

Tax Increment Reinvestment Zone (TIRZ) Program

Economic Development Committee

March 19, 2025



**Mayor's Office of
Economic Development**

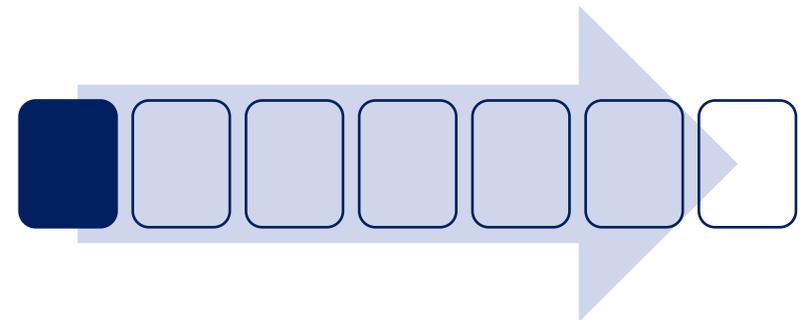
Gwendolyn Tillotson-Bell

*Chief Economic
Development Officer*

Presentation Outline



TIRZ Defined



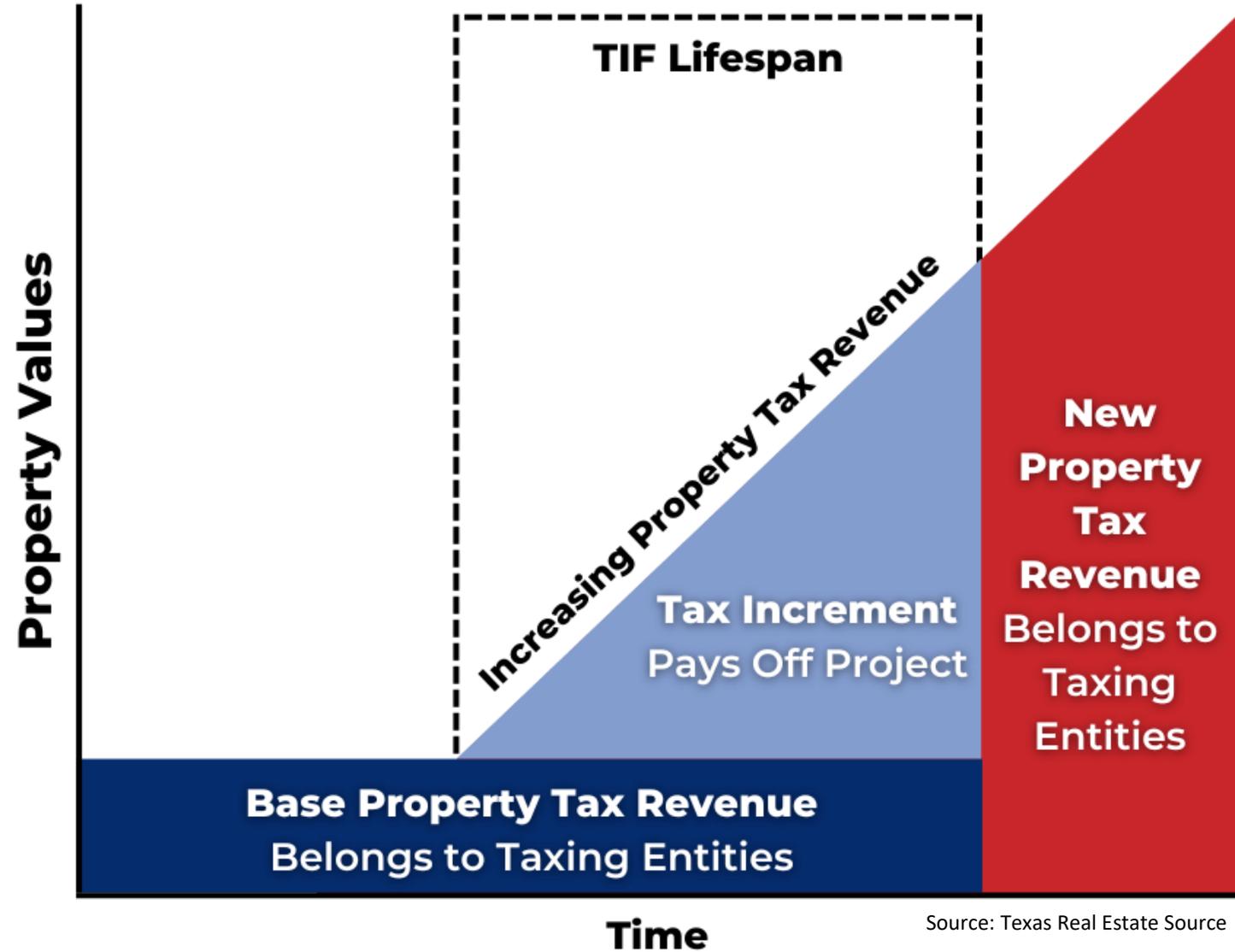
What is a TIRZ?

**Tax Increment
Reinvestment
Zone**

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=
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Private Investment
Reinvested within
A specific geography

What is TIF?



Source: Texas Real Estate Source

Texas Tax Code Chapter 311

Tax Increment Financing Act (est. 1987)

Procedure for creating TIRZs

Required TIRZ ordinance content

Criteria for TIRZ designation

Restrictions on TIRZ composition

Changing boundaries or terms of existing TIRZs

Powers and Restrictions on Powers of a municipality or county

Board of Directors composition, powers, and duties

Required project plan and financing plan content

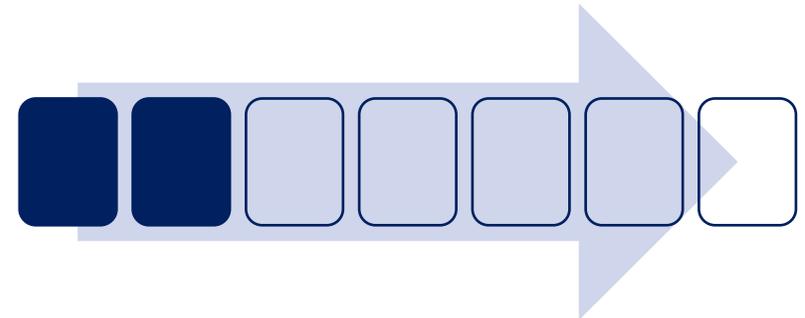
Determining, collecting, and depositing tax increment

Tax increment bonds and notes

Annual Report requirements

Criteria for TIRZ termination

TIRZ Creation Criteria and Limitations



Texas Tax Code Chapter 311

Creation Criteria

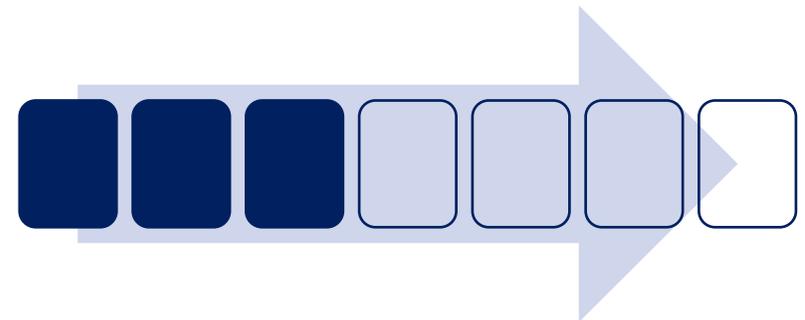
- Substantially arrest or impair sound growth because of the presence of:
 - a substantial number of substandard, slum, deteriorated, or deteriorating structures;
 - the predominance of defective or inadequate sidewalk or street layout;
 - unsanitary or unsafe conditions;
 - the deterioration of site or other improvements;
 - Other conditions defined;
- Substantially arrest or impair sound growth because of obsolete platting, deterioration of structures or site improvements, or other factors
- Petition by property owners with 50% of the appraised value

Texas Tax Code Chapter 311

Creation Restrictions

- Residential land not exceed 30%
- Petitioned TIRZs are required to contribute 1/3 for AH
- 25% cap of the total appraised value within the aggregate zones
- A generally contiguous area but amended statute allows for non-contiguous zones if both areas share a common nexus

City of Houston's TIRZ Program



TIRZ Program Legal & Policy Framework

Texas Tax Code Chapter 311

City of Houston Financial Policies (Ord. 2023-726)

Section N:
TIRZ
Financial
Policies

MOED Administrative Procedures

Guiding Philosophy

Proposal Criteria

Section N: TIRZ Financial Policies

1. Creations

- Considered when area demonstrates a nexus between the proposed eligible projects and economic growth spurred by new investment

2. Life Extensions

- Will be considered :
 - Securing financing for an approved project
 - Providing additional time to complete an approved project
 - Leveraging new funding

3. Termination

- May be recommended if a TIRZ:
 - Has met its objectivesOR
 - Has underperformed and is unsuccessful at meeting its objectives after 15 years unless there's infusion of investment

Additional Policy Guidelines

- Annexations
- Deannexations
- Non-Contiguous
- Performance
- Budgets and CIPs
- Debt

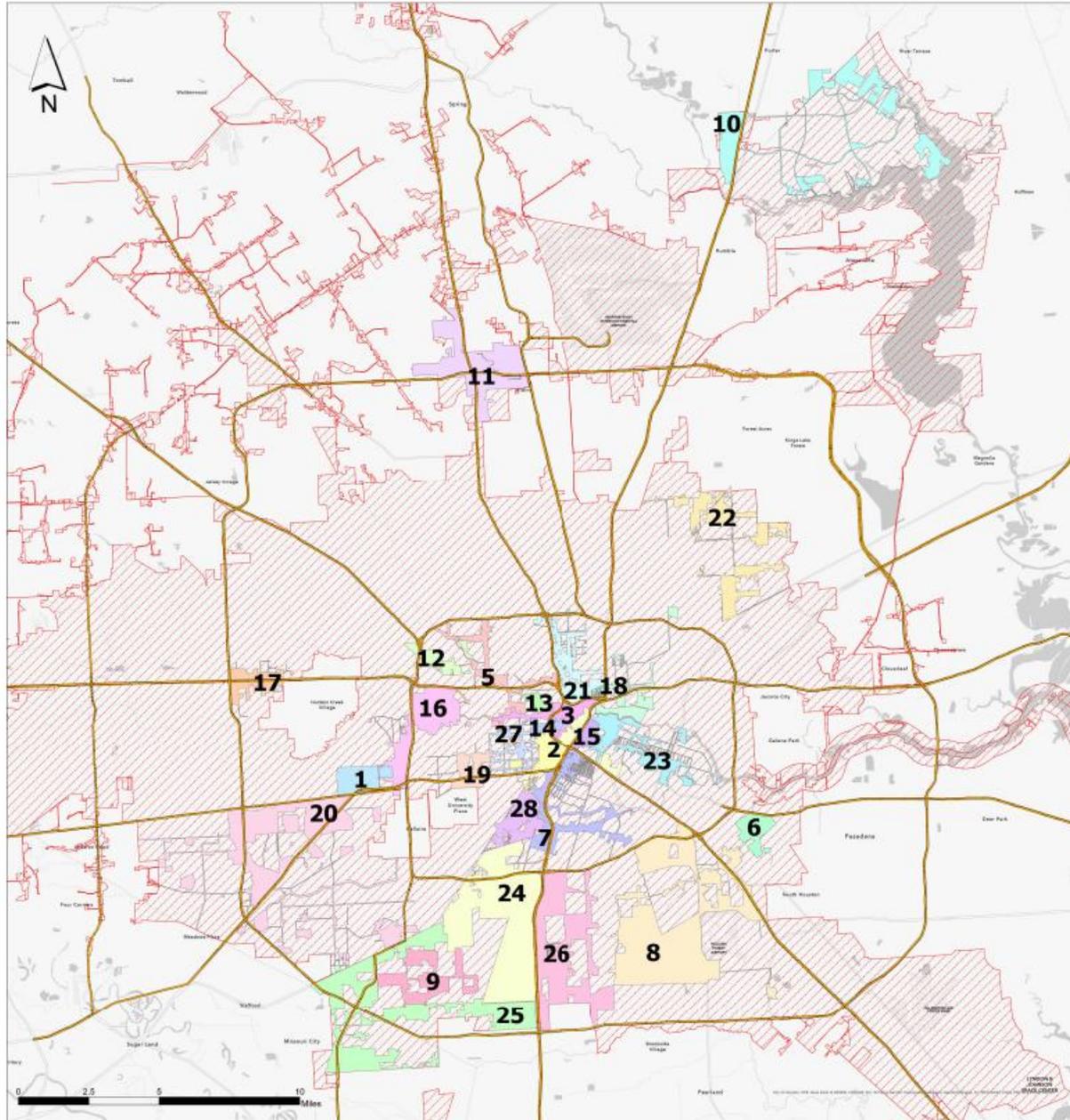
Where are Houston's TIRZs?

TIRZ PROGRAM CITY OF HOUSTON

-  Houston City Limits
-  Houston Freeways
- Tax Increment Reinvestment Zones
-  1 St. George Place
-  2 Midtown
-  3 Main St./Market Square
-  5 Memorial Heights
-  6 Eastside
-  7 OST/Alameda Corridors
-  8 Gulfgate
-  9 South Post Oak
-  10 Lake Houston
-  11 Greenspoint
-  12 City Park
-  13 Old Sixth Ward
-  14 Fourth Ward
-  15 East Downtown
-  16 Uptown
-  17 Memorial City
-  18 Fifth Ward
-  19 Upper Kirby
-  20 Southwest Houston
-  21 Hardy/Near Northside
-  22 Leland Woods
-  23 Harrisburg
-  24 Greater Houston
-  25 Hiram Clarke/Fort Bend
-  26 Sunnyside
-  27 Montrose
-  28 Medical Center Area

Source: City of Houston GIS database,
Date: January 29, 2025

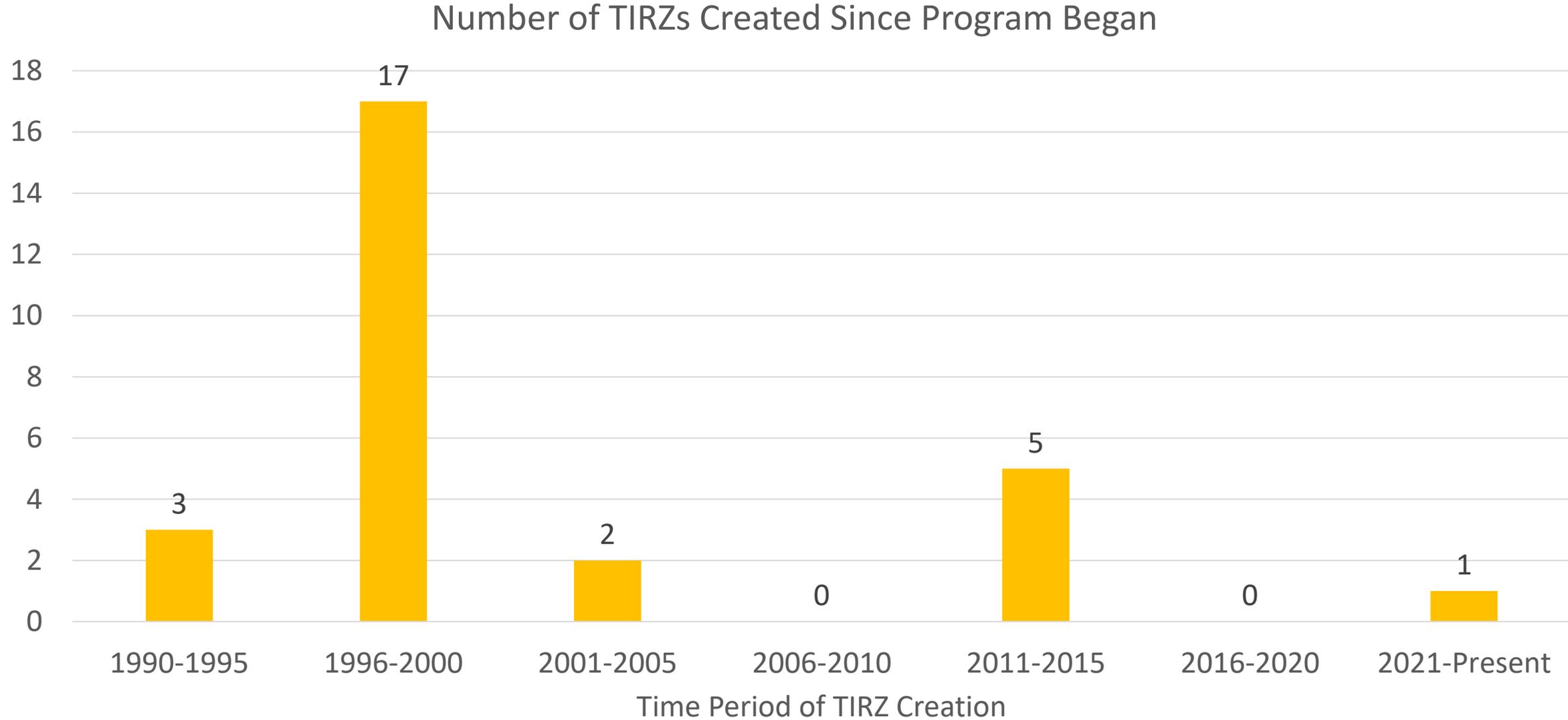
This map is made available for reference purposes only and should not be substituted for a survey product. The City of Houston will not accept liability of any kind in conjunction with its use.



TIRZs Created by Petition

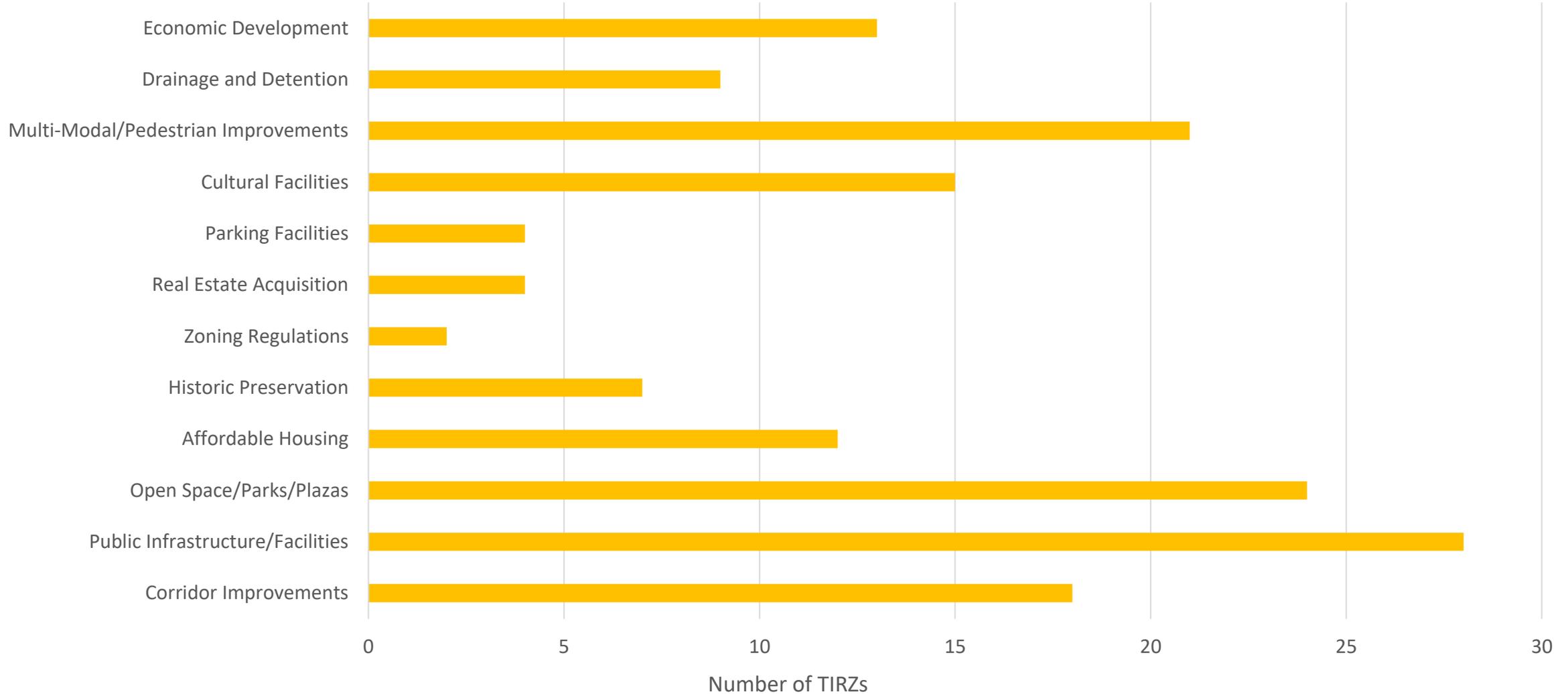
- 1** St. George Place
- 2** Midtown
- 9** South Post Oak
- 13** Old Sixth Ward
- 14** Fourth Ward
- 16** Uptown

When were Houston's TIRZs created?



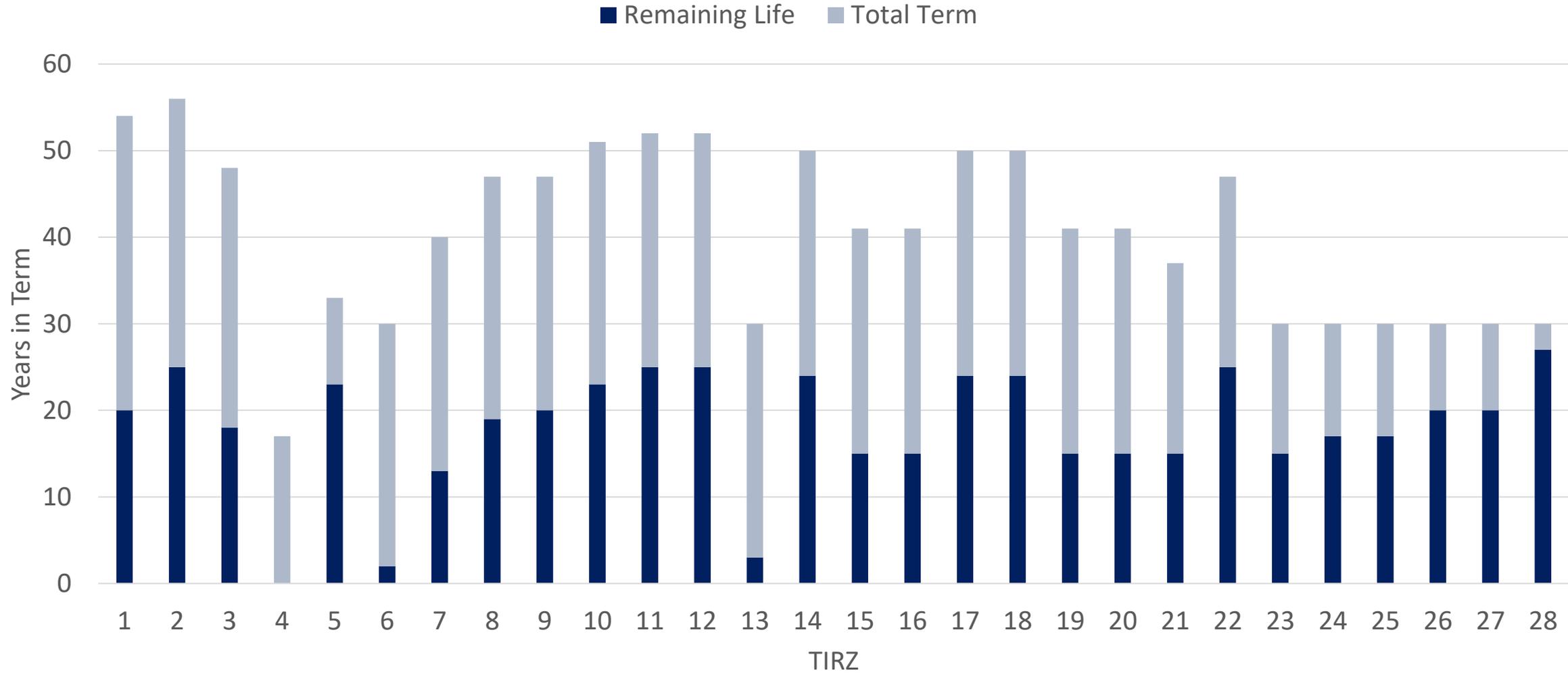
What do TIRZs do?

Common Zone Priorities Among TIRZs



TIRZ Life Terms

Remaining Life and Total Term By TIRZ



Example of TIRZ Participation

TIRZ 11 (Greenspoint) has participation from 4 taxing jurisdictions

Exhibit 2
Transfer Schedule – All Jurisdictions

Tax Year	Incremental Revenue					Transfers/Administrative Fees						Net Revenues (Total Increment Revenues less Total Transfers)
	City	Aldine ISD	Spring ISD	Lone Star	Total Increment	City Admin	Aldine ISD Set Aside	Aldine ISD Admin	Spring ISD Admin	Lone Star Admin	Total Admin/Transfers	
2019	\$ 5,310,496	\$ 7,015,605	\$ 1,034,325	\$ 1,009,925	\$ 14,370,351	\$ 265,525	\$ 2,338,535	\$ 25,000	\$ 25,000	\$ 25,000	\$ 2,679,060	\$ 11,691,292
2020	\$ 5,509,416	\$ 7,234,795	\$ 1,065,926	\$ 1,041,393	\$ 14,851,530	\$ 275,471	\$ 2,411,598	\$ 25,000	\$ 25,000	\$ 25,000	\$ 2,762,069	\$ 12,089,461
2021	\$ 5,712,313	\$ 7,458,368	\$ 1,098,159	\$ 1,073,491	\$ 15,342,331	\$ 285,616	\$ 2,486,123	\$ 25,000	\$ 25,000	\$ 25,000	\$ 2,846,738	\$ 12,495,593
2022	\$ 5,919,269	\$ 7,686,413	\$ 1,131,036	\$ 1,106,231	\$ 15,842,949	\$ 295,963	\$ 2,562,138	\$ 25,000	\$ 25,000	\$ 25,000	\$ 2,933,101	\$ 12,909,848
2023	\$ 6,130,364	\$ 7,919,020	\$ 1,164,571	\$ 1,139,625	\$ 16,353,580	\$ 306,518	\$ 2,639,673	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,021,191	\$ 13,332,388
2024	\$ 6,345,681	\$ 8,156,278	\$ 1,198,776	\$ 1,173,688	\$ 16,874,423	\$ 317,284	\$ 2,718,759	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,111,043	\$ 13,763,379
2025	\$ 6,565,304	\$ 8,398,281	\$ 1,233,666	\$ 1,208,431	\$ 17,405,682	\$ 328,265	\$ 2,799,427	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,202,692	\$ 14,202,990
2026	\$ 6,789,320	\$ 8,645,124	\$ 1,269,254	\$ 1,243,870	\$ 17,947,567	\$ 339,466	\$ 2,881,708	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,296,174	\$ 14,651,393
2027	\$ 7,017,816	\$ 8,896,905	\$ 1,305,553	\$ 1,280,017	\$ 18,500,290	\$ 350,891	\$ 2,965,635	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,391,526	\$ 15,108,764
2028	\$ 7,250,882	\$ 9,153,721	\$ 1,342,578	\$ 1,316,887	\$ 19,064,067	\$ 362,544	\$ 3,051,240	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,488,784	\$ 15,575,283
2029	\$ 7,488,609	\$ 9,415,673	\$ 1,380,344	\$ 1,354,495	\$ 19,639,120	\$ 374,430	\$ 3,138,558	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,587,988	\$ 16,051,132
2030	\$ 7,731,090			\$ 1,392,854	\$ 9,123,945	\$ 386,555			\$ 25,000	\$ 411,555	\$ 8,712,390	
2031	\$ 7,978,422			\$ 1,431,981	\$ 9,410,403	\$ 398,921			\$ 25,000	\$ 423,921	\$ 8,986,482	
2032	\$ 8,230,700			\$ 1,471,891	\$ 9,702,590	\$ 411,535			\$ 25,000	\$ 436,535	\$ 9,266,055	
2033	\$ 8,488,023			\$ 1,512,598	\$ 10,000,621	\$ 424,401			\$ 25,000	\$ 449,401	\$ 9,551,220	
2034	\$ 8,750,493			\$ 1,554,120	\$ 10,304,613	\$ 437,525			\$ 25,000	\$ 462,525	\$ 9,842,089	
2035	\$ 9,018,213			\$ 1,596,472	\$ 10,614,685	\$ 450,911			\$ 25,000	\$ 475,911	\$ 10,138,774	
2036	\$ 9,291,286			\$ 1,639,672	\$ 10,930,958	\$ 464,564			\$ 25,000	\$ 489,564	\$ 10,441,394	
2037	\$ 9,569,822			\$ 1,683,735	\$ 11,253,557	\$ 478,491			\$ 25,000	\$ 503,491	\$ 10,750,065	
2038	\$ 9,853,928			\$ 1,728,679	\$ 11,582,607	\$ 492,696			\$ 25,000	\$ 517,696	\$ 11,064,911	
2039	\$ 10,143,716			\$ 1,774,523	\$ 11,918,239	\$ 507,186			\$ 25,000	\$ 532,186	\$ 11,386,053	
2040	\$ 10,439,300			\$ 1,821,283	\$ 12,260,583	\$ 521,965			\$ 25,000	\$ 546,965	\$ 11,713,618	
2041	\$ 10,740,795			\$ 1,868,979	\$ 12,609,774	\$ 537,040			\$ 25,000	\$ 562,040	\$ 12,047,734	
2042	\$ 11,048,321			\$ 1,917,628	\$ 12,965,948	\$ 552,416			\$ 25,000	\$ 577,416	\$ 12,388,532	
2043	\$ 11,361,997			\$ 1,967,250	\$ 13,329,247	\$ 568,100			\$ 25,000	\$ 593,100	\$ 12,736,147	
2044	\$ 11,681,946			\$ 2,017,865	\$ 13,699,811	\$ 584,097			\$ 25,000	\$ 609,097	\$ 13,090,714	
2045	\$ 12,008,294			\$ 2,069,492	\$ 14,077,787	\$ 600,415			\$ 25,000	\$ 625,415	\$ 13,452,372	
2046	\$ 12,341,170			\$ 2,122,152	\$ 14,463,322	\$ 617,058			\$ 25,000	\$ 642,058	\$ 13,821,263	
2047	\$ 12,680,703			\$ 2,175,865	\$ 14,856,568	\$ 634,035			\$ 25,000	\$ 659,035	\$ 14,197,532	
2048	\$ 13,027,026			\$ 2,230,652	\$ 15,257,678	\$ 651,351			\$ 25,000	\$ 676,351	\$ 14,581,327	
2049	\$ 13,380,276			\$ 2,286,535	\$ 15,666,811	\$ 669,014			\$ 25,000	\$ 694,014	\$ 14,972,797	
2050	\$ 13,740,592			\$ 2,343,535	\$ 16,084,127	\$ 687,030			\$ 25,000	\$ 712,030	\$ 15,372,097	
	\$ 291,545,581	\$ 89,980,182	\$ 13,224,188	\$ 51,555,813	\$ 446,305,764	\$ 14,577,279	\$ 29,993,394	\$ 275,000	\$ 275,000	\$ 800,000	\$ 45,920,673	\$ 400,385,091

TIRZ Management Structure: Redevelopment Authority (RDA)

- A Local Government Corporation registered with the State
- Created to manage the operations of the TIRZ
- Has same board composition as TIRZ board
- Works in cooperation with the MOED and City Council
- Requires the approval of a 3-party legal agreement “Tri-party”

TIRZ Management Structure: The Tri-Party Agreement

- Creates the legal authority for the RDA to:
 - Implement the project plan
 - Prepare the annual budget and CIP
 - Manage administrative services and consultants
 - Issue bids and award contracts
 - Issue or incur obligations through developer reimbursement agreements
 - Authorize bond sales
 - Use the tax increment to pay for obligations or indebtedness

Tri-Party Agreement in Action

City of Houston

TIRZs are created, modified, and terminated through City Council ordinances

MOED administers the program, reviews and approves RDA contracts and agreements, participates in board meetings, and informs the board

City Council has final review and approval of all TIRZ budgets, Inter-Local Agreements (ILAs), and bond-related actions

TIRZ Board

TIRZ Board appointed by Mayor, approved by City Council

Each additional participating taxing jurisdiction appoints one board position

Reviews and approves the Zone's project plan, budget, and use of increment funds

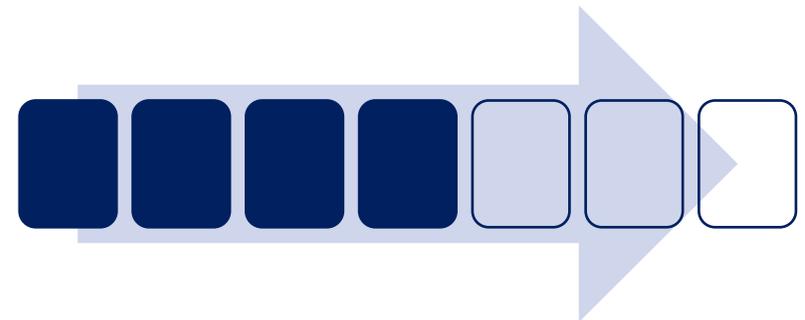
Redevelopment Authority

RDA board are the same members as the TIRZ board

Identifies, prioritizes, and manages capital projects and economic development priorities consistent with the City of Houston administration

Authorized to issue debt with City Council approval and may seek grant funds

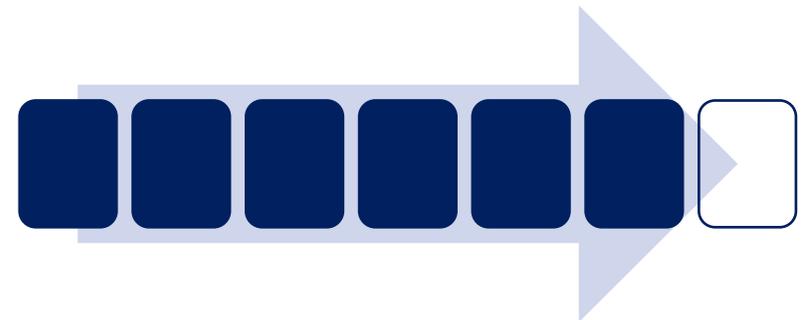
The Role of City Council



The Roles of City Council

- Considers all TIRZ creations and other actions
- Considers annual budgets, CIPs, and appropriations of funds
- Considers all bond authorizations
- Considers all interlocal agreements between a TIRZ and another public entity

Terminating a TIRZ



The Revenue Cap Calculation

Proposition 1 (2004) limits the City's property tax revenues to **the lower of:**

The prior year's cap +
population growth and
inflation growth

The prior year's revenues +
4.5%

Proposition H (2006) added \$90M to the base used to calculate the revenue cap to be used for public safety purposes

[Prop. 1 Calculation] + \$90M
= Actual Revenue Cap

Revenue Cap Example



Proposition 1 + H Local Revenue Cap

- FY2025 Calculation: FOR ILLUSTRATIVE PURPOSES ONLY*: (thousands)
- The lesser of:
 - Prior year's cap plus population and inflation growth
 - FY24 Prop 1 Cap = \$1,286,668
 - 2023 Inflation (CPI) = 3.46%
 - 7/1/2023 Population Estimate = 0.49% TOTAL = 3.95%
 - CALC: $\$1,286,668 * (1 + 3.95\%) = \$1,337,475$
 - Prop H: $\$1,337,475 + \$90,000 = \mathbf{\$1,427,475}$
 - Prior year's revenues plus 4.5%
 - FY24 Actual Revenues = \$1,376,668
 - CALC: $\$1,376,668 * (1 + 4.5\%) = \$1,438,618$
 - Prop H: $\$1,438,618 + \$67,129^{**} = 1,505,747$

* Actual figures differ due to rounding.

** The \$90 million must be adjusted each year based on "usage"

TIRZ Termination Impact on The Revenue Cap

EXAMPLE:

TIRZ revenue softens tax rate reduction when collection exceeds revenue cap

Revenue Cap Implications to the General Fund (thousands)	
Prop 1+H Local Revenue Cap	1,427,475
GENERAL FUND WITH TIRZ PROGRAM	
Actual ad valorem revenue generated/collected	2,000,000
Actual ad valorem revenue appropriated to TIRZs	200,000
Adjusted revenue collected GF	1,800,000
Ad Valorem Collection above Revenue Cap	372, 525
GENERAL FUND WITHOUT TIRZ PROGRAM	
Actual ad valorem revenue collected	2,000,000
Actual ad valorem revenue sent to TIRZs	0
Adjusted revenue collected GF	2,000,000
Ad Valorem Collection above Revenue Cap	572, 525

Collections above the Cap

Excess results in a reduced property tax rate – perm impact.

If terminated, TIRZ AV goes GF at the time of termination – increases excess.

Excess results in a reduced property tax rate – perm impact.

TIRZ Termination Impacts on the General Fund – Collections exceed Cap

- Significant impact to the General Fund through property tax rate reduction
- The General Fund would be reduced by the annual Municipal Service Charges and Administrative Fees
- The City would be responsible for all outstanding TIRZ debt and contractual obligations
- RDA infrastructure projects and assets would be **disrupted or managed and conveyed** to the City for ongoing maintenance

Financial Implications of TIRZ Terminations

EXAMPLE:

If TIRZ 2 (Midtown) & TIRZ 16 (Uptown) were both terminated in 2022

Termination Implications to the General Fund after FY2023	
REVENUE	
Other Jurisdictions	(\$27,478,000)
Total Revenue	(\$27,478,000)
EXPENDITURES	
Developer Agreements & Construction Obligations	(\$4,904,000)
Total Expenditures	(\$4,904,000)
TOTAL COMBINED IMPACT TO THE CITY	(\$32,382,000)

This table reflects the financial impact of the City assuming both TIRZs' contractual obligations.

The table **does not** include the financial impact of the City assuming any TIRZ debt/loan obligations.

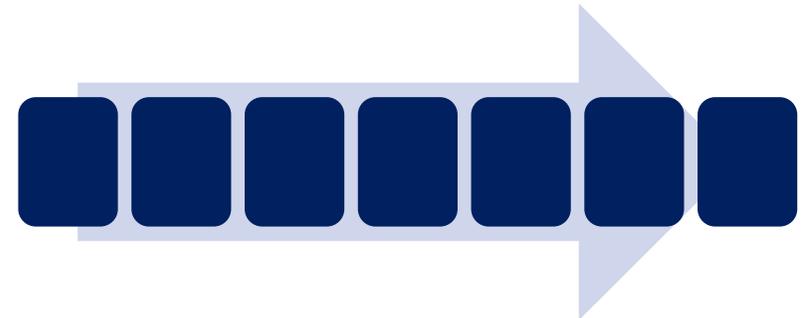
Other Considerations for Terminations

- Losing RDA's ability to apply for grants not available to the City
- Potential revenue loss for the City's affordable housing programs
 - HCD uses affording housing fund to leverage grant funds and administer programs
- Potential revenue loss from other participating jurisdictions

MOED Administrative Practice for Terminations

- Termination may be recommended if:
 - A TIRZ has met the objectives defined in the project plan
 - A TIRZ has underperformed and has been unsuccessful at meeting the objectives defined in the project plan after 15 years from its creation
- Pre-termination Status
 - RDA closes out any existing projects, debt, or obligations without adding new projects or initiatives. A transition plan is created and implemented. Termination occurs when all accounts are settled

Clarifications to the Baker Institute Study



Clarifications to the Baker Institute Paper

Study Information

Correlation between TIRZs and Income

Uptown does not meet slum criteria

TIRZs do not contribute to cost for municipal services –burden to TPs outside zone

Statute

Income not a factor TIRZ creation. TIRZ investment result in income diversity

Uptown is a “Petitioned TIRZ”

MSC go to the General Fund - TIRZ primarily commercial not residential

Clarifications to the Baker Institute Paper

Study Information

TIRZs spent most funding on projects in strong economic areas

TIRZ is equivalent to a subsidy

Suggests that reform will improve program outcomes

Statute

TIRZ Revenue is Investment-Driven; must be used within boundaries

TIRZ revenue is generated by property owners

Agree always opportunities to strengthen program

THANK YOU

