



Transportation Reinvestment Zones

Disclaimer: *The contents of this presentation do not have the force and effect of law and are not meant to bind the public in any way. This presentation is intended only to provide information and clarity to the public regarding existing requirements under the law or agency policies. Value capture techniques and policies are often implemented outside of Federal funding or regulatory requirements.*

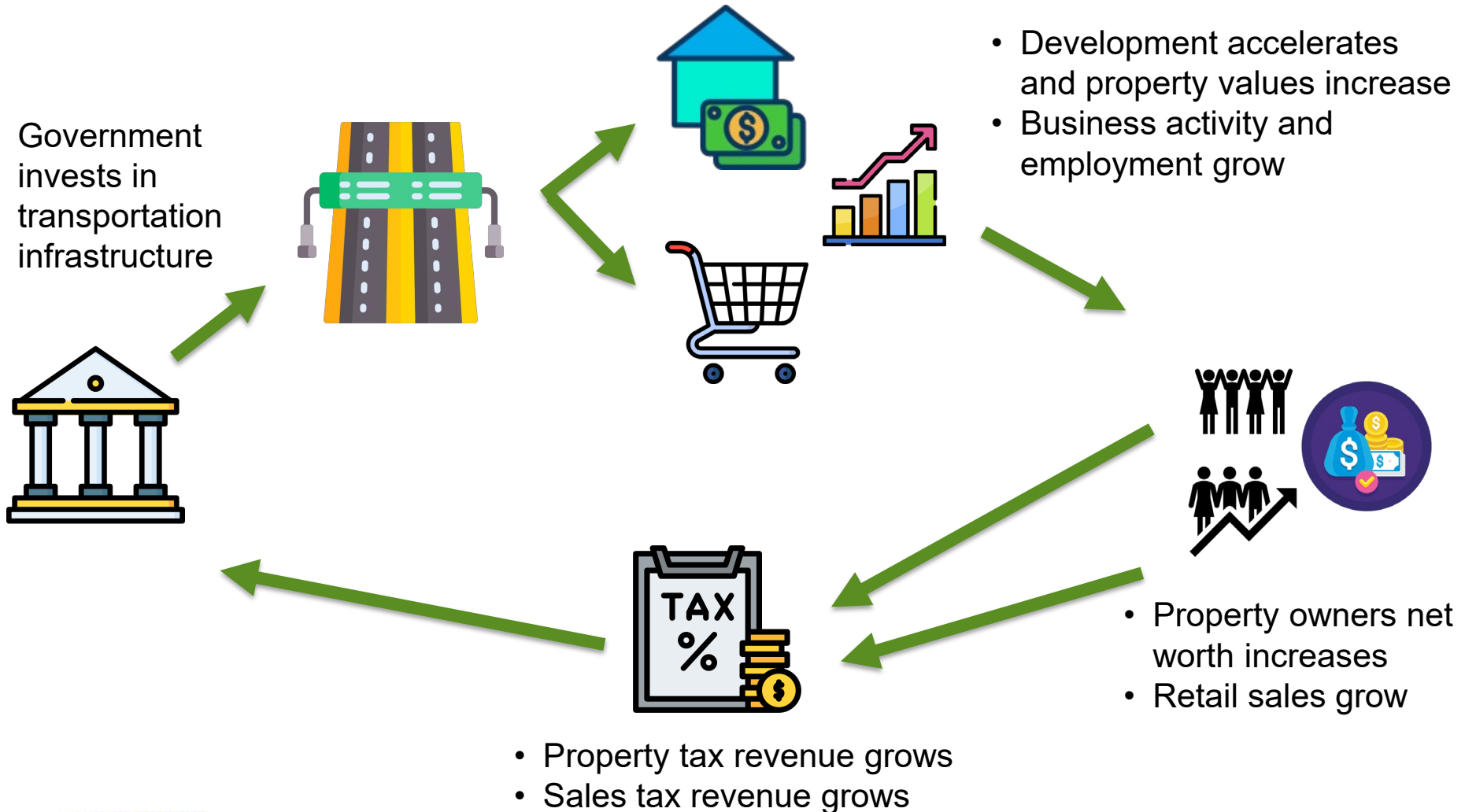
Presentation Outline

- 1 Overview
- 2 Transportation Reinvestment Zone Basics
- 3 Legal Framework
- 4 Implementation
- 5 Using Transportation Reinvestment Zones
- 6 Opportunities and Challenges
- 7 Case Study

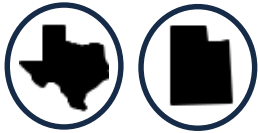
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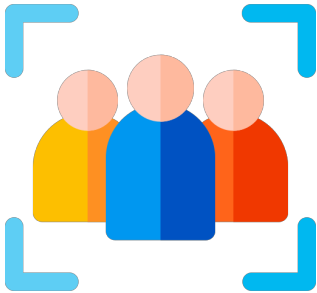
Value Capture and TRZs



The TRZ Primer



Transportation reinvestment zones (TRZs) are available to local governments in Texas and Utah



The primer's audience includes practitioners from:

- Communities that don't currently use TRZs, but may be interested in using them in the future
- Communities already using TRZs, but interested in learning other available TRZ financing methods



The primer aims to increase the knowledge of TRZ basics:

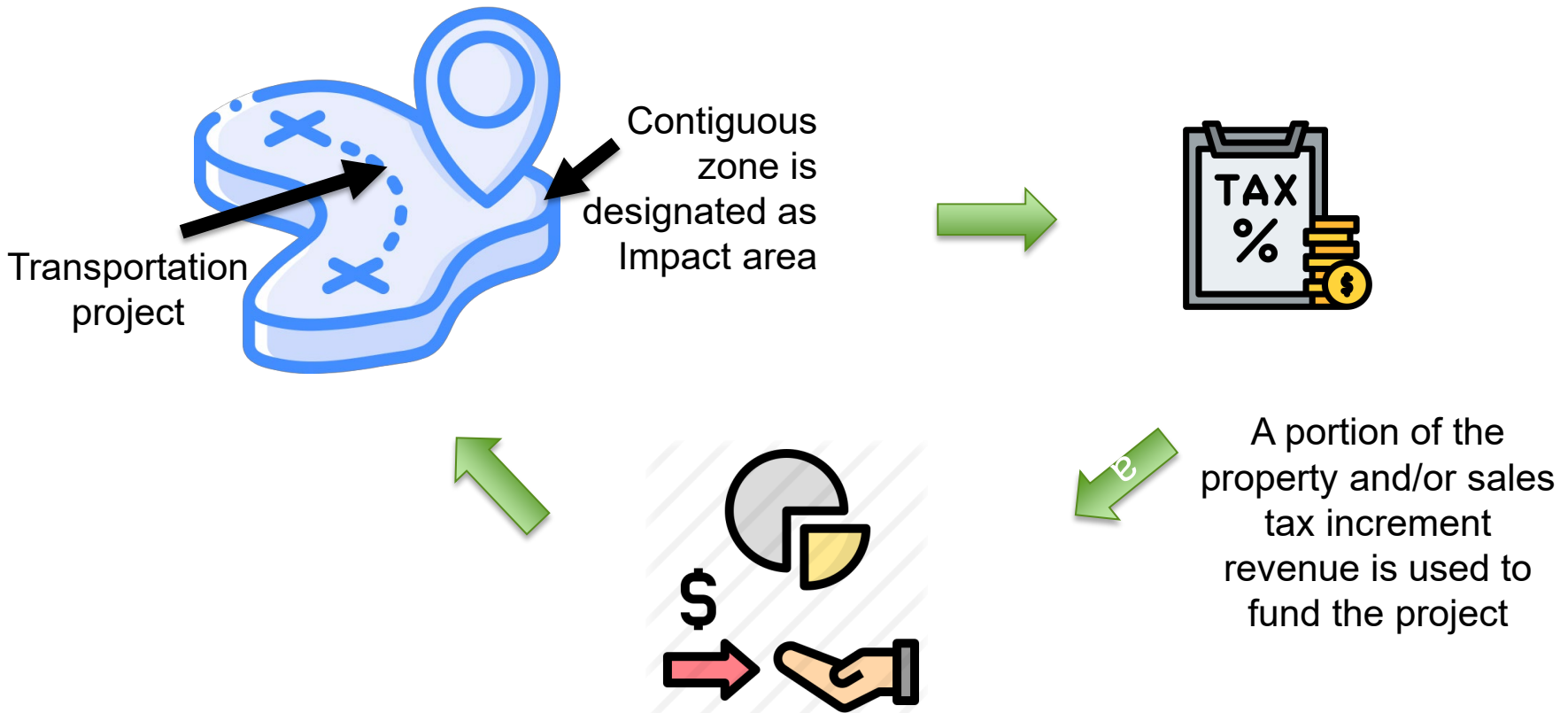
- How are TRZs implemented in Texas and Utah?
- Which local governments can use TRZs and what transportation projects can be funded?
- What opportunities and challenges exist for local governments considering using TRZs?

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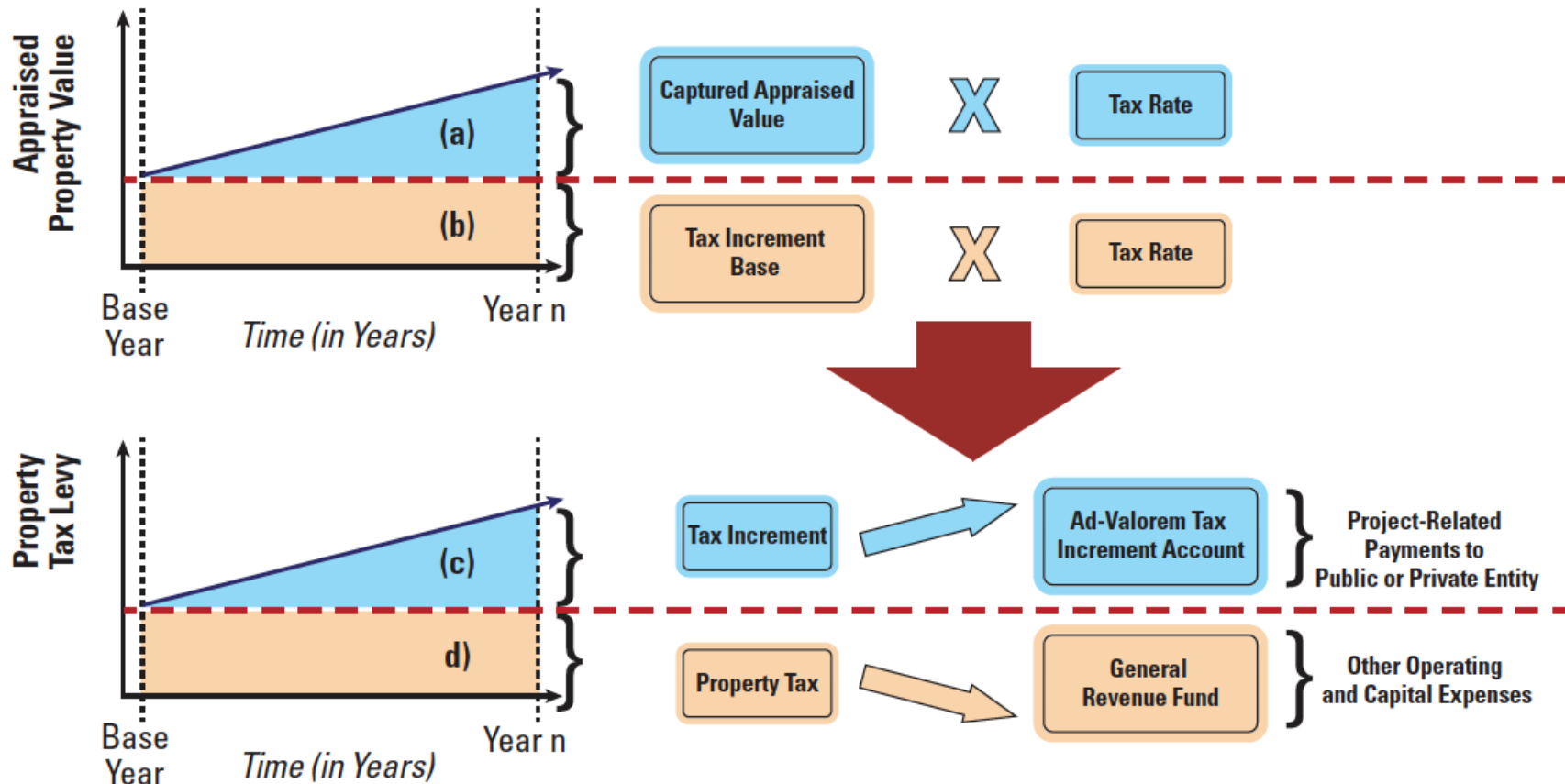
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TRZ Definition

A contiguous area where a portion of the annual increment in future local property and/or sales tax revenues resulting from the growth in the zone's tax base is to be captured and used to support funding and financing of the project.

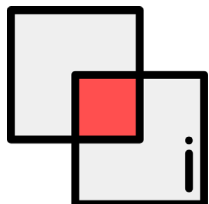


Useful TRZ Tax Increment Definitions



Source: Aldrete, et al., *Leveraging the Value of Land and Landside Access to Fund Port Infrastructure in Texas*, *Transportation Research Record*, 2018, vol. 2672.

TRZs vs. Tax Increment Finance (TIF) Districts: Similar, but Different



Similarities

- Both use the TIF mechanism to fund public investments within the zone



Differences

- TRZs:
 - ✓ Are dedicated only to transportation improvements
 - ✓ Are easier to create
 - ✓ Have a simple oversight and management structure
- TIF Districts:
 - ✓ Used for a wide range of improvements, including transportation
 - ✓ Have a complex initiation process
 - ✓ Have a complex oversight and management structure

What is the Role of TRZs in Project Delivery?



- TRZs capture part of the economic growth expected from a project to leverage traditional and non-traditional funding sources
 - ✓ Federal and State transportation funds
 - ✓ Tolls
 - ✓ Value capture



- TRZs are generally not a project's sole funding source
- Rather, they are used as:
 - ✓ Complementary source to close funding gap
 - ✓ Local matching funds for other funding sources – when required



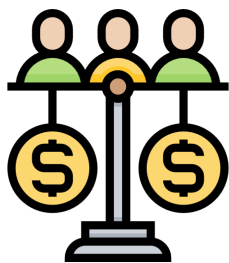
- One TRZ can support single or multiple projects within the zone

Circumstances Motivating Creation of TRZs



Addressing regional needs

- Neighboring or overlapping local governments can establish TRZs within their jurisdiction and jointly fund regional projects:
 - ✓ Fund individual project segments within their boundaries
 - ✓ Fund project outside their boundaries (i.e. joint support)



Promoting Equity and Economic Efficiency

- Those who benefit from the project investment pay—in proportion to the benefit received -- for some of its capital costs:
 - ✓ Property owners and developers
 - ✓ Business owners

Presentation Outline

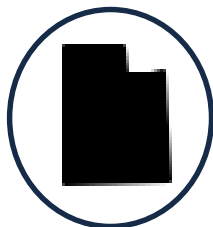
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Legal Framework in TX and UT: Background



Texas

- Senate Bill (SB) 1266 passed in 2007 – amended Chapter 222 of the Transportation Code (amended multiple times)
- First TRZs created in 2010
- As of 2020, there are 16 active TRZs throughout the state:
 - ✓ 8 Municipal TRZs
 - ✓ 4 County TRZs
 - ✓ 4 Port Authority TRZs



Utah

- SB 136 was approved in 2018 - enacting Utah Code Section 11-13-227 (amended in 2019)
- No TRZs yet created as of 2020
- New transit-focused legislation approved in 2021 (Housing and Transit Reinvestment Zone Act)

Texas TRZ Legal Framework: Evolution

| Categories | 2007 (SB 1266) | 2011 (HB 563) | 2013 (SB 1110 HB 2300 & SB 971) | 2017 (SB 1305) |
|----------------|--|--|---|---|
| TRZ Type | <ul style="list-style-type: none"> • Municipal TRZ • County TRZ | | <ul style="list-style-type: none"> • County Energy TRZ • Port Authority TRZ | <ul style="list-style-type: none"> • County Energy TRZs repealed |
| Project Type | <ul style="list-style-type: none"> • State Highway (requires pass-through or shadow toll) | <ul style="list-style-type: none"> • Pass-through requirement removed • State Highway • Local Roads • Transit | <ul style="list-style-type: none"> • Port • Multimodal | |
| TRZ Management | <ul style="list-style-type: none"> • Required allocation of 100% of tax increment | <ul style="list-style-type: none"> • Partial allocation of tax increment allowed • TRZ boundaries can be expanded after creation | <ul style="list-style-type: none"> • Fund multiple projects • TRZ joint support | |

Texas TRZ Legal Framework: Requirements (Texas Transportation Code 222.105 et seq.)

Area Characteristics

- Unproductive and underdeveloped
- The TRZ will foster development, facilitate traffic flow and enhance the local government's ability to sponsor a project
- A finding of blight is NOT required

Boundaries and Limits

- Contiguous geographic area (project must be located within zone)
- No boundary limits (within the jurisdiction)
- Can be expanded, but not reduced
- May include property already within TIF or other incentive districts – but only for contiguity, not for revenue contribution

Other

- Local government decides the portion of tax increment revenue that must be dedicated to the project – remaining funds may be used for other purposes

Legal Framework in Utah



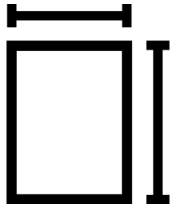
State of Utah's TRZ legal framework was enacted in 2018 General Session and amended in 2019 General Session (Utah Code Section 11-13-227).



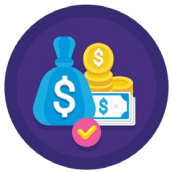
Utah law requires the agreement of two or more public agencies to the basic elements of the zone, including:

- ✓ Transportation infrastructure need and proposed improvement
- ✓ Boundaries and base year
- ✓ Terms for sharing future sales and/or property tax revenue.

Legal Framework in Utah



Utah law does not explicitly allow or disallow changes in the footprint, or boundaries, of a TRZ once it has been created and is mute regarding limitations on the size of its boundaries.



The use of TRZ funds is not limited to local, State, or Federal transportation projects.

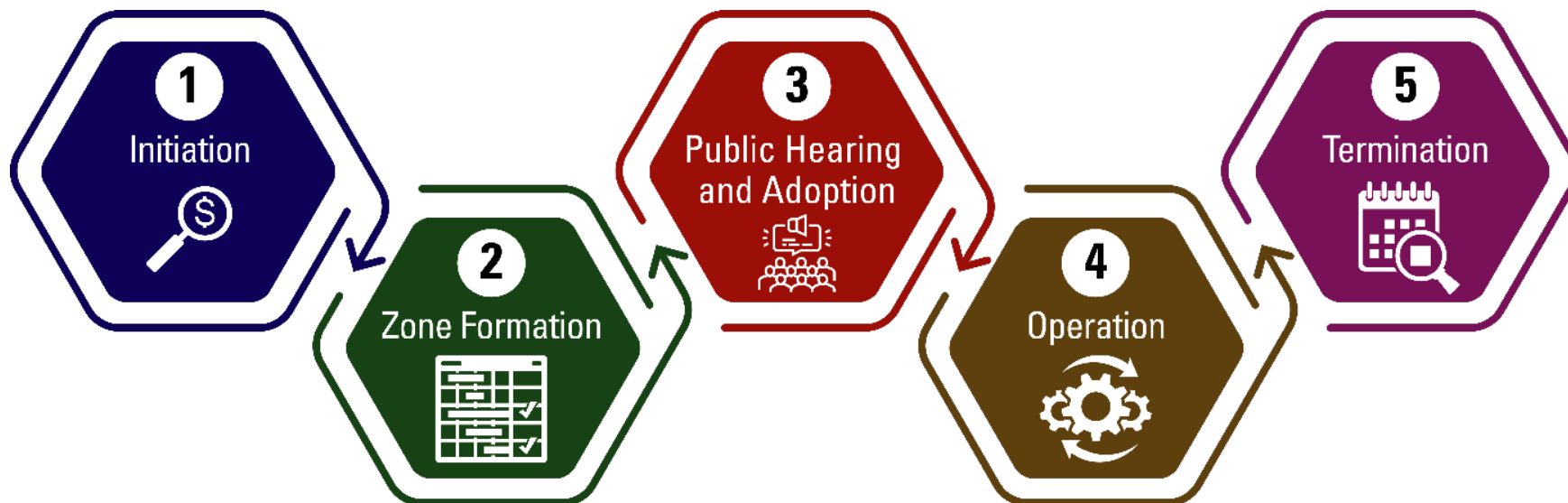


The Utah law is flexible by allowing the participant public agencies to define the transportation need and improvement within the zone.

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Implementation of TRZs: The Texas Process



Source: Texas A&M Transportation Institute

Implementation of TRZ

1

Initiation



This stage consists of identifying an eligible target area for TRZ funding.



Preliminary analyses at this stage:

- 1) Economic impact study of the proposed project and the economic value it can create;
- 2) Increment capture analysis to assess tax increment revenue
- 3) Demonstration of unproductive or underdeveloped land in the corridor

Implementation of TRZ

2

Zone Formation



Determination of Zone Boundaries. All properties included within the TRZ boundaries are identified and listed.



Provision of 60-Day Notice. At least 60-Day notice period before designating the TRZ should be allowed. Public hearing on the creation of the TRZ should be hold not later than the 30th day before the date when the TRZ is expected to be designated.



Refinement of TRZ Preliminary Analyses. In this stage, local governments have the opportunity to refine the preliminary analyses performed in the Initiation (Stage 1).

Implementation of TRZ

3

Public Hearing and Adoption



Public hearing on the creation and benefits of the zone no later than the 30th day before the TRZ.

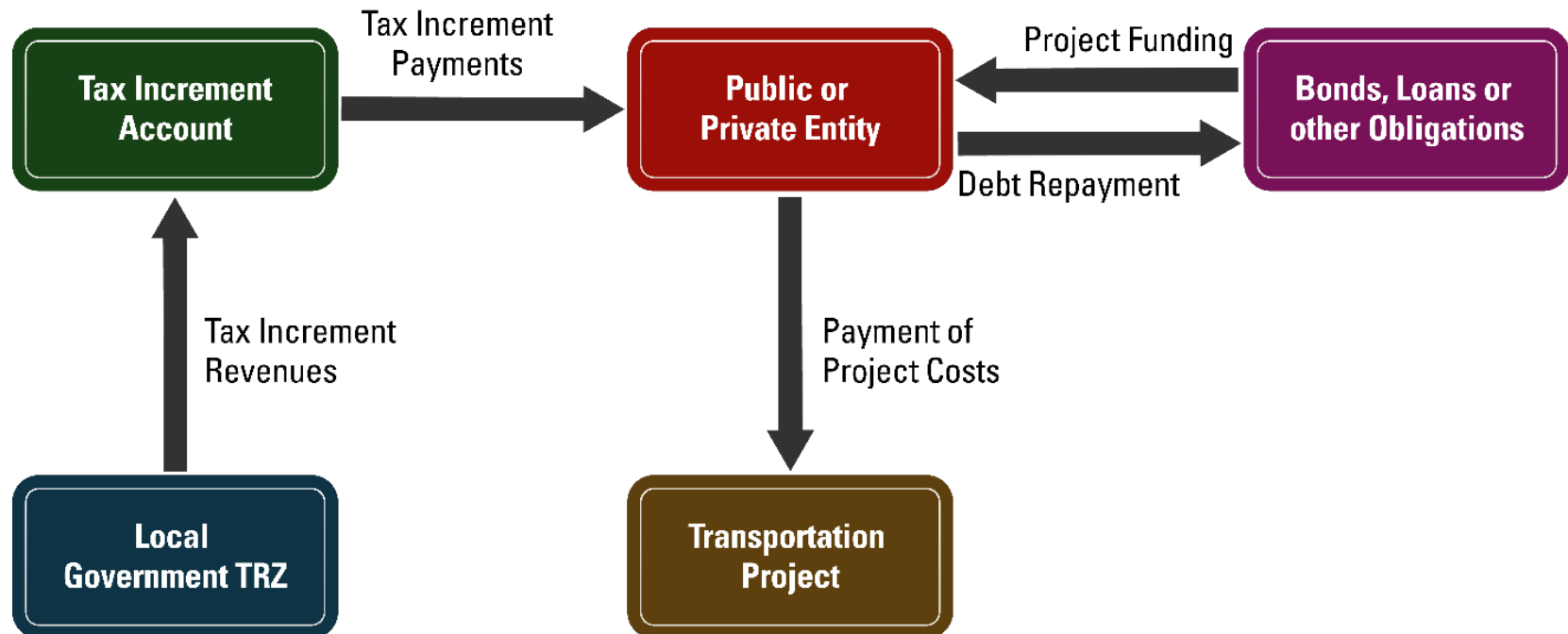


Local government governance body convenes and holds a vote on the creation of the zone by order, resolution, or ordinance on the 30th day after the hearing.

Implementation of TRZ

4

Operation



Source: Aldrete, et al., *Leveraging the Value of Land and Landside Access to Fund Port Infrastructure in Texas*, *Transportation Research Record*, 2018, vol. 2672.

Implementation of TRZ

5

Termination

According to Texas law (Texas Transportation Code 222.106(j)), a TRZ terminates:



1- On December 31 of the year in which the local government completes any contractual requirement that included the pledge of TRZ revenue.

2.- On December 31 of the 10th year after the year the zone was designated, if before that date the local government has not used the zone for the purpose for which it was designated.

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Local Jurisdictions that Can Use TRZs

- Municipalities
- Port Authorities
- Counties*

State of Texas



- Two or more public agencies, at least one of them being a county or municipality

State of Utah



Local governments (in Texas) or public entities (in Utah) can jointly dedicate their TRZ resources to one project or sets of projects to enhance mobility and promote economic development across jurisdictions.

* According to the Texas AG, the ability of a county to use TRZ revenue as debt collateral could be constitutionally challenged.

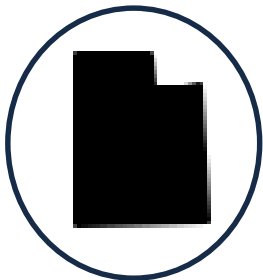
Type of Projects that Can Be Funded with TRZs



Texas law allows for the creation of a TRZ for a variety of transportation projects, including, tolled and non-tolled roads; passenger or freight rail facilities; certain airports; pedestrian or bicycle facilities; intermodal hubs; parking garages; transit systems; bridges; certain border-crossing inspection facilities; and ferries.

Texas law does not limit the use of TRZ funds to State or Federal transportation projects.

Texas Transportation Code Sections 222.105–111



Utah law allows local governments to define the transportation need and proposed improvement within the zone that can be funded using TRZ revenues.

Utah law does not limit the use of TRZ funds to local, State, or Federal transportation projects.

Utah Code Section 11-13-227

TRZ Financing Methods



Pay-as-you-go

Financing of improvements using current revenues, such as general taxation, fees, and service charges.

- Advantages: No financial (interest) cost.
- Disadvantages: Slow project delivery.



Bonds

Issuing debt securities to fund day-to-day obligations or capital expenses such as transportation projects.

- Advantages: Earlier availability of capital and the more flexibility in project selection.
- Disadvantages: Transaction and financial (interest) costs.



SIB

Secure funds via direct loans and credits to pay for transportation projects.

- Advantages: Earlier availability of capital and lower transaction and financial (interest) costs.
- Disadvantages: Federal-Aid Highways above rural minor collector included in the TIP (23 USC 610(f))

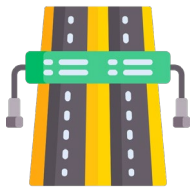
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Opportunities



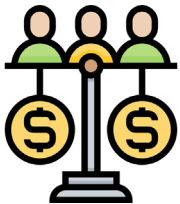
Low political and public resistance when creating TRZs because TRZs are not a new tax or tax increase



TRZs help local communities expedite, or to make possible in some cases, the delivery of critical transportation projects by closing the funding gap. As a result, mobility is increased, spurring economic development in the area.



TRZ generally entails a great deal of interagency collaboration that opens opportunities to leverage funds across agencies, including the State DOT, the regional MPO, neighboring local governments, and others.



TRZs are a funding mechanism that can promote equity and economic efficiency through the “beneficiary-pays” principle.

Challenges



Concerns about the ability of the local government to sustain services within the zone as a result of some of the incremental property tax revenue being dedicated to a transportation project.



Uncertainty associated to TRZ revenue streams. TRZ revenues are driven by conditions in the real estate market within the zone.



Counties in Texas have not been able to use TRZ revenues to secure long-term financing to pay for transportation projects. Based on a Texas Attorney General's opinion, it might be prohibited by Texas Constitution.

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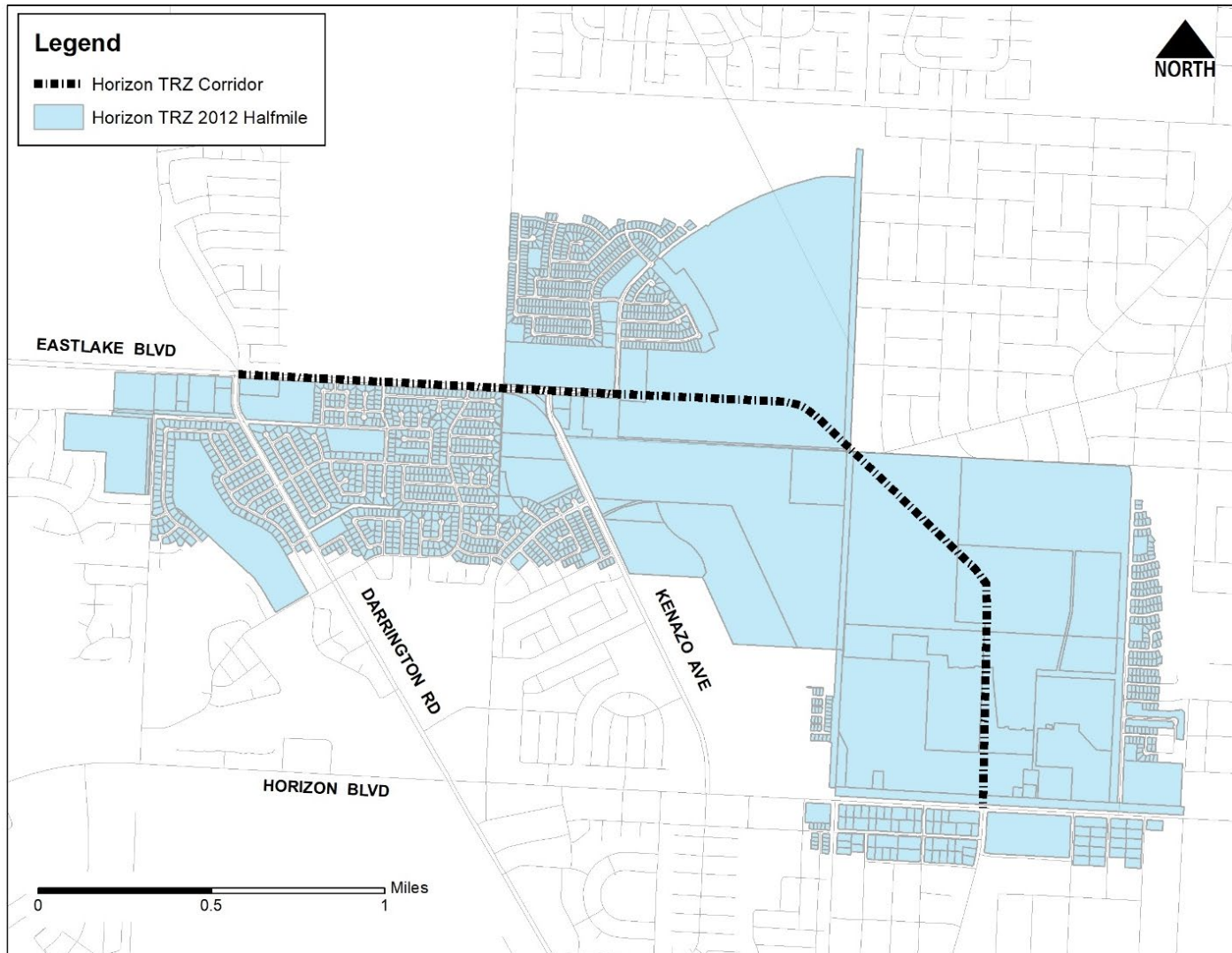
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TRZ - Eastlake Boulevard Extension Phase 2

- Town of Horizon City, TX. Small size community. The city uses revenues generated by the Town of Horizon City TRZ No. 2 as a financing mechanism to partially fund the Eastlake Boulevard Extension Phase 2 project.
- The Eastlake Boulevards Extension Project was critical for the Town, as it significantly improved the Town's access to I-10 and connectivity to the City of El Paso, as well as to its neighboring City of Socorro.
- The project consisted of building a new six-lane roadway. The Town of Horizon City was responsible for paying \$3.8 million of the \$16.7 million project cost.

Source: Utilizing TRZs: Town of Horizon City Eastlake Boulevard Extension Phase 2. Presentation by Teresa Quezada at the FHWA EDC-5 Texas Peer Exchange. Austin, TX (2019).

TRZ - Eastlake Boulevard Extension Phase 2



TRZ – Eastlake Boulevard Extension Phase 2



Opportunities

- Horizon City used the TRZ value capture technique to negotiate a unique funding and development agreement with other local entities to make the project happen.



Challenges

- Internal challenges:
 - Introducing new funding concept to policymakers. **Continuous communication between policy makers and key municipal staff.**
 - Determining TRZ size. **Local officials and financial staff working together to determine TRZ size.**
- External challenges:
 - Coordinating with external partners. **Designate a team to lead those discussions.**
 - ROW acquisition. **Work with property owners as early as possible.**
 - Changes in Property Designation. **Be prepared!**

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