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# FREQUENTLY ASKED QUESTIONS

## Tax Increment Reinvestment Zones (aka TIRZ)

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### What is a TIRZ and how does it work?

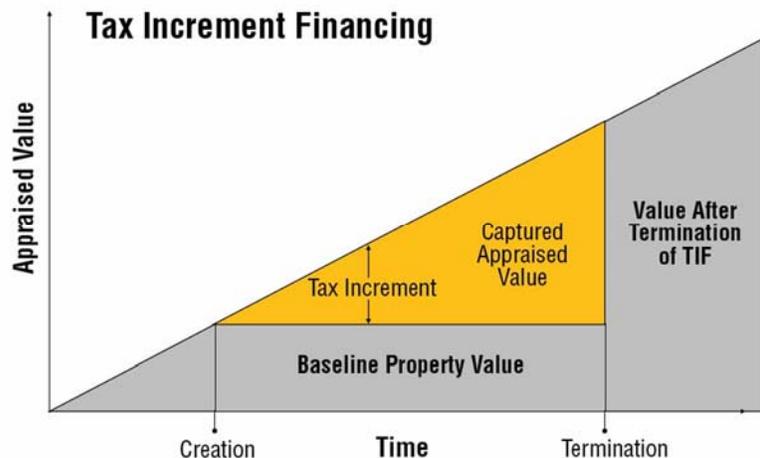
TIRZ stands for “Tax Increment Reinvestment Zone.” TIRZs are governed by Chapter 311 of the Texas Tax Code. There are more than 180 TIRZs throughout Texas. TIRZs are used as forms of tax increment financing, which is an economic development tool to incentivize both development and redevelopment. A TIRZ is not an additional tax. Instead, it establishes a “base tax value” for a designated geographic area when the Tax Increment Reinvestment Zone is created. Once that base tax value is established, a TIRZ reallocates some or all of the additional ad valorem property taxes in the zone.

When a TIRZ is created, the Town would record the sum of the ad valorem property tax at the time of the TIRZ creation for the properties within that zone. Essentially, a snapshot is being taken of what the property taxes are at that specific moment. And the Town then records that number as the “base tax value.”

Each year, within the TIRZ, the property taxes collected up to that “base tax value” continue to go into the Town’s general fund, as well as any new value that isn’t dedicated to the TIRZ district.

But as properties in the TIRZ develop and increase in value, property taxes collected over and above that “base tax value” number, go directly into a TIRZ fund. Those TIRZ property taxes can only be used within the TIRZ, and can be used for infrastructure, facade programs, landscaping, streetscaping, or practically any type of public enhancements to

the zone. A TIRZ can last any amount of time, but is typically a 20-25-year term.



## What does a TIRZ actually do?

A TIRZ is used to expedite development in an area of the Town that may not otherwise develop in a timely manner, by using property taxes to help pay for the costs. Such as:

- The surrounding properties are keeping it from developing
- The cost to extend infrastructure to that development is so high that a single developer may not be able to take on those costs by themselves
- Location within the municipality that has other circumstances, such as proximity to distressed neighborhoods, presence of unsafe conditions, deterioration of the site, or defective or inadequate street layout

There are other taxes that get generated from new development, such as business personal property, sales tax revenue, and any percentage of uncommitted real property tax revenue— and those taxes don't go into the TIRZ, but they still benefit the Town almost immediately.

## What specifically can the TIRZ fund?

The most common use of TIRZ funds is the cost of infrastructure. With many developments, the cost to initially extend infrastructure has been very costly. In some cases, municipalities utilize TIRZ funds to extend that infrastructure, and in some cases the developer extends the infrastructure out of their own pocket, and then is repaid for those costs as their development creates enough increased tax value within the TIRZ.

Permitted “Project Costs” can be paid for by TIRZ funds. “Project Costs” are those items that are listed in the Project Plan as costs of public works, public improvements, programs, or other projects benefitting the zone. Once defined and approved, these are the only items that are eligible to be funded by TIRZ dollars.

Project Costs may include:

- Purchase of land for public infrastructure
- Relocation of public utilities
- Water, wastewater, and drainage systems
- Parks and landscape
- Public roads and buildings
- Façade improvements
- Environmental remediation
- Demolition of existing structures

- Debt service reserve, capitalized interest, cost of issuance
- Administration fees and marketing
- Operational costs

## **What are the benefits of a TIRZ?**

Benefits of a TIRZ:

- Does not affect revenue currently going to the general fund of the Town which it depends on for provision of existing services
- Does not involve additional or increased taxes on existing or new developments to produce revenues to serve as incentives
- Does not involve forgiveness of taxes
- Creates an opportunity to include other taxing jurisdictions in providing the tax incentives used for new public infrastructure and revitalization efforts
- Captures only taxes on real property (land and buildings)-not business personal property, inventory, sales taxes, and the undedicated portion of real property-leaving those revenues available to support any increase in general budget costs
- It is a commitment for a period of years providing a dependable source of economic development funds which can be allocated to stimulate new development and redevelopment over years
- A TIRZ allows for reinvestment of tax funds in those areas which created the funds
- Expedite development

## **Are there any disadvantages to a TIRZ?**

Disadvantages of a TIRZ:

- Real property taxes, above and beyond your “base tax value” number, go into the TIRZ
- The Town has to pay for support services, such as the police and fire departments, out of its general fund

## **How is a TIRZ created? And what governmental entities can participate?**

A TIRZ can be created in one of two ways.

- **The first way is at the direction of the Flower Mound Town Council.** The Flower Mound Town Council could direct Town staff to create a Tax Increment Reinvestment Zone, and staff would move forward with the creation of the zone
- **The second way is creation by petition.** To create a TIRZ by petition, you need a threshold of 50 percent of all of the appraised value within the zone. So, the property owners who represent at least half of the appraised value within the area would come to the Town and petition to have the zone created

The various taxing entities that levy taxes on property may choose to participate in the TIRZ, such as the municipality, county, water districts, and/or taxing special districts. In our local area, the municipality and county are typically the primary participants. School Districts typically do not participate.

The actual creation of a **TIRZ is a multi-step process** involving the local municipality and any other participating taxing entities. Below is a brief overview of the steps required to create a TIRZ:

- **Prepare a preliminary financing plan** (showing details how the improvements will be paid for)
- **Hold a public hearing** (and publish notice of such) to gain public input
- **Designate a reinvestment zone** (through adoption of an Ordinance), outlining the zone timeframe, formally establishing the zone, noting certain findings that indicate the zone meets criteria, and creating the TIRZ Board of Directors
- **Prepare a project plan and a financing plan** (Final Plans) to be consistent with preliminary plans and be approved by the TIRZ Board and Town Council
- **Seek approval of other participating taxing units** (County) through public hearing and formal consideration by that taxing unit's governing body
- **Implement TIRZ** (begin implementation of the outlined plan) through the TIRZ Board and Town Council actions
- **Submit an Annual Report** (once the TIRZ is in place, the governing body produces an annual report indicating the status of the zone)

## How is a TIRZ managed? Who has oversight of these zones?

Every municipality is a little bit different, but in the Town of Flower Mound, a TIRZ is managed on multiple levels.

- **The most basic level starts with the Town staff.** There are multiple Town officials and employees who manage the Tax Increment Reinvestment Zones for the Town. Staff from Financial Services and Economic Development work within the Town organization on development within the TIRZ
- **Above that is the TIRZ Board or the Tax Increment Reinvestment Board of Directors.** This board serves as a recommending body to the Flower Mound Town Council. If the Town wished to consider creating additional projects within a TIRZ or expanding the zone, then the TIRZ board would be the first body that would review and make a recommendation on those projects, or whatever action is being considered with regard to the TIRZ
- **The final level of oversight is the Flower Mound Town Council.** The TIRZ board does not have any final approval authority. All decisions that are made, or all recommendations that are made by the TIRZ board, go to the Flower Mound Town Council for final approval. Essentially, the Town Council has the last say when it comes to utilizing TIRZ dollars, creating new projects, expanding the zone, etc.

## How many people are on a TIRZ board, and how are they appointed?

A TIRZ board is made up of between five and fifteen members. Each taxing unit which participates in the TIRZ in addition to the municipalities, may appoint a member to the board. Members typically serve staggered two-year terms.

## How are Project Costs actually paid for?

Once a TIRZ District is established, it will generate revenue into the TIRZ to begin paying for the established project costs. This revenue stream can be utilized to simply reimburse project costs (either to a private developer or the Town, depending upon who has performed the work) as revenues grow, or debt can be issued against the revenue stream of the TIRZ, or even a combination of both.

The Town of Flower Mound takes a fiscally conservative stance on this matter, with the intention of eliminating any financial risk to the Town. It has been the Town's practice, and it is estimated that this will continue, not to take on any liability for debt, by either not issuing debt until the added value is present to pay the debt or by issuing debt where the Town's role is only the issuer, with no liability. While utilization of bonds has been done with the Town's current TIRZ, it was done to fund specific projects at such time as there was sufficient added value to pay the debt service.

# How many TIRZ Districts currently exist in Flower Mound and where are they?

The Town of Flower Mound established its one tax increment reinvestment zone (TIRZ #1) in September 2005 to provide funds for public infrastructure within the Town's FM 2499 corridor. The TIRZ consists of approximately 1,465 acres and ad valorem tax revenues collected above the base value established in 2005 go toward funding proposed improvement projects over a 20-year period.

## TIRZ #1 Facts:

- Participating entities:
  - Town (100%) \$0.439000
  - Denton County (85%) \$0.202140
  - \$0.641140
- Capital Improvement Items/Approved Project Costs (\$48,700,000):
  - Streets
  - Traffic Signals
  - Water lines
  - Facilities
  - Parks
  - Public Parking Garage
- To date, approximately \$13 million of the estimated \$48.7 million has been expended
- The Town issued bonds in 2017 and 2018 to assist in financing the new Town Hall and Library expansion
- To date, the TIRZ has generated \$734,525,231 in added value (over the base year), far exceeding original estimates
- TIRZ #1 Board consists of five voting members (two appointed by each of the represented County Precincts in the Town and three appointed by the Town), with the Mayor and Town Manager serving as Ex-Officio members



Information provided in this FAQ is obtained from Texas Local Government Code, Title 3. Local Taxation, Subtitle B. Special Property Tax Provision, Chapter 311 Tax Increment Financing Act, and other sources.

To view the Tax Increment Financing Act directly, please visit

<https://statutes.capitol.texas.gov/Docs/TX/htm/TX.311.htm>.

Additionally, the Texas Comptroller provides information on Tax Increment Reinvestment Zone creation in

Texas at <https://comptroller.texas.gov/economy/local/ch311/>.

For general questions on TIRZ Districts, please contact the Town of Flower Mound Office of Economic Development at 972-874-6045 or via e-mail at [ecodev@flower-mound.com](mailto:ecodev@flower-mound.com)

For financial information requests or the status of projects related to TIRZ #1, please contact the Town of Flower Mound Financial Services Division at 972-874-6021 or via e-mail at [financialservices@flower-mound.com](mailto:financialservices@flower-mound.com)