Texas A&M Transportation Institute

Transportation Reinvestment Zones

Testimony of

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and

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to

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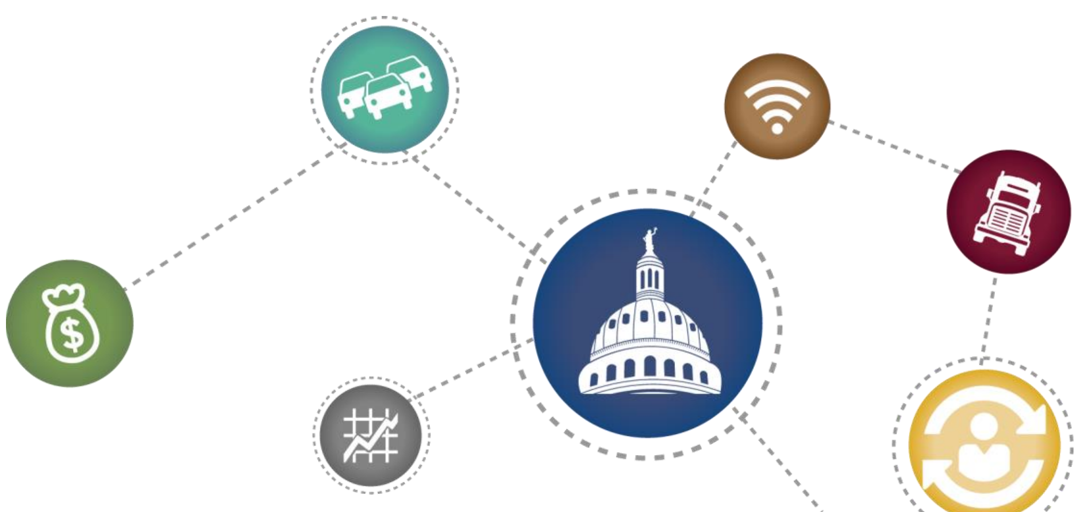

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Introduction

Good morning. I am Ginger Goodin, Director of the Texas A&M Transportation Institute Policy Research Center, and I am joined today by Rafael Aldrete, Senior Research Scientist for Research and Implementation and principal author of the report we will be talking about today.

You have asked us to testify on the topic "Evaluate transportation reinvestment zones for use by municipalities and counties transportation funding when authorized by the state."

We recently delivered to you a report titled "Transportation Reinvestment Zones: Texas Legislative History and Implementation." That report is also available to the general public on our website, TTI-dot-TAMU-dot-EDU-slash-Policy, under the Finance tab, and was further shared via our Twitter account, @TTI, and other social media.

Background

Texas legislation enacted in 2007 created transportation reinvestment zones or TRZs, an innovative tool that allows local governments to raise funds to help pay for transportation improvements using all or part of the incremental growth in property and sales taxes from a designated area around the project. Legislation passed after 2007 has made significant changes to the law, facilitating greater use of the tool by local governments and expanding the scope of possible incremental tax dedication to include local sales tax. Our research effort identified and summarized the changes in the TRZ legislation that have been enacted since the law's inception; described the advantages and limitations of this financing tool through lessons learned during the implementation of municipal and county TRZs; and updated a modeling tool used to assist in the analysis of TRZ value capture potential. Note that this research involved only regular municipal and county TRZs and not county energy TRZs, which are a different funding mechanism.

Summary of Recent Legislation

Legislation for TRZs has been evolving as a response to first implementers and their experiences with technical issues that were present in the legislation as originally conceived in SB 1266 of 2007. One issue in particular was the fact that development of TRZs in SB 1266 was specifically tied to projects receiving pass-through financing from the Texas Department of Transportation, which are limited to only those that meet the requirements set forth under Section 222.104 of the Transportation Code. SB 1266 also laid the foundation for the development of two types of TRZs: municipal TRZs and county TRZs.

Since 2007, the Texas Legislature has considered and approved several bills that have modified or expanded the use and types of TRZs, or simply clarified the process or requirements to establish one. Key legislation includes:

- HB 563 in 2011 made many procedural changes regarding implementation to allow for increased flexibility in the adoption and implementation for both municipal and county TRZs.
- SB 1110 in 2013 allowed TRZs to be used for rail, transit, parking lots, ferries, and airports. SB 1110 also allowed for the consideration of multiple projects and for joint administration of TRZs.
- SB 971 in 2013 allowed TRZs to be used for port and navigation projects.

Adoption of TRZs

Local communities consider TRZs a good tool for transportation funding. However, challenges and complications reduce their attractiveness for local project share.

Counties are constitutionally prevented from using TRZ revenue to repay debt issued for a project aimed at developing or redeveloping a specific area, including transportation projects. Several attorney general opinions have been issued interpreting the law such that the use of county TRZ revenue to secure debt could be constitutionally challenged.

Virtually all local governments considering TRZ financing are also considering the use of a State Infrastructure Bank loan for their projects because it offers the most favorable long-term financing option when using TRZ revenue as collateral. However, the use of a SIB loan also limits the projects that can be TRZ financed. Statute limits SIB loan usage to projects that are on the state highway system, which by extension limits the ability of local governments to use the TRZ mechanism on off-system projects. Also, the use of SIB loans federalizes the projects, increasing delivery costs and delaying implementation due to federal compliance requirements.

TRZ Planning Model

Researchers developed a model to analyze TRZ opportunities. The model incorporates algorithms that account for changes in land use over time to assist in assessing the potential value capture revenue of a TRZ. The model can be used to support state and local government sponsors interested in using TRZ financing. A significant element of the model is the recognition that existing land uses are key drivers of future development patterns and hence of the expected tax revenues generated from new developments.

Conclusion

This concludes our prepared testimony. We will be happy to take any questions you may have.