify the abilities of a municipality to delegate and restrict authority.

CSHB 2684 would specify that school districts could not enter into tax abatement agreements and that nothing in the bill was intended to have any effect on school financing formulas.

OPPONENTS  
SAY:

TIF funds are best spent inside the TIF zone. CSHB 2684 would present opportunities for abuse, especially regarding decisions to fund projects outside the zone and to cover remediation, demolition, and preservation of private property. The potential already exists for strong political pressure to be put on a TIF board to approve certain projects inside the TIF, and this pressure would expand if outside projects had to be considered.

OTHER  
OPPONENTS  
SAY:

The changes made by CSHB 2684 should apply only to TIFs created after enactment. Some changes made by the bill could have unintended negative consequences if applied retroactively to agreements reached in the past between cities, taxing units, and private citizens.

NOTES:

The committee substitute added language redefining “project costs” and specifying that board members are not public officials by virtue of their appointments to the board. The substitute deleted language from the original bill referring to a taxing unit’s abilities to retain funds that otherwise would be paid into the tax increment fund. The substitute also added to various sections regarding the powers of the board and local government corporations and the applicability of other laws to both entities.

The companion bill, SB 1864 by Gallegos, has been referred to the Senate Economic Development Committee.