



Transportation Reinvestment Zones and Population Growth in Texas

Texas continues to lead the United States in raw population growth, according to a recent Census estimate. The U.S. Census Bureau projects that the Lone Star State had 373,965 more residents in 2020 than in 2019, a bigger increase in raw numbers than in any other State. In 2021, the population is estimated to have grown to 26,230,098. Texas's population is projected to more than double by 2050, according to a report from Texas's Office of the State Demographer. The report projects that by the year 2051 Texas's population will have surged to 54,446,355 residents. Texas has developed a transportation plan to accommodate both the State's growth and its ever-increasing population.

Financial Challenges and Indicative Solution

To help address the financial challenges that will accompany this projected growth, Texas passed legislation allowing for the creation of reinvestment zones. This value-capture tool is designed to provide needed revenue to support the long-term costs associated with transportation projects. In 2018, Texas became the first State to adopt a bill allowing transportation reinvestment zones (TRZs). With this piece of landmark legislation, Texas aims to supply a tool to help provide expanded transportation options that support continued population growth.

Transportation Reinvestment Zones

The demand for transportation infrastructure has far outpaced the resources of Federal, State, and local governments. The Texas Legislature has established innovative methods of developing and financing transportation projects. As noted earlier, one such tool local entities use to advance transportation projects is a TRZ.

TRZs are designed to generate revenue for road and transit projects, stimulate well-planned development coordinated with transportation, encourage collaboration across city and county boundaries, and encourage coordination between municipalities and transportation agencies. Proposed projects can provide funding for improvements including a State or local highway, public transportation facility or nonmotorized transportation facility, or parking facilities that support intermodal regional transportation.

To establish a TRZ, public agencies must follow a specific process. The steps include defining the transportation need, proposed improvements, and boundaries of the zone; establishing a base year to calculate the increase of property tax revenue within the zone; and establishing the terms for sharing any increase in property or sales tax revenue within the zone. The local governing body designates a zone in which it will promote a transportation project. Once the zone is created, a base year is established, and the incremental increase in property tax revenue collected inside the zone is used to finance a project in the zone. To help with



development and construction costs, the anticipated revenue collected can be paired with bonding, revolving loans, or other funding associated with project costs to address gaps in the timing of the capital expenditure and revenue generation.

Eligibility and Program Details

Cities, counties, and port authorities have the authority to set up a TRZ and must make the following determinations:

- The proposed zone must be deemed underdeveloped.
- The area of the TRZ will 1) promote public safety; 2) facilitate the improvement, development or redevelopment of property; 3) facilitate the movement of traffic; and 4) enhance the local entity's ability to sponsor transportation projects.

Many local governments are familiar with tax increment reinvestment zones (TIRZ) and tax increment financing (TIF), but the TRZ is a recently created tool that allows for a broader range of transportation projects. A TRZ also does not require the local entity to create a board.

Process Overview

To establish a TRZ the city, county, or port authority must:

- Identify project needs
- Research for zone formation
- Define boundaries
- Hold public hearing
- Pass the ordinance or order
- Establish base year for tax collection
- Determine tax increment through feasibility study for financing portion of project
- Establish funding mechanism

A Deeper Dive into Transportation Reinvestment Zones

A funding crisis exists for financing much needed transportation infrastructure projects across the nation, and Texas is no exception. The State of Texas has responded to the crisis by passing several bills allowing innovative financing and alternative options for project financing. Among these is Senate Bill 1266 (SB1266), which is a landmark legislation and was passed in 2007 as part of the 80th Legislature to provide the legal backdrop for the creation of an institutional arrangement called the TRZ, to facilitate value capture of the potential benefit or tax increment from a future transportation project. As a new value capture strategy, TRZs do have similarities with other value capture methods adopted in Texas, but still remain different in subtle ways. The status of the Highway Trust Fund and the consequent funding crisis in Texas and elsewhere in the nation has placed enormous demands on innovative financing mechanisms to finance critical mobility needs. Like other transportation agencies nationwide, the Texas Department of Transportation searches for methods to better finance transportation projects to meet the needs of the growing population and to improve overall system connectivity. Value capture



through the Transportation Reinvestment Zone represents a viable financing method for meeting the State's long-term mobility needs.

More on TRZs

A TRZ is an infrastructure finance tool that relies on the principles of TIF to help pay for transportation improvements. TRZs are currently available to local governments in the States of Texas and Utah. A TRZ allows local government entities with taxing authority to set aside funding contributions for a transportation project *by capturing a portion of the increase in land values and new development spurred by the transportation project.*

A TRZ is also the legal mechanism that allows a local jurisdiction to designate a contiguous area around a transportation project as an impact zone to capture a portion of the increment in future local property and/or sales tax revenues resulting from the growth in the zone's tax base. The incremental tax revenue is used to support funding and financing of the project. Thus, the land development attributable to the project is used to finance the project.

How TRZs Work

In Texas, VC mechanisms like TIF, TIRZ, and SAD are all available but few allow direct financing of transportation improvements. The TRZ has been expressly provided for in the Legislation to allow direct financing of transportation projects and primarily highway projects. After designating a contiguous area along a corridor as a TRZ, a local government entity (a city or county) can securitize the incremental tax revenues along with Texas Department of Transportation Pass-Through financing to obtain the funds necessary to bring a project to fruition. Funds generated from the securitization can be used to pay for infrastructure projects in the TRZ, and investors can be repaid from the combined revenue stream—the incremental tax revenues and Texas Department of Transportation Pass-Through funds. Once the securitized debt is repaid, the additional revenues generated by the TRZ are redirected toward other municipal services. The Texas TRZ model is similar in many ways to the TIF or TIRZ model in its implementation and also involves municipal bond financing.

TRZs are a mechanism for local governments to leverage local and State funds for infrastructure construction by using the Texas Department of Transportation's Pass-Through mechanism. The TRZ creation process also facilitates collaboration between public and private partners by encouraging the development of coordinated infrastructure investment strategies between governmental entities with the objective of stimulating private investment. More specifically, the development of the TRZ plan requires public and/or private sector partners to agree on their roles and project scope, and to determine the funding sources for the project(s), including the role of TRZ funding.



The TRZ mechanism allows revenue generation to be possible without increasing taxes in most circumstances. In a typical TRZ implementation, neither the tax rate nor the current allocation of tax revenues to finance local government operations changes.

Where Have TRZs Been Used in Texas?

TRZs have been used to fund projects in a variety of settings. In Texas, there are examples of these in large urban areas such as El Paso, as well as in suburban communities like the town of Horizon City. Rural communities such as El Campo have also successfully used TRZs to fund transportation improvements. As a result, the scale of improvements for which TRZs have been applied ranges from direct connect links at large interchanges on the interstate system to smaller capacity additions on the State highway system.

For the most part, TRZs are used as gap financing only. They have been used to provide only a portion of the project funding needed commensurate with the size of the local tax base and local government priorities.

Sources

Center for Innovative Finance Support (U.S. Department of Transportation/Federal Highway Administration)

Transportation Reinvestment Zone (Texas Department of Transportation)

Transportation Reinvestment Zones Handbook (Prepared in Cooperation with the Texas Department of Transportation)