

City of Houston Tax Increment Reinvestment Zone (TIRZ) General Guide

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Mayor's Office of Economic Development

Levy Park, a capital project of TIRZ 19

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Richmond Avenue Public Art Trail, a capital project of TIRZ 1

What is TIF?

Tax Increment Financing (TIF) is an economic development financing tool used to generate revenue from property taxes attributable to the increase in property values within a designated area to fund infrastructure or other public improvements within the same designated area.

TIF is intended to facilitate development so that the designated area's taxable value grows faster than the area's taxable value would have naturally grown over time. Promoting and spurring economic activity is a primary driver of the TIF framework, which involves cooperation between a local government and the private sector.

Chapter 311 of the Texas Tax Code governs tax increment financing in Texas and is published as the Tax Increment Financing Act.

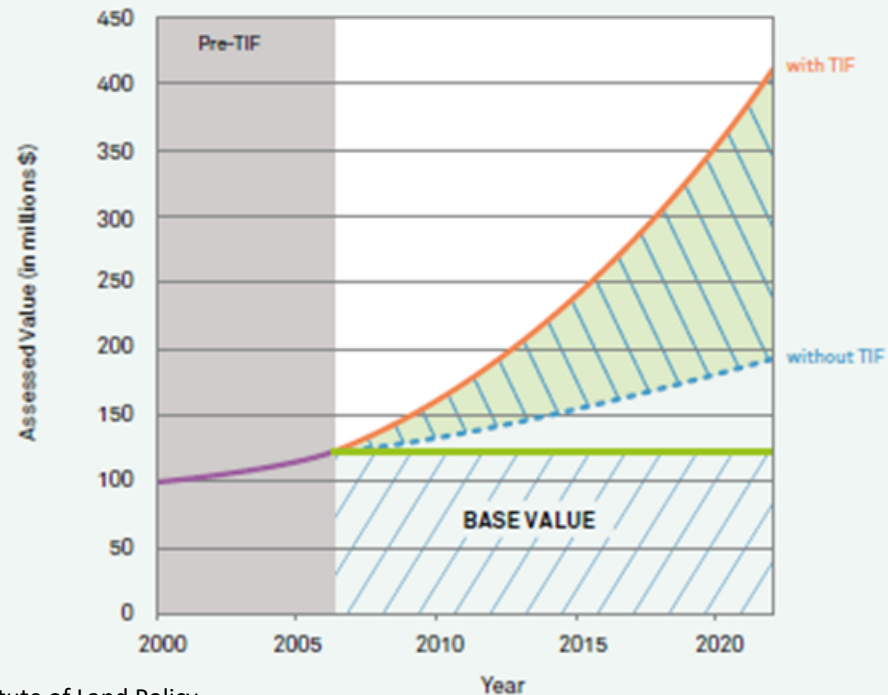
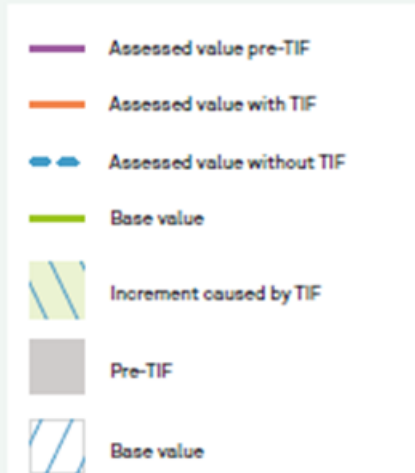
What is a TIRZ?

A Tax Increment Reinvestment Zone (TIRZ) a geographic boundary created to promote economic development in unproductive, underdeveloped, blighted, or infrastructure comprised areas, develop and diversify the economy, eliminate unemployment and underemployment, and develop or expand transportation, business, and commercial activity in the designated area.

Chapter 311 of the Texas Tax Code authorizes a city or county to create a TIRZ for tax increment financing.

The City of Houston's TIRZ Program began with the creation of TIRZ 1 in 1990 and 28 TIRZs have been created under the City's program, of which 27 are currently active. The TIRZ program has constructed or induced projects that may have otherwise been unobtainable in the city at that time without TIF funding from a TIRZ.

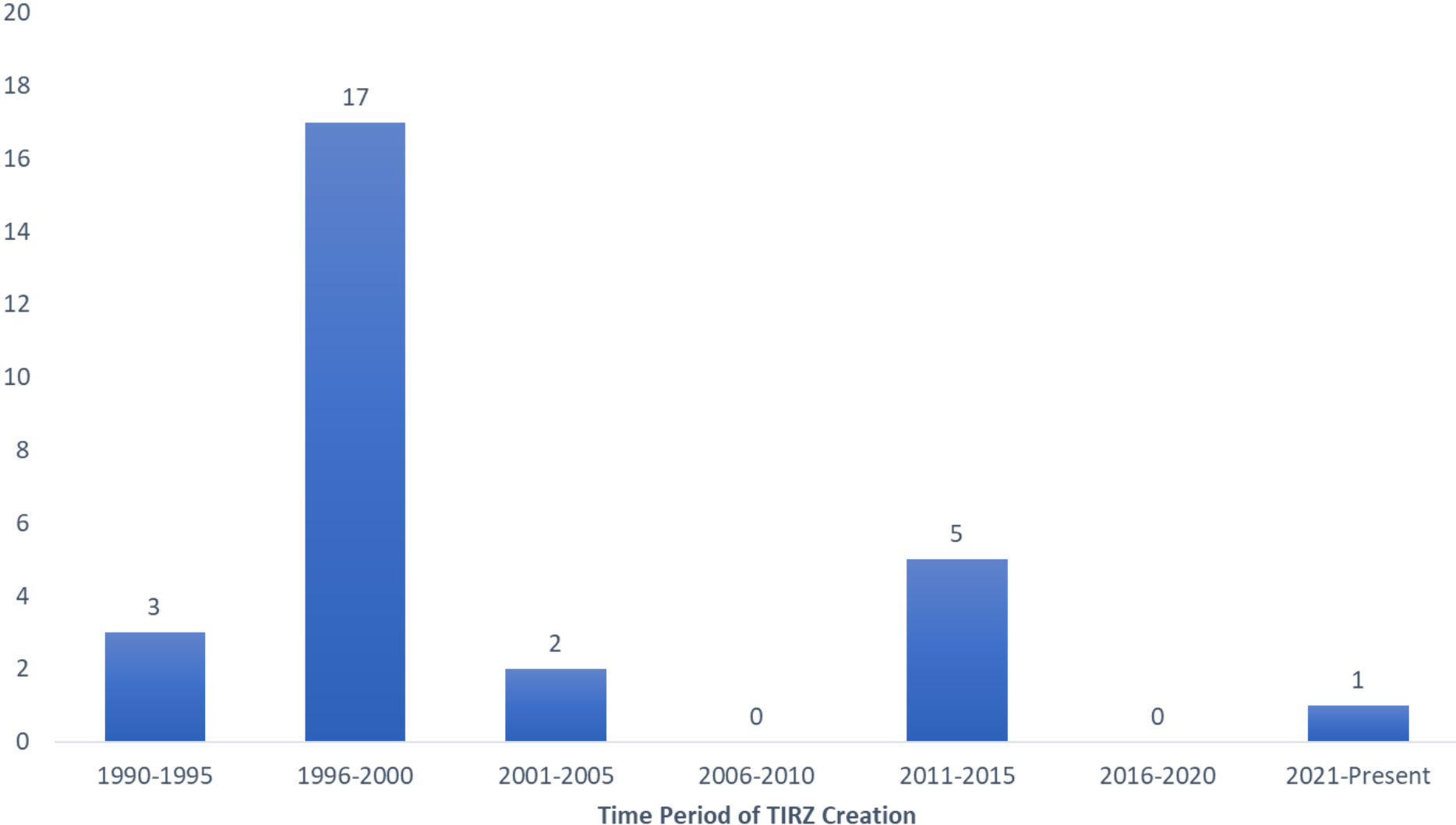
Figure 1
Hypothetical Example of Assessed Value With and Without TIF



Source: Lincoln Institute of Land Policy

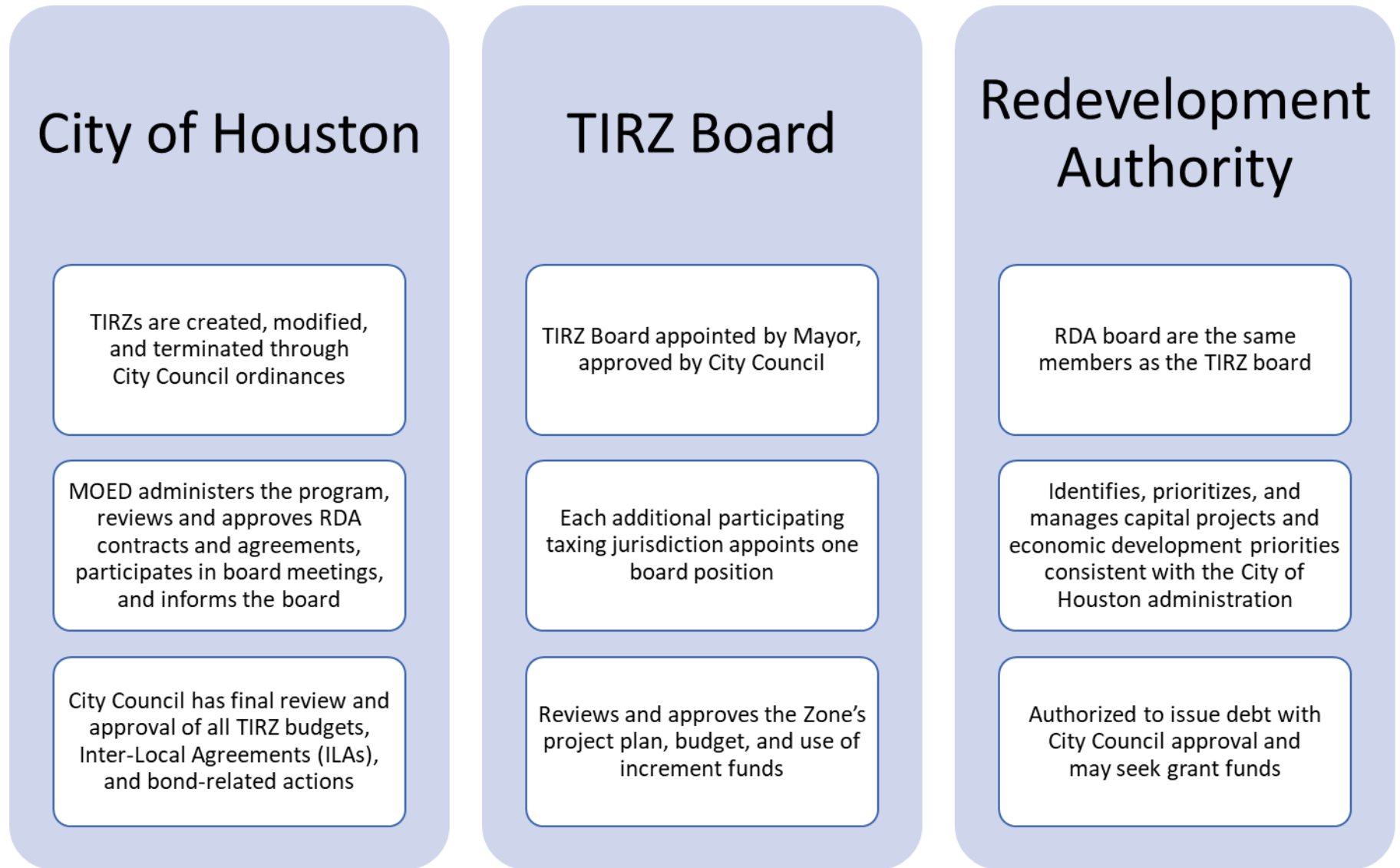
TIRZs are created by the City or by petition from property owners. Most of Houston’s TIRZ were created before the year 2000.

Number of TIRZs Created Since Program Began (1990)



Source: Mayor’s Office of Economic Development

Houston's TIRZ Program is a working collaboration between the City, a TIRZ's board of directors, and a TIRZ's redevelopment authority (RDA).



What does a TIRZ and its Redevelopment Authority do in Houston?

What they can do:

- + Save and invest increment funds until the funds are ready to be used for a future capital project
- + Enter into agreements with developers to reimburse certain infrastructure costs over time using increment funds from the development
- + Plan, design, and implement capital projects according to their approved project plan
- + Issue bonds to fund capital projects and pay back the debt over time using increment funds
- + Pursue, secure, and spend grant funding to support their capital projects
- + Hold public board meetings after providing a proper notice 72 hours before the meeting time

What they can't do:

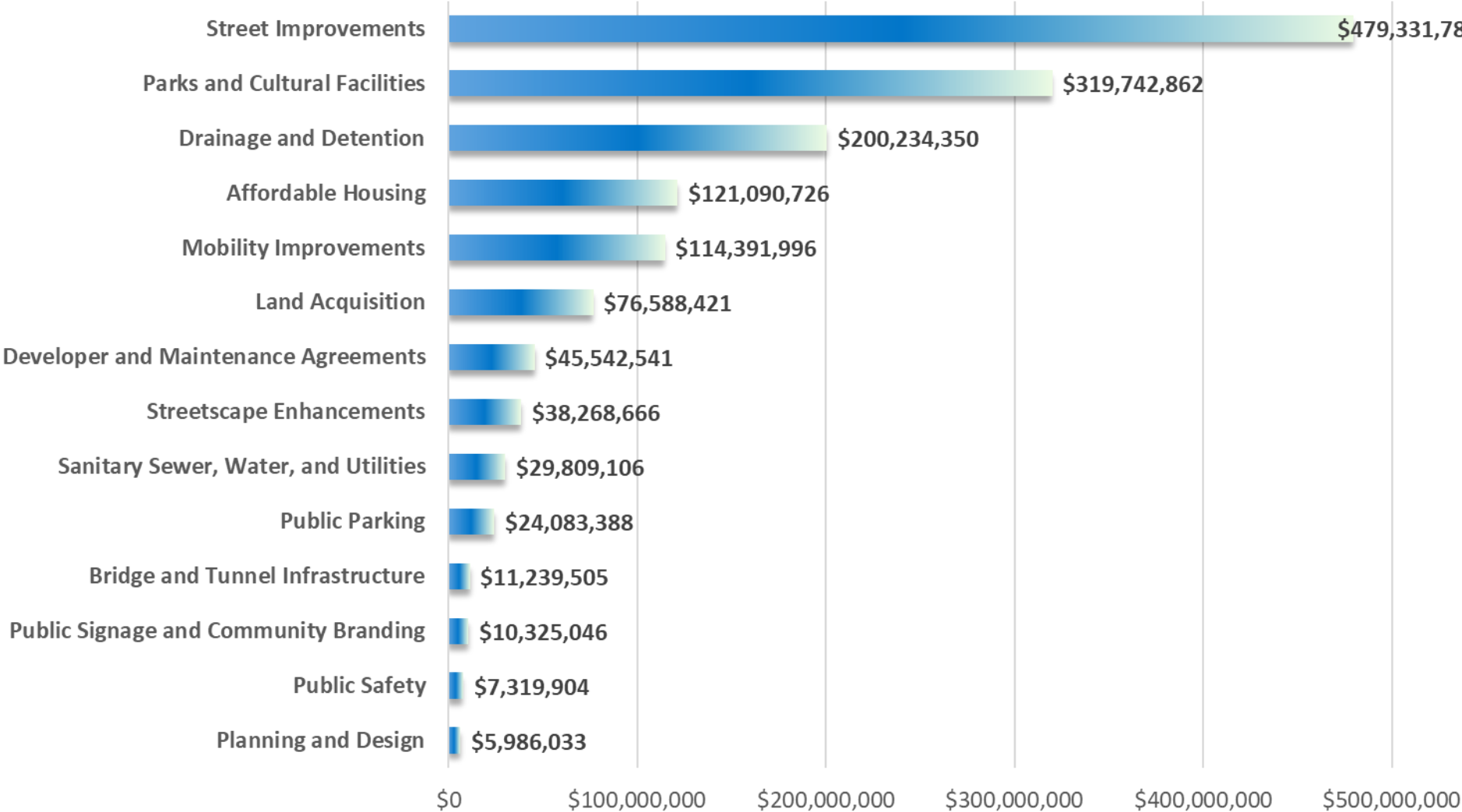
- Spend increment funds on projects located outside their boundaries (except for affordable housing)
- Spend increment funds on projects located on private property (unless approved by City Council with special authority)
- Issue loans to businesses or developers
- Spend increment funds on projects that do not align with the current approved project plan
- Hold a board meeting or have a quorum of board members without providing a proper notice at least 72 hours ahead of time



Shepherd and Durham Street Reconstruction, a capital project of TIRZ 5

TIRZ capital projects come in all shapes and sizes, but most capital projects support Houston’s broad infrastructure needs

Capital Project Expenditures FY2000-FY2022



Source: Mayor’s Office of Economic Development. Data compiled from mandatory annual audits of TIRZ finances required by the City of Houston.

Guiding Principles



Beltway Southwest Business Park, located in TIRZ 25

Program Philosophy

A TIRZ acts as an impermanent catalyst for place-based private investment through the construction or improvement of public infrastructure without compromising the economic needs of the City as a whole. The guiding principles of the TIRZ program reflect the priorities and goals of the current Administration and are expected to be regularly evaluated to determine if amendments are needed to reflect a change in priorities or goals. However, the substance of Houston’s TIRZ policies will remain constant.

The following statements form the City’s guiding philosophy over the TIRZ program:

<p>TIRZs should support the furthering of City Priorities including citywide sustainability and resiliency efforts, commercial corridor revitalization, brownfield and infill redevelopment initiatives, economic development, removing or improving deteriorated/substandard property or public infrastructure, and supporting the construction of public transportation infrastructure.</p>	<p>All TIRZs should prioritize the reduction of greenfield development and suburban sprawl by supporting development and projects that best maximize the land/property use.</p>
<p>All TIRZ creation or modification actions should result in demonstrable, positive economic impact to the current residents within the zone boundaries and/or adjacent communities.</p>	<p>The City must maintain its governance and oversight role and continue to impose a consistent set of guidelines and practices to all TIRZ Boards. The Mayor’s Office of Economic Development will ensure that staff continues to represent the City’s role and interest in all TIRZ matters.</p>
<p>A TIRZ should engage stakeholders as necessary to minimize the adverse effect of housing affordability for existing residents within the zone boundaries. The City will support state legislation that aids in accomplishing this outcome.</p>	<p>The Mayor’s Office of Economic Development will continually facilitate activities that ensure the successful outcomes of a TIRZ. Staff will provide advice, consultation, and support to the TIRZ Board, administrator, and other advisors to assist in the effective implementation of the TIRZ's project plan.</p>

Program Goals

Governance

The Mayor and City Council represent the governing body of the City of Houston. Good governance is applicable to all City programs, including the TIRZ Program. A more “government integrated” approach to the administration of the TIRZ Program with even more direct engagement, responsibilities and approvals from the MOED, other City Departments, the Mayor, the TIRZ Administrators/Boards and the City Council will ensure sufficient governance.

Fiscal Responsibility

The Administrators of the TIRZ Boards and all parties responsible for fiscal decisions must operate as good stewards of taxpayers’ dollars. The Financial Policies drafted by the Finance Department and approved by the City Council every two years applies to all City departments, functions, and programs including the TIRZ Program. Enhanced fiscal responsibility and accountability will better ensure that funds are maximized with the greatest outcome. The use of tax increment financing to perform public projects and spur private development continues to be the most effective tool to construct critical infrastructure for private development to attract investment, jobs, and businesses to Houston.

Equity

A successful TIRZ program can be defined as one that attracts new private development which results in the growth of assessed property values beyond the natural increase in property values. A TIRZ can only achieve its objective if private investments at large scales are made within the Zone. Under-resourced communities are less likely to attract private investment because of a myriad of factors including the presence of blight, limited active commercial corridors, abandoned buildings, poor mobility grids, and limited assets to leverage private investment. Leveraging grant, philanthropic, and other “non-city” resources with the increment generated within a TIRZ to construct public infrastructure necessary to facilitate public investment in these communities could serve as a catalyst to spur growth. This revised framework that supports an equitable approach towards the administration of the TIRZ Program will further the economic development goals within the TIRZ communities and throughout the City.

Compliance

The City’s authority to create and implement its TIRZ Program is prescribed in Chapter 311 of the Texas Tax Code. While the City of Houston’s TIRZ Program operates in complete compliance and accordance with Chapter 311 and the administrative regulation provided by the State Comptroller’s Office, the City builds on those requirements to further reinforce the importance of maintaining compliance with all applicable regulations, contracts and internal policies, and recommend corrective action if there are incidences of “non-compliance” to TIRZ policies.

Transparency

MOED publishes council approved resolutions, ordinances, and other documents for each TIRZ providing the public direct access to the most relevant documents. However, transparency relating to planned spending, agreements and outcomes, bond or debt related activities and the budget process are often left to the TIRZ Administrators. While the TIRZ Program is conducted in accordance with applicable state laws regarding open meetings and public disclosure, the public interest of openness and transparency are well served by implementing and enforcing public policies to further this transparency goal. This policy allows for stakeholder engagement, opportunities for public input from the residents and council, and general clarity of the TIRZ Boards and the City’s decisions.

TIRZ Financial Policies

City Council passed Ordinance 2023-726 on August 30, 2023 adding the TIRZ program into the City's Financial Policies. The Mayor's Office of Economic Development manages the TIRZ program in accordance with these eight financial policies and is required to present compliance to the Economic Development Committee annually on relevant TIRZ actions that were approved by City Council in the prior year.



Emancipation Park, a capital project of TIRZ 7

TIRZ Financial Policies

<p>1. TIRZ Creations</p> <p>Creating a new Tax Increment Reinvestment Zones will be considered when the area proposed clearly demonstrates a nexus between the proposed eligible TIRZ projects and economic growth spurred by new investment within the proposed geographic boundary.</p> <p>Evidence included in a TIRZ Creation proposal must demonstrate:</p> <ul style="list-style-type: none"> • at least a 50% increase in projected Assessed Value from development within the initial TIRZ term (30 years or as defined in the TIRZ creation document) • Clearly defined goals, defined projects, and a plan for attracting private investment • Immediate or near term “committed or known” private investment within one year of creation • Ability to meet development and revenue goals stated in the project plan that are based on an economic impact study <p>The Mayor’s Office of Economic Development is required to annually present compliance on TIRZ Creations to the Economic Development Committee.</p>	<p>2. TIRZ Life Extensions</p> <p>Extending the termination date of an existing Tax Increment Reinvestment Zone will be evaluated and considered for any of the following scenarios:</p> <ul style="list-style-type: none"> • A life extension is required to secure financing for an approved project to expedite construction • A life extension will provide for the additional time needed to complete an approved project • A life extension will generate revenue for projects reflected in a project plan if supported by a planned new investment • A life extension is needed to leverage new local, state, federal, or philanthropic funding <p>The Mayor’s Office of Economic Development is required to annually present compliance on TIRZ Life Extensions to the Economic Development Committee.</p>	<p>3. TIRZ Terminations</p> <p>The termination of a Tax Increment Reinvestment Zone will be recommended if a TIRZ has met the objectives defined in the zone’s project plan or if a TIRZ has “underperformed” and has been unsuccessful at meeting the objectives defined in the zone’s project plan after 15 years from its creation.</p> <p>The Mayor’s Office of Economic Development is required to annually present compliance on TIRZ Terminations to the Economic Development Committee.</p>
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TIRZ Financial Policies

4. TIRZ Boundary Adjustments

Annexations into existing Tax Increment Reinvestment Zones will be evaluated and considered if the annexation will further the objectives of the TIRZ's project plan and will attract private investment in the proposed area, support an application for the development and construction of low-income housing, or support an application for state, federal, or philanthropic funding for transportation, parks, or other infrastructure.

De-annexations will be evaluated and considered if the reduction in the boundary will either increase the remaining revenue generated after the reduction or increase the City of Houston's capacity to designate other areas for Tax Increment Financing considering the 25% Assessed Value statutory limitation.

The Mayor's Office of Economic Development is required to annually present compliance on TIRZ Boundary Adjustments to the Economic Development Committee.

5. Non-Contiguous TIRZs

Non-Contiguous Tax Increment Reinvestment Zones will be evaluated and considered on a case-by-case basis where the criteria in Chapter 311 of the Texas Tax Code are met. Additional considerations must include an alignment between the area proposed for annexation with the existing TIRZ and the existing TIRZ's capacity to generate sufficient revenue to meet its project plan objectives and to fund public capital infrastructure in the proposed area that is likely to encourage private investment or spur economic development.

The Mayor's Office of Economic Development is required to annually present compliance on Non-Contiguous TIRZs to the Economic Development Committee.



TIRZ Financial Policies

6. TIRZ Performance

The Mayor's Office of Economic Development will regularly engage with each TIRZ Board to assess and evaluate the TIRZ's performance relative to the goals, revenue generation, and capital projects timeline stated in the project plan.

TIRZs that are either not performing or underperforming according to their project plan will be required to provide an action plan that will encourage and attract private investment with the intent to increase the revenue generated within the zone to construction projects as defined in the project plan.

7. TIRZ Budgets and Capital Improvement Plans

TIRZ annual operating budgets and capital improvement plans will be presented to City Council for approval only after being reviewed and approved by the Mayor or his designee, the City's Finance Department, Houston Public Works, and the TIRZ and Redevelopment Authority boards.

The operating budget and capital improvement plans will only reflect projects with identified funding sources, including existing funding sources or approved future funding sources, and contain a minimal capital reserve as established by the City's Finance Department.

8. TIRZ Debt Authorization and Issuance

The City's Finance Department and the TIRZ Bond Team will cooperatively work on all bond related matters including "pre-issuance" meetings, and the appointment of bond-related providers, to ensure governance and to benefit from the City's providers which may have lower issuance cost options.



TIRZ Proposal Criteria

For a proposal to be eligible for review by the Mayor's Office of Economic Development, the proposal must include the required elements identified in the following section. These elements assist the Mayor's Office of Economic Development in ensuring the proposal aligns with Chapter 311 of the Texas Tax Code, the City's development priorities, the program's guiding philosophy, the program goals, and the financial policies approved by City Council.

Sharpstown Park Pool, a capital project of TIRZ 20



TIRZ Proposal Criteria

A TIRZ may be created by the City of Houston as a “city initiated” TIRZ proposed by a sponsoring entity, a TIRZ board of directors, community members, council members, the City administration, or a private developer. A TIRZ may also be created by petition from landowners. The City may consider an area for Tax Increment Financing if the area meets the criteria under Sec. 311.005 of the Texas Tax Code. TIRZ creation proposals are reviewed by the Office of the Mayor, the City’s Finance Department, and the City’s Legal Department before they are recommended to City Council for final consideration.

TIRZ Creation Proposals (Traditional)	TIRZ Creation Proposals (Single-Site)
<p>In addition to meeting the criteria in Sec. 311.005 of the Texas Tax Code, a new zone proposal must have at least two of the following:</p> <ul style="list-style-type: none"> • A known investment within the new zone that will occur within 1 year or less • A majority of the new zone’s parcels are vacant buildings, are underdeveloped or obsolete parcels, and some of these parcels are strong candidates for infill redevelopment • New zone boundaries include active, sustainable revenue generating commercial activity • New zone boundaries contain at least one physically blighted or underdeveloped commercial corridor and meet the definition of “blight” as defined by Chapter 311 of the Texas Tax Code <p>Must document the projected economic benefit to the City of Houston by providing evidence of new development or redevelopment of vacant, underutilized, or obsolete parcels that is projected to generate at least a 50% increase in Assessed Value during the zone’s initial term.</p> <p>Must include a clearly defined goal, specific projects, and a plan describing the specific actions that will be taken to attract private investment into the new zone.</p> <p>Must include an economic impact study of commercial activity that demonstrates the ability of the new zone to meet its stated goals including revenue projections that reflect planned investments related to new development and redevelopment, and consider the characteristic of existing structures, the condition of infrastructure, and a plan to attract additional private investment.</p>	<p>A geography potentially eligible for a new single-site zone is defined by the following:</p> <ul style="list-style-type: none"> • A contiguous area owned or leased by a single developer. Several adjacent parcels may create a contiguous area • The site must be vacant, contain vacant buildings, or contain underdeveloped commercial parcels that are strong candidates for infill development or redevelopment • The site is on or within 0.25 miles of a blighted or underdeveloped commercial corridor which may benefit from the planned development • The project has a \$20 million minimum investment for vertical development within the next 3 years, not including public infrastructure improvements. A lower investment threshold may be considered if the site is located in an underserved area if the investment amount is sufficient to fund infrastructure costs <p>Must document the projected economic benefit to the City of Houston by providing evidence that the new development or redevelopment of the single-site zone is projected to generate at least a 50% increase in Assessed Value during the zone’s initial term.</p> <p>Must include a clearly defined goal, specific projects, and a plan describing the specific actions that will be taken to maximize public and private investment within the early years of the new single-site zone.</p> <p>Must include an economic impact study of commercial activity that demonstrates the ability of the new zone to meet its stated goals including revenue projections that reflects planned investments related to new development and redevelopment, and consider the characteristic of existing structures, the condition of infrastructure, and a plan to attract additional private investment.</p>

TIRZ Proposal Criteria

The termination of a TIRZ is a natural, vital, and inevitable stage of the TIRZ life cycle and it allows other parts of the city access to the utility provided by Tax Increment Financing. Termination provides opportunities for new TIRZs to be created or the boundaries of an existing TIRZ to be expanded into new areas, redirecting tax increment financing capacity into areas with the greatest needs and greatest barriers to economic development. Termination also allows the increment from the terminated zone to return to the general funds for any taxing jurisdiction that participated in the TIRZ. Due to the implications of the property tax revenue cap on the City's general fund, the Mayor's Office of Economic Development must consider the impact on the City's revenue and the remaining revenue in the TIRZ program when evaluating the terminations.

TIRZ Life Extension Proposals	TIRZ Termination Proposals
<p>The Mayor's Office of Economic Development reserves life extensions for special circumstances agreed upon by the City administration and the TIRZ board of directors. For a TIRZ to qualify for any life extension considerations, the TIRZ must meet the following requirements:</p> <ul style="list-style-type: none">• The zone has had demonstrable, positive economic impact on the area within its boundary• The zone has achieved certain performance thresholds monitored by the Mayor's Office of Economic Development <p>Must include an amended Project and Financing Plan approved by the TIRZ board of directors.</p> <p>Must include an economic impact study of commercial activity that demonstrates the economic success of the zone from its creation to current date and the ability of the zone to meet the goals stated in the amended Project and Financing Plan. At the minimum, the study should include revenue projections that reflect planned investments related to new development and redevelopment and consider the characteristic of existing structures, the condition of infrastructure, and a plan to attract additional private investment within the extended term of the zone.</p>	<p>The Mayor's Office of Economic Development will regularly evaluate each TIRZ on its economic performance and monitor conditions for possible termination. A TIRZ will become a candidate for termination under any of the following circumstances:</p> <ul style="list-style-type: none">• Pre-Termination Case: The TIRZ has fulfilled its stated project plan goals and has outstanding debt or obligations. The geography within the zone no longer needs increment funds to facilitate place-based investment. The Mayor's Office of Economic Development will engage the TIRZ board of directors and Redevelopment Authority to establish a timeline for completing debt service payments and the closeout of remaining TIRZ functions.• Termination Case: The TIRZ has fulfilled its stated project plan goals and has no outstanding debt or obligations. No further public infrastructure activity is anticipated to be funded by increment funds. The Mayor's Office of Economic Development will engage the TIRZ board of directors and Redevelopment Authority to establish a timeline for completing the closeout of remaining TIRZ functions.• Underperformance: The TIRZ has underperformed due to a lack of substantial private investment in the 15 years following its creation, the TIRZ board of directors or Redevelopment Authority have not initiated any major capital projects in its project plan in the 15 years following its creation, or the zone's current Assessed Value is at least 25% lower in value than its initial base value. <p>Terminating a zone will involve the Mayor's Office of Economic Development to study a TIRZ's activities to determine the relevant termination circumstance, to amend the zone's Project and Financing Plan in accordance with Sec. 311.011 of the Texas Tax Code, and to establish a transition plan outlining the implications, actions, and timeline for termination.</p>

TIRZ Proposal Criteria

Changes in economic development priorities or citywide goals may necessitate annexation or de-annexation of areas within a TIRZ. These boundary adjustments will be planned, purposeful, and prudent to ensure a TIRZ is best utilizing its resources to facilitate economic growth within its current term. Areas that are candidates to be a Non-Contiguous Sub-Zone of an existing TIRZ should currently have momentum or active stakeholders that can augment potential TIRZ investment. Non-Contiguous Zones create the opportunity to facilitate a balancing of private investment across geographies.

<p>TIRZ Boundary Adjustment Proposals</p> <p>Boundary adjustments occur in the form of annexations and as de-annexations. All proposals for any boundary adjustments must include an amended Project and Financing Plan approved by the TIRZ board of directors.</p> <p>The Mayor’s Office of Economic Development will consider annexations for the following purposes:</p> <ul style="list-style-type: none"> • Annexing parcels or public Right-of-Way into the zone to finance or construct at least 1 new capital project approved by the City administration. The capital project must be completed within the TIRZ’s existing term and the current boundary is likely to generate sufficient revenue to fund the project. • Annexing to generate additional revenue to meet the financial needs of capital infrastructure projects approved by the City administration within the zone’s existing boundary. • Annexing to support an application to local, state, or federal housing agency for the development and construction of low-income housing. <p>The Mayor’s Office of Economic Development will determine de-annexations as needed for the following purposes:</p> <ul style="list-style-type: none"> • De-annexing parcels that are reducing the taxable value of a zone and do not have a capital project planned near the parcels that would positively impact their Assessed Value. Parcels in this circumstance usually have an Assessed Value lower than the parcel’s valuation when the parcel was annexed. • De-annexing areas that no longer align with a TIRZ’s redevelopment goals or the City’s priorities. 	<p>Non-Contiguous TIRZ Proposals</p> <p>Geographies potentially eligible for a Non-Contiguous TIRZ must have common geographic features and economic development needs. The non-contiguous geography needs at least 1 present condition identified in Sec. 311.005 of the Texas Tax Code shared between the sub-zones. Other relevant geographic features or economic needs include:</p> <ul style="list-style-type: none"> • Areas of depressed and obsolete properties • Absence of, or inadequate, sidewalks that compromise pedestrian mobility • Areas where economic development priorities have been established through Complete Community Action Plans, Neighborhood Resiliency Plans, or Federal Opportunity Zones • Areas that have substandard, slum, deteriorated , or deteriorating structures <p>The Mayor’s Office of Economic Development will consider non-contiguous annexations by existing TIRZs. For an existing TIRZ to undertake a non-contiguous annexation, the TIRZ:</p> <ul style="list-style-type: none"> • Must have capacity to absorb additional capital projects without significant hinderance or delay to currently planned projects or existing debt service payments • Must have cohesiveness in development goals, community needs, and public investments for both geographies <p>The Mayor’s Office of Economic Development will also consider new non-contiguous zones provided the identified private investment within the new zone can support capital projects and such proposals follow the Traditional zone creation method, align with Sec. 311.005 and Sec. 311.006 of the Texas Tax Code, and can demonstrate that the common geographic features and economic development needs between the geographies.</p>
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