

Use of Tax Increment Reinvestment Zones for Affordable Housing

Housing & Community Development
Council Committee

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Presentation Goals

- I. Review of Homestead Preservation District**
- II. Tax Increment Financing as tool for Affordable Housing – Chapter 373A and Chapter 311**
- III. Comparison of approaches**

What is the HPD legislation?

Legislation first passed in 2005 that created Chapter 373A, Local Government Code intended to:

- **Increase homeownership**
- **Provide affordable housing**
- **Prevent the involuntary loss of homesteads by existing low and moderate-income homeowners**

HPD Affordable Housing Tools

**Homestead
Preservation
Reinvestment
Zone**



- **Homestead Land Bank**
- **Homestead Land Trust**
- **Other Affordable Housing Programs**

Tax Increment Financing (TIF)

Popular financing tool to encourage economic development within a defined geographic area or zone

- Various Texas Code sections allow reinvestment zones, including Chapter 311 of Tax Code and Chapter 373A of Local Government Code
- **Purpose** - set aside property tax revenues due to assessed valuation growth in zone to use for specific purposes in zone
 - Usually public investments that stimulate economic development

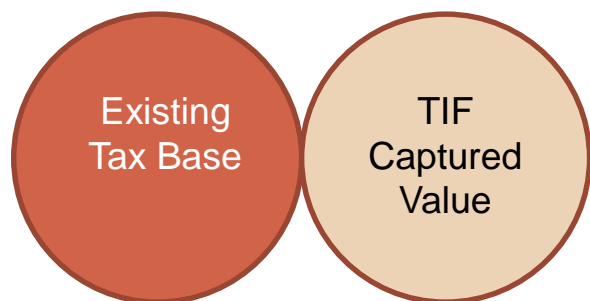
Tax Increment Financing (TIF)

But For the TIF subsidy, economic development would not occur at proposed level solely from private investment in the reasonably foreseeable future

- Essential for property values to rise more than typical market driven growth

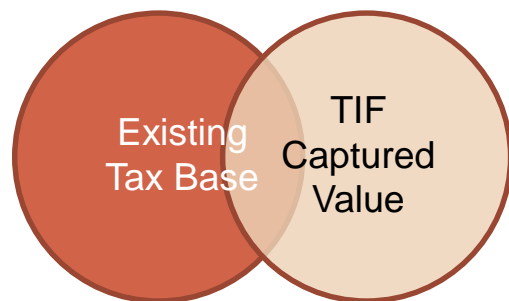
Tax Increment Financing (TIF) & Tax Rates

"But- For" Scenarios



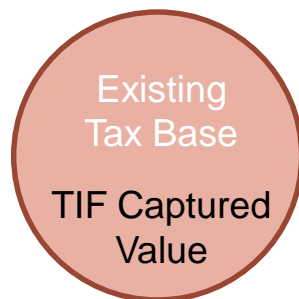
- TIF Captured Value all result of TIF public investment

Minimal Impact on Effective Tax Rate



- TIF Captured Value includes some tax value that otherwise would have occurred

Some Impact on Effective Tax Rate



- TIF Captured Value is all value that otherwise would have occurred

Larger Impact on Effective Tax Rate

Tax Increment Financing (TIF)

“Pay as You Use”

- Set aside tax increment revenue to pay debt service or up-front to kick start capital projects or for development costs
 - TIF authority issues bonds to finance public infrastructure
 - Developer finances project, then city reimburses (shifts debt risk to developer)

“Pay as You Go”

- Set aside tax increment revenue for use when sufficient balance accumulates or until a time driven target is met
- Can be a slow process depending upon zone development

Chapter 373A TIRZ

Requirements for the Homestead Preservation Reinvestment Zone are outlined in Chapter 373 A Subchapter D

The Reinvestment Zone must be:

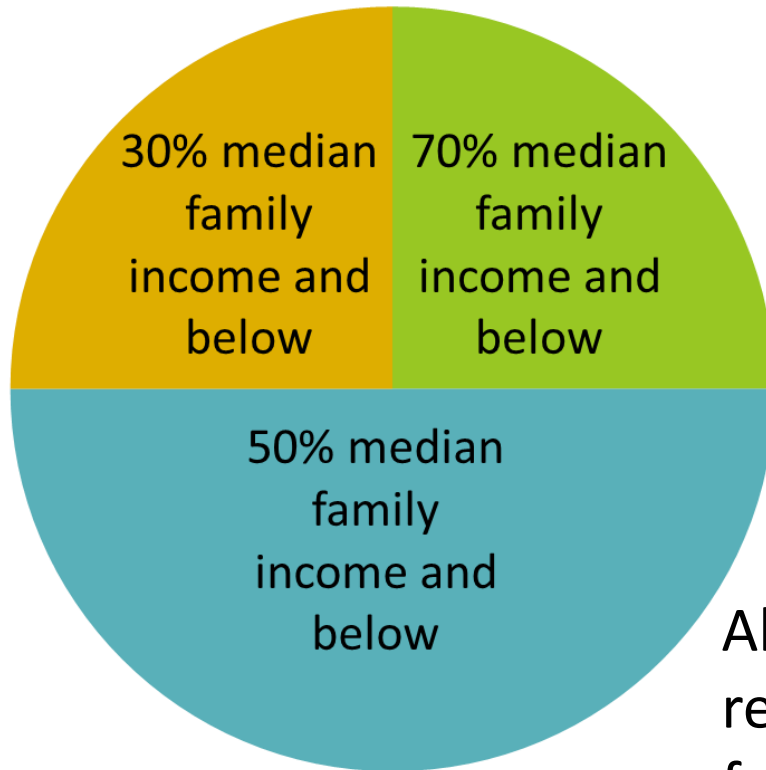
- A contiguous area
- Contained entirely within the Homestead Preservation District
- Follow the reinvestment guidelines outlined in Chapter 373A

Administration of HPD TIRZ

Under Chapter 373A revenue from the Homestead Preservation District Tax Reinvestment Zone fund must be **dedicated to the development, construction, and preservation of affordable housing**

Administration of HPD TIRZ

TIRZ Reinvestment Requirements



All housing created or rehabilitated with revenue from the TIF must have at least a **30 year** affordability period

Use of HPD Tax Increment Revenue

At least 80% of the revenue expended annually from the TIRZ fund must go to **project costs, including the purchase of real property, the construction or rehabilitation of affordable housing in the zone, and infrastructure improvements directly related to supporting the construction or rehabilitation of affordable housing in the zone.**

Chapter 373A & Chapter 311

Chapter 311 applies to Chapter 373A except where explicitly identified:

- Chapter 373A supersedes in the case of contradiction between the two
- Sections that do not apply to Chapter 373A:
 - 311.005: Criteria for Reinvestment Zone
 - 311.006: Restrictions on Composition of Reinvestment Zone

Chapter 311

Overview of Chapter 311 of State Tax Code

TIF (Tax Increment Financing)

- Tool for financing public improvements in blighted or underdeveloped areas identified as reinvestment zones

TIRZ (Tax Increment Reinvestment Zone)

- City or County authorized to designate
- Request by landowners' petition
- Process for zone creation includes public participation
- Requires TIRZ project plan and financing plan
- Authority to pledge tax increment fund as security for bonds
- Powers and duties of TIRZ Board of Directors

Chapter 311

Chapter 311 – Other Provisions

- Reinvestment zone *may not* be created if:
 - More than 30% of zone total assessed value (AV) is residential, excluding publicly owned property
- Contains more than 15% of total AV of real property taxable by a city, county or independent school district
- Tax Increment Bonds
 - Cities may issue; Counties may not issue, but TIF participation ok
 - Payable solely from zone's tax increment revenue
 - Normally have debt service coverage requirements

TIFs: Chapter 373A / Chapter 311

	HPD TIRZ (373A)	Chapter 311
Location for TIRZ	Only in HPD	City-wide
TIRZ Boundaries	Must be contiguous 100% within the HPD	Contiguous or Non-Contiguous
Zone Restrictions	Can be used in primarily Single Family areas	In each TIF, no more than 30% of private property can be for Single-Family
Permitted Use of Funds	Affordable Housing only	Any designated “project cost”
Affordable Housing	Yes; 100% on < 70% MFI; 50% on < 30% MFI	Yes; no restrictions
General Fund Revenue Impact	Yes – high	Yes – zero to low
Debt Financing	No	Yes
Subject to 5% Cap on Assessed Valuation	Yes	Yes

Affordable Housing & Chapter 311

Chapter 311 used for Affordable Housing

City of Austin

- Mueller TIF
 - Public financing for infrastructure
 - Under agreement with developer, 25% of all housing is for affordable units; **679 units to-date**
 - For sale < 80% MFI; Rental < 60% MFI; 3 tax credit deals get to <30 % MFI
 - Permanent affordability via the Mueller Foundation



Affordable Housing & Chapter 311

Chapter 311 used for Affordable Housing

City of San Antonio

- Several of their TIRZ achieve affordable housing
 - Westside TIRZ: 225 multi-family units, and 25 single family

City of Dallas

- All new TIFs under 311 have 20% at 80% MFI affordability goal
- Davis Garden TIRZ
 - 42% of all units will be affordable (304 units of 723 total)



Hillside West Senior Housing



Taylors Farm

Questions / Discussion