# TRANSPORTATION REINVESTMENT ZONE HANDBOOK

**Report 0-6538 Product P1 Handbook**

**Performed in cooperation with the Texas Department of Transportation**

**Research conducted by Texas Transportation Institute**
**The Texas A&M University System College Station, TX 77843-3135**

**In collaboration with**

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**and**

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## DISCLAIMER

The contents of this report reflect the views of the authors, who are responsible for the facts and the accuracy of the data presented herein. This project was conducted in cooperation with the Texas Department of Transportation (TxDOT) and the U.S. Department of Transportation. The contents do not necessarily reflect the official view or policies of the Texas Department of Transportation. The report does not constitute a standard, specification, or regulation. The researchers in charge of the overall project were Sharada Vadali and Rafael Manuel-Aldrete.

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# EXECUTIVE SUMMARY

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 Transportation Reinvestment Zone (TRZ) to facilitate value capture of the potential benefit or tax increment from a future transportation project. There are only three implementation projects to date using this funding mechanism, therefore the exposure to this concept is still minimal. 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. Hence, there is limited experience from which to draw guidance. As a result, effective implementation of new TRZs either as a longer term planning and financing initiative or their use for a more immediate application may be hindered by a lack of knowledge in key areas of initiation, zone formulation, and adoption and the partnership aspects.

To address this knowledge gap, the Texas Department of Transportation (TxDOT) undertook a 1-year research study to explore the issues associated with the effective implementation of a TRZ. Various aspects of implementing TRZs were explored during the study. From those research efforts this *Handbook* was developed, which brings together implementation guidance from the individual research tasks conducted as part of the larger study effort.

The *TRZ Handbook* is a practical and easy-to-use reference for TxDOT and other local government entities at all levels and with a variety of backgrounds. Policy makers can also use the handbook to review the key elements associated with various aspects of Transportation Reinvestment Zone projects. The topics covered in the handbook represent a full range of topics that are of interest to practitioners including:

- initiating a TRZ, or
- issues in Zone Formulation.

This *Transportation Reinvestment Zone Handbook* offers guidance based on a handful of field implementations of TRZ projects. As such, the handbook should be considered a living document that provides practitioners with information based on a snapshot in time. The content of this *Handbook* was developed to support a pilot workshop for stakeholders. While the TRZ research has offered TxDOT and local governments direct guidance for application in current project development, the project has also identified areas for further exploration. As more of these projects are put into operation and as more of the research gaps are addressed, the guidance provided by this handbook will undoubtedly evolve over time.

# CHAPTER 1 – GUIDE TO THE TRANSPORTATION REINVESTMENT ZONES HANDBOOK

## SECTION 1 – OVERVIEW

A viable method for meeting providing complementary finance is value capture through the TRZ concept in the State of Texas. The provisions encapsulated in Senate Bill 1266 passed in 80th legislative session in 2007. The concept of value capture in general, is growing in popularity across the country because of fiscal constraints on one hand and a funding crisis to finance needed mobility improvements projects on the other. As a financing mechanism, however, value capture has been around for a very long time both in the United States and internationally.

This handbook provides a comprehensive guide to TRZ planning, zone formulation implementing, marketing, evaluating, and monitoring. The *Transportation Reinvestment Zone Handbook* is a practical and easy-to-use reference for TxDOT transportation professionals and local government professionals at all levels and with a variety of backgrounds. Policy makers can also use the handbook to review the key elements associated with various aspects of TRZs.

This chapter provides a quick guide to the topics covered in the individual chapters and the format used throughout the handbook:

- **What Are Transportation Reinvestment Zones?** This section presents a general vision for the Transportation Reinvestment Zone that will be discussed later in the handbook.
- **Overall Conceptual Framework.** This handbook is based on an overall framework for the comprehensive development of TRZ projects. This section briefly describes this framework.
- **Chapters at a Glance.** This section provides a quick guide to the major topics covered in each of the chapters in the handbook.
- **Chapter Format.** A common format is followed in the individual chapters to allow users to easily find topics of interest. This section highlights the major elements covered in each chapter.
- **Commonly Used Acronyms.** Numerous acronyms for TRZ development terminology appear throughout the document. This section serves as a quick reference guide for those acronyms commonly used in the handbook.

## SECTION 2 – WHAT ARE TRANSPORTATION REINVESTMENT ZONES?

The term transportation reinvestment zone is a specific contiguous zone around a planned transportation project that is established as the necessary institutional arrangement to facilitate capture of the property tax increment arising from the planned project. These tax increments from the TRZ are used to defray capital costs of a project—specifically the construction costs of building a project. The legal framework provided by Senate Bill 1266 provides for an institutional arrangement called a TRZ and allows for the establishment of a tax increment account where the tax increments from the TRZ may be set aside. The text of the actual legislation supporting TRZ is attached in the appendix. There are only two types of TRZs that are allowed under the legislation—Municipal TRZ and County TRZ.

## SECTION 3 – OVERALL CONCEPTUAL FRAMEWORK

The process of developing a Transportation Reinvestment Zone project involves numerous steps. The type of project authorized to use a Transportation Reinvestment Zone facility plays a critical role in its feasibility.

This handbook was developed around a framework for supporting decisions related to the development of Transportation Reinvestment Zone projects. This framework depicts the sequential elements considered in implementing a Transportation Reinvestment Zone project. Features of the framework include the following:

- incorporation of broader mobility, community and financial goals, particularly those involving revenue generation, into the general policy framework for TRZ development specifically in the initial phases;
- objective-based decision making in determining potential project types where TRZs are warranted and/or revenue generation might be of value;
- the involvement of other local governmental agencies in the process, as well as multiple opportunities for public input as mandated by the legislation; and
- an evaluation and monitoring process to track revenues if expected performance does not meet desired outcomes since it is tied to a financial stream of annual payments to defray capital costs.

As the backbone of the *Transportation Reinvestment Zone Handbook*, this framework is the foundation of a set of user-friendly tools that helps users determine if a Transportation Reinvestment Zone is meaningful for a corridor at the sketch planning level. Figure 1-1 illustrates the various components of this framework. The first part of the framework places the TRZ as part of longer term planning strategy for regions that might consider it an additional financing mechanism to meet the long-term mobility needs. A second part of this framework provides screening factors for consideration at the individual project level or for a group of projects. This list of screening factors assumes that the project is first and foremost "Pass-Through" eligible. A pass-through requirement is currently a requirement for considering a TRZ. Future research might combine both pass-through and TRZ eligibility into one

comprehensive framework. However, in the current framework, TRZ eligibility is treated independently of pass-through requirements.

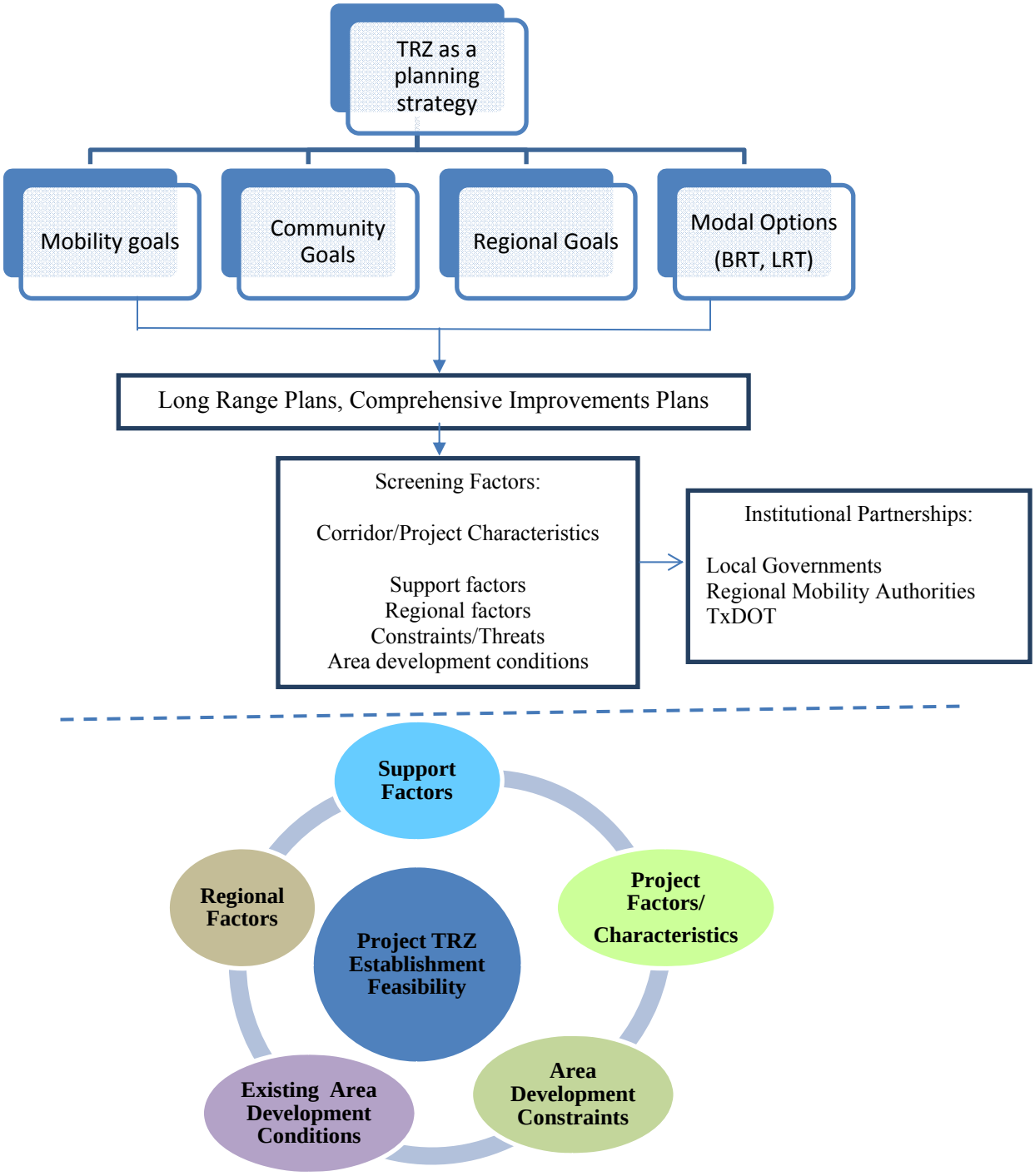


**Figure 1-1. TRZ Screening Factors under SB 1266 - Conceptual Framework.**

## SECTION 4 – CHAPTERS AT A GLANCE

The handbook is divided into the following 7 chapters. The titles of each chapter and the major topics covered are highlighted:

- **Chapter 1 – Guide to the Transportation Reinvestment Zone Handbook.** Provides a quick guide to the topics covered in the individual chapters, the format used throughout the handbook, and commonly used acronyms that appear in the handbook.
- **Chapter 2 – Introduction to Transportation Reinvestment Zone.** Discusses the definition of Transportation Reinvestment Zone, highlights the various types of Transportation Reinvestment Zone, and gives specific examples of these.
- **Chapter 3 – Flow of Funds in TRZ.** Briefly discusses the conceptual flow of funds in TRZ development.
- **Chapter 4 – Planning and Implementing Transportation Reinvestment Zones.** Provides guidance on planning Transportation Reinvestment Zone projects and the various stages, including identifying, information and data needs, and institutional partnerships.
- **Chapter 5 – Partnership Models and Public Outreach.** Provides guidance on public outreach for Transportation Reinvestment Zone projects by helping determine messages to be communicated to the public, how they should be communicated, to whom they should be targeted, and the best approaches for communicating project goals and gaining acceptance.
- **Chapter 6 – Funding and Financing Aspects of Transportation Reinvestment Zone.** Provides guidance on funding and financing Transportation Reinvestment Zone projects by highlighting the financial aspects of implementing Transportation Reinvestment Zone projects.
- **Chapter 7 – Decision-Making Tools for Transportation Reinvestment Zones.** Addresses critical decision-making needs related to Transportation Reinvestment Zone facility planning and design.
- **Appendix – Legislation-SB1266.** Includes the actual text of the Bill supporting TRZ development.

## SECTION 5 – COMMONLY USED ACRONYMS

**B/C:** benefit/cost

**BRT:** Bus Rapid Transit

**FOF**: Flow of Funds

**EIA:** Economic Impact Analysis

**EIS**: Environmental Impact Study

**GIS**: Geographic Information Systems

**LRT:** Light Rail Transit

**LVT**: Land Value Taxation

**RMA:** Regional Mobility Authority

**RUD:** Road Utility District

**PID**: Public Improvement District

**PPP**: Public Private Partnership

**SAD**: Special Assessment District

**SWOT:** Strength, Weakness, Opportunities, Threats

**TIF:** Tax Increment Finance

**TIRZ:** Tax Increment Reinvestment Zone

**TRZ:** Transportation Reinvestment Zone

**TOD**: Transit Oriented Development

**TTA:** Texas Turnpike Authority

**TTI:** Texas Transportation Institute

**TxDOT:** Texas Department of Transportation

**VC**: Value Capture

# CHAPTER 2 – INTRODUCTION TO TRANSPORTATION REINVESTMENT ZONES

## SECTION 1 – OVERVIEW

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 (*1, 2, 3*). Like other transportation agencies nationwide, TxDOT searches for methods to better finance transportation projects to meet the needs of the growing population and to improve overall system connectivity. A viable financing method for meeting mobility needs is the concept of value capture though the Transportation Reinvestment Zone concept introduced by the Legislation though Senate Bill 1266 (*4*).

Sections in this chapter cover:

- introduction to value capture and TRZ;
- types of TRZs – Municipal and County, TRZ Duration, TRZ Surplus, and examples of different kinds each type of TRZ;
- differences and similarities of TRZ with Tax Increment Finance (TIF) and Tax Increment Reinvestment Zones (TIRZ); and
- references.

## SECTION 2 – INTRODUCTION TO VALUE CAPTURE AND TRZ

Value capture (VC) is an innovative financing method that relies on leveraging the real estate potential brought by urban asset improvements. Most simply defined, value capture is the means by which capital infrastructure investment is financed through means of "capturing" either some or all of the added value of real estate property that results directly from that investment. Commonly known examples of such value capture are the TIF and the TIRZ models seen across the country. Also included in this category are special assessment districts (SAD), public improvement districts (PID), impact fees, and other examples. None of these mechanisms explicitly allow financing capital costs of transportation projects directly. Most of these mechanisms have been used as financing strategies for financing transit oriented development (TOD).

VC can be traced back to 18th century and can be attributed to works of Henry George when the theory of public finance first emerged, but interest in the concept has been renewed by the U.S. Department of Transportation as it explores innovative approaches for infrastructure financing. In its earliest form, it was discussed largely as land value taxation (LVT). LVT itself has been applied in at least 30 countries around the world. VC is essentially a benefit-capture method that offers an approach to ensure that the transportation system will remain adequate to serve mobility needs for the future when implemented with appropriate screening criteria. VC is also a way of using and recycling transportation project public benefit revenue streams to fund specific projects within those zones. These revenue streams provide the opportunity to adopt project bond financing in designated zones. As such, it is a non-commercial inward looking form of a public-private partnership (PPP), a feature which distinguishes it from other forms of PPP.

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 TxDOT 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 TxDOT 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. The TxDOT pass-through mechanism, which is a pre-requisite for enabling TRZ development, is available at: http://www.dot.state.tx.us/business/governments/pass_finance.htm.

TRZs are a mechanism for local governments to leverage local and state funds for infrastructure construction by using TxDOT'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.

## SECTION 3 – TYPES OF TRANSPORTATION REINVESTMENT ZONES

There are two types of TRZs that the Legislation allows and these will be discussed next. The first type of TRZ is known as a Municipal TRZ. Figure 2-1 graphically demonstrates both Municipal and County TRZs.

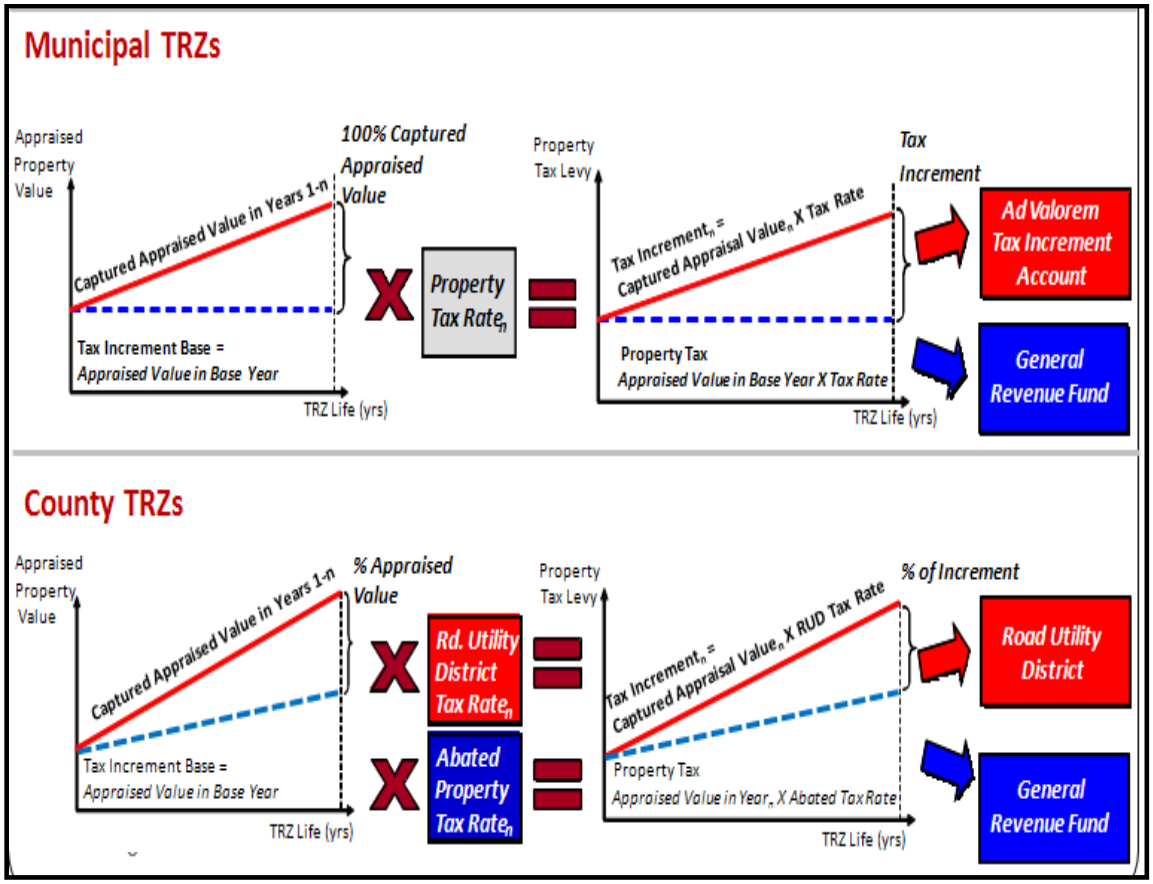


**Figure 2-1. Municipal and County TRZs.**

## Municipal TRZs

Municipal TRZs are established in partnership with a city and are suitable for projects that are entirely within city jurisdictions. In the case of Municipal TRZs, the tax increments are deposited directly into a tax increment account. The tax increment is defined as the captured appraised value multiplied by the municipality's property tax rate every year. These funds are then deposited in an Ad Valorem Tax Increment Account managed by the municipality. The municipality's general revenue fund continues to collect property taxes equivalent to the appraised value in the base year multiplied by the tax rate. These funds are used to repay investors the capital costs of the project. Once the debt or loan has been serviced, the balance in the account may be used for financing other transportation purposes. Under the current legislation for Municipal TRZs the surplus uses are limited to those on the state highway system.

## County TRZ

County TRZs are set up in partnership with county governments and are suitable within county boundaries that traverse several cities. In the case of a County TRZ, a tax increment base is calculated as the total appraised value of all real property taxable by the county within the TRZ in the base year (i.e., when the TRZ is established). The captured appraised value in each

subsequent year is equal to the total appraised value of all real property taxable by the county and located within the TRZ less the tax increment base.

The tax increment for a year is the amount of ad-valorem taxes collected by the county for that year on the captured appraised value for taxable real property within the TRZ. The tax increment is defined as the captured appraised value multiplied by the county's property tax rate every year. These funds are then deposited in an Ad Valorem Tax Increment Account managed by the municipality. The municipality's general revenue fund continues to collect property taxes equivalent to the appraised value in the base year multiplied by the tax rate.

In order to obtain the benefit of the tax increment, a county may abate taxes in an amount up to the amount of the tax increment; form a road utility district (RUD) with the same boundaries as the TRZ; and allow the RUD to impose taxes in the district in an amount equal to taxes abated. This collection mechanism is necessary due to an apparent constitutional limitation on the authority of a county to implement tax increment financing (*5*).

## TRZ Duration and Surplus

TRZs are set up for duration of 20+ years, a period long enough to pay off the debt or loan set up for defraying the capital costs of building the infrastructure improvement. The surplus left over after the payments are made may be used according to guidelines set up by the Legislation. In the case of Municipal TRZs, once the debt or loan has been serviced, the balance in the account may be used for financing other transportation purposes. Under the current legislation for Municipal TRZs the surplus uses are limited to those on the state highway system.

In the case of a County TRZ, in the event a RUD is used to collect the tax increment, funds not used for financing of the project may be used for any district purpose. The scope of permissible uses of TRZ generated funds is therefore broader under the county/RUD structure, as municipalities are restricted to using TRZ funds for pass-through-type projects.

## TRZ Implementation Examples

To date, three local governments in Texas have implemented TRZs: the City of El Paso, the City of Forney located in Kaufman County, and Hidalgo County. TTI investigated the following documents as primary sources to develop the state of the practice implementation examples:

- *The Texas Transportation Funding Challenge* report by Dye Management Group (*6*);
- *Financial Evaluation of TRZ for the City of El Paso* report (*7,8*);
- *Keep Forney Moving* website from Pate Transportation Partners (*9*);
- T*he Hidalgo County Regional Mobility Authority* website, a subsidiary of Pate Transportation Partners (*10*) ; and
- *Hidalgo County Socioeconomic and Real Estate Analysis Related to the Hidalgo Loop* (*11*) by TxP (Discussed in www.kfoxtv.com/download/2009/1110/21577543.pdf)

The information in these documents was complemented with direct input from stakeholders from the cities of El Paso and Forney, and Hidalgo County through interviews conducted in 2010. The TRZ implementation examples in Texas are listed below:

- Example of Municipal TRZ (In a City under the Jurisdiction of a Regional Mobility Authority (RMA) - City of El Paso;
- Example of Municipal TRZ (In a City Not under the Jurisdiction of a RMA) - City of Forney, TX (Kaufman County); and
- Example of a County TRZ - Hidalgo County, TX.

Table 2-1 shows the various examples and their differences. Figures 2-2 to 2-5 show the example TRZs.

**Table 2-1. Implementation Examples of TRZ.**

| TRZ | City of El Paso | Hidalgo County | City of Forney |
|---|---|---|---|
| **Project Funding Committed** | $ 70 million | $102 million in tax increment revenue (need to confirm specific project funding committed) | $100 million projected growth |
| **Year established** | 2008/Recalibration 2010 | 2008 | 2008 |
| **Entity/Mechanism by which established** | Series of public hearings/adopted by City ordinance | Series of public hearings/by decree of the Hidalgo County Commissioner's Court | Series of public hearings/adopted by City ordinance |
| **Projects** | Several Comprehensive Mobility Plan projects (within City of El Paso)<br><br>Projects in City of El Paso | Hidalgo Loop (the first sections to be built comprise 67.5 miles of road within Hidalgo County, total project length is 130 miles, total project cost of $700 million)<br><br>Projects cross several jurisdictions | US80/FM 470 interchange-single project within City of Forney, TX) and/or US80 projects<br><br>Project is in City of Forney |
| **Acres** | 9947 | 175,000 | 5000+ |
| **Collection begins** | 2010 | NA | 2010 |
| **Projected end date** | 2040 | 2030 | 2040 |
| **Tax baseline year** | 2009 City-Tax Base | 2008 County-Tax Base | 2008 City-Tax Base |
| **Tax rate** | 0.671097 (2008) | 0.5900 (2009) | 0.680535 (2008) |
| **Public entity** | The City of El Paso & RMA | The Hidalgo County & RMA | The City of Forney |
| **Termination Date** | Upon complete payment of $70 million debt | No explicit termination date | No explicit date |
| **Allocation of TRZ revenues to tax increment account** | 100% increment | 50% (Stated) | 100% increment as required/but originally negotiated for 20% |
| **Right of way acquisitions** | Yes, where needed | Yes | Not known |

**Table 2-1. Implementation Examples of TRZ (Contd.)**

| TRZ | City of El Paso | Hidalgo County | City of Forney |
|---|---|---|---|
| **Surplus Treatment** | As per Texas Transportation Code Section 222.106 to fund other transportation projects in or outside the zone | As per Texas Transportation Code Section 222.106 to fund other transportation projects in or outside the zone | As per Texas Transportation Code Section 222.106 to fund other transportation projects in or outside the zone |
| **Buffer regions** | Varying width with maximum of 1 mile from centerline | 1 mile | 1500 feet from centerline |
| **Debt/Loan** | RMA in El Paso (CRRMA) (loan) | TRZ not active due to RUD | City debt |
| **Pass through Provisions** | In place | Pending- Application submitted May 2009 | In place |
| **Partners** | TxDOT, City of El Paso, RMA | TxDOT, Hidalgo County RMA, County, and Developer | TxDOT, City of Forney |

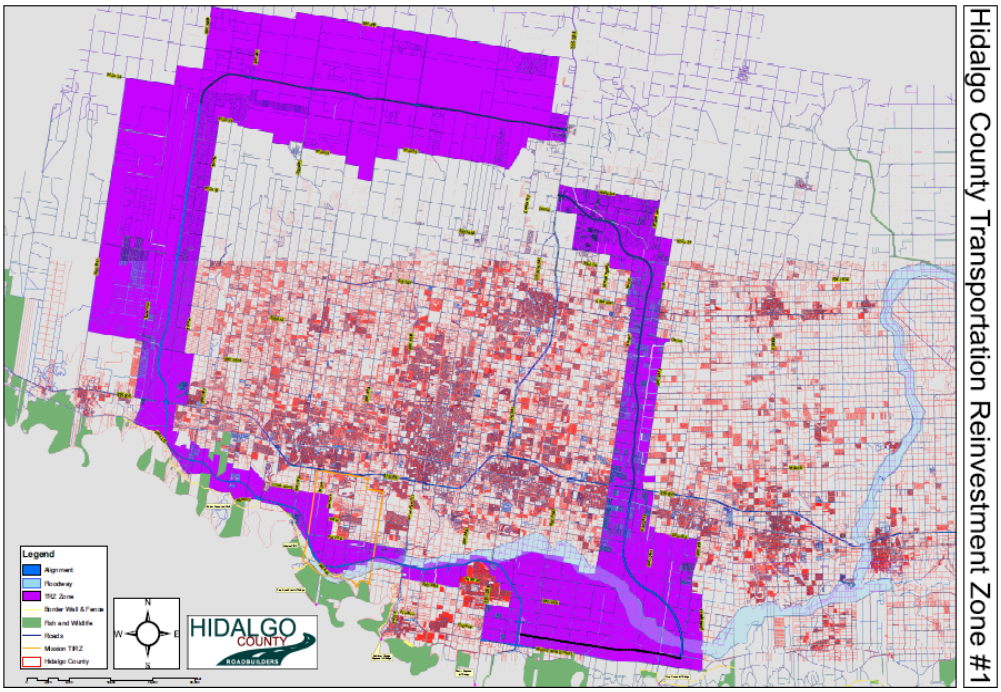


**Figure 2-2. Hidalgo County TRZ #1.**

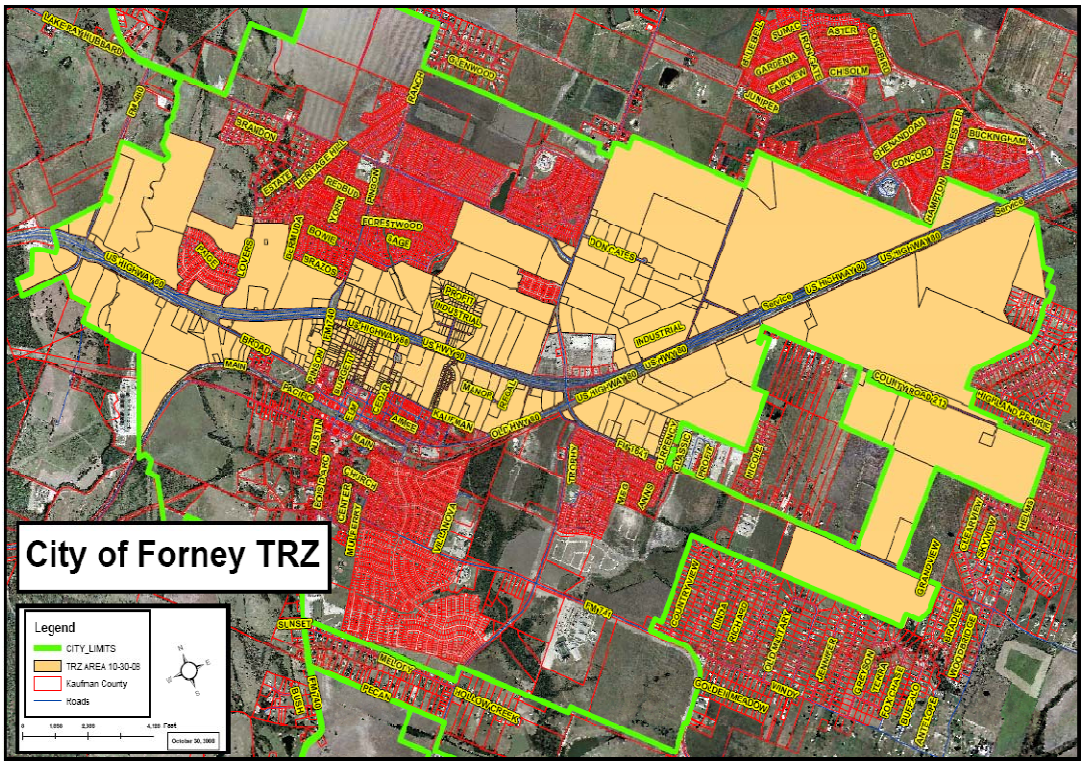


**Figure 2-3. Forney TRZ.**

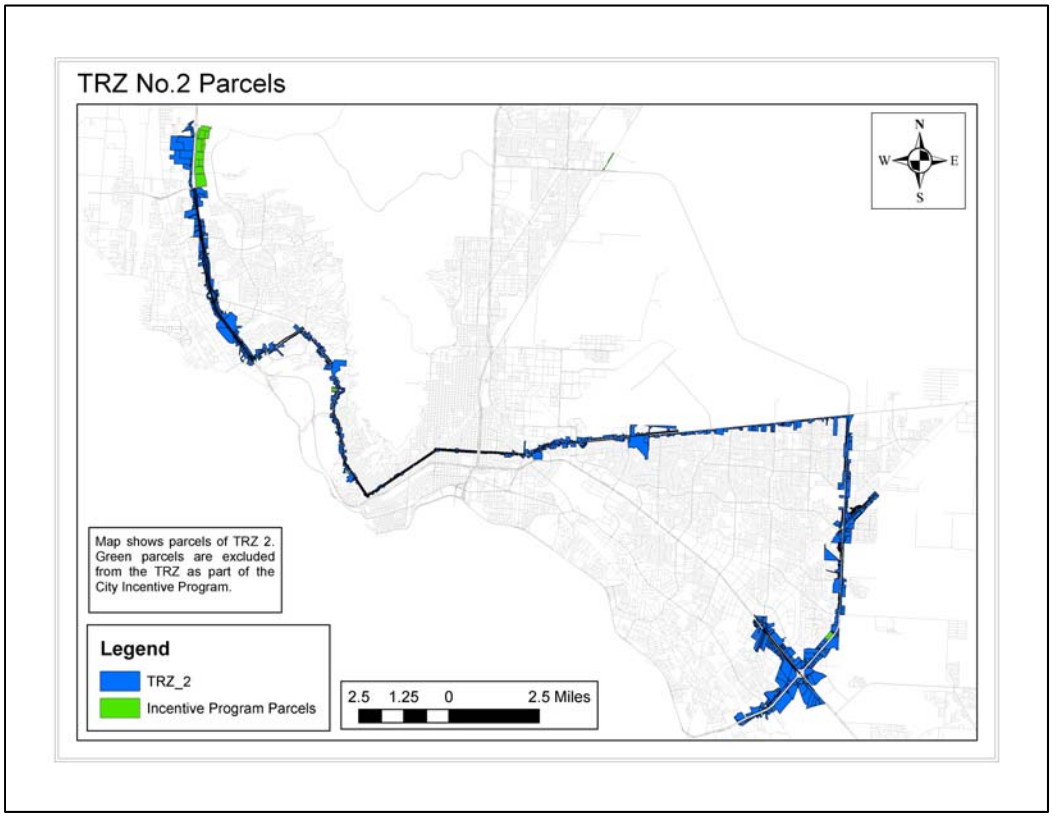


**Figure 2-4. El Paso TRZ #2.**

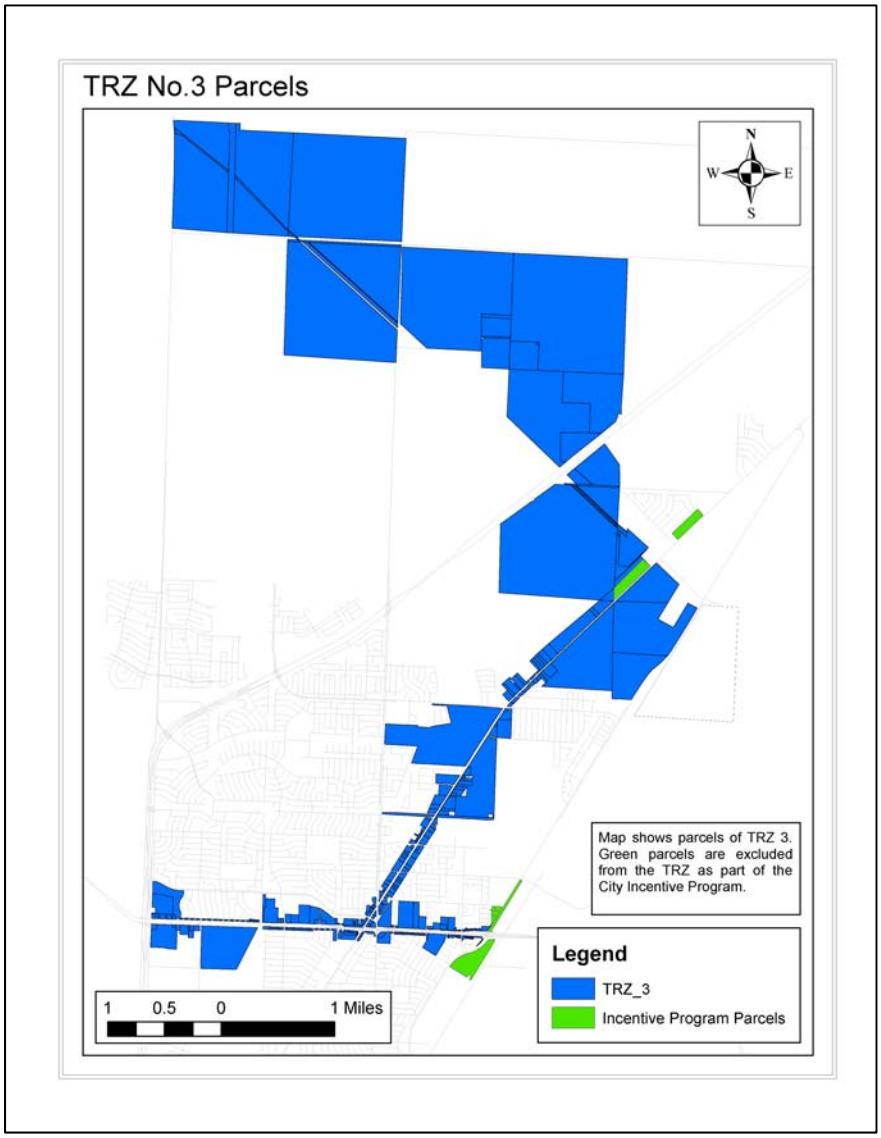


**Figure 2-5. El Paso TRZ #3.**

## SECTION 4 – HOW ARE TRZS DIFFERENT FROM TIF AND TIRZ?

The concept and processes of TRZs are similar to TIF/TIRZ (economic development tools) that are adopted by municipalities. However, the T in TRZs stands for transportation, while the T in TIF and TIRZ stands for tax (tax increment). This suggests that TRZs are for transportation purposes alone, while TIFs/TIRZs generally support non-transportation developmental objectives. TIFs/TIRZs are seen primarily in urban regions. As of 2010, there were 182 TIRZs in Texas and more than 60 percent are in urban counties. There are subtle differences between TIF/TIRZ and TRZ. These are shown below in the second column Table 2-2. The similarities are shown in the first column.

**Table 2-2. Similarities and Dissimilarities of TRZ with TIF/TIRZ.**

| Issue/Subject | TIF/TIRZ | TRZ |
|---|---|---|
| **Similarities** | | |
| Processes and protocols for adoption for City related TIF,TIRZ, and TRZs | (Public hearings, ordinance) for municipal TIF/TIRZ | Same as TIF/TIRZ for municipal TRZs |
| Geographic limits | Contiguous areas within jurisdictions | Contiguous areas within jurisdictions (municipal or County) |
| Collection mechanism/City Level | Ad valorem tax increment account | Ad valorem tax increment account |
| **Dissimilarities** | | |
| Origination | May be initiated by petition | Cannot be initiated by petition |
| Processes and protocols for adoption for County related TIF,TIRZ, and TRZs | Constitutional impediments in collections at the County level | In the case of County TRZ, the adoption is done by decree of the County Commissioners Court |
| Collection mechanism /County level | Constitutional impediments in collections at the County level | RUD collections in the case of a County TRZ |
| Scope of project/Use of funds | Typically used to support transit oriented development, street and landscape improvements within the zone, but typically not used for capital costs of transport improvement. Hence, funds used in a development support role as opposed to creating the infrastructure. | Must have a pass though agreement. Funds must be used for transportation capital improvements. May be combined with TIF/TIRZ to support development and surplus funds to be used for transportation purposes approved by the legislation. |
| Governance | Governed by a TIF/TIRZ Board | Does not require a board |

## TRZ Sequential Implementation Process

In addition, TRZs and TIFs/TIRZs have the same sequential implementation processes shown in Figure 2-6.

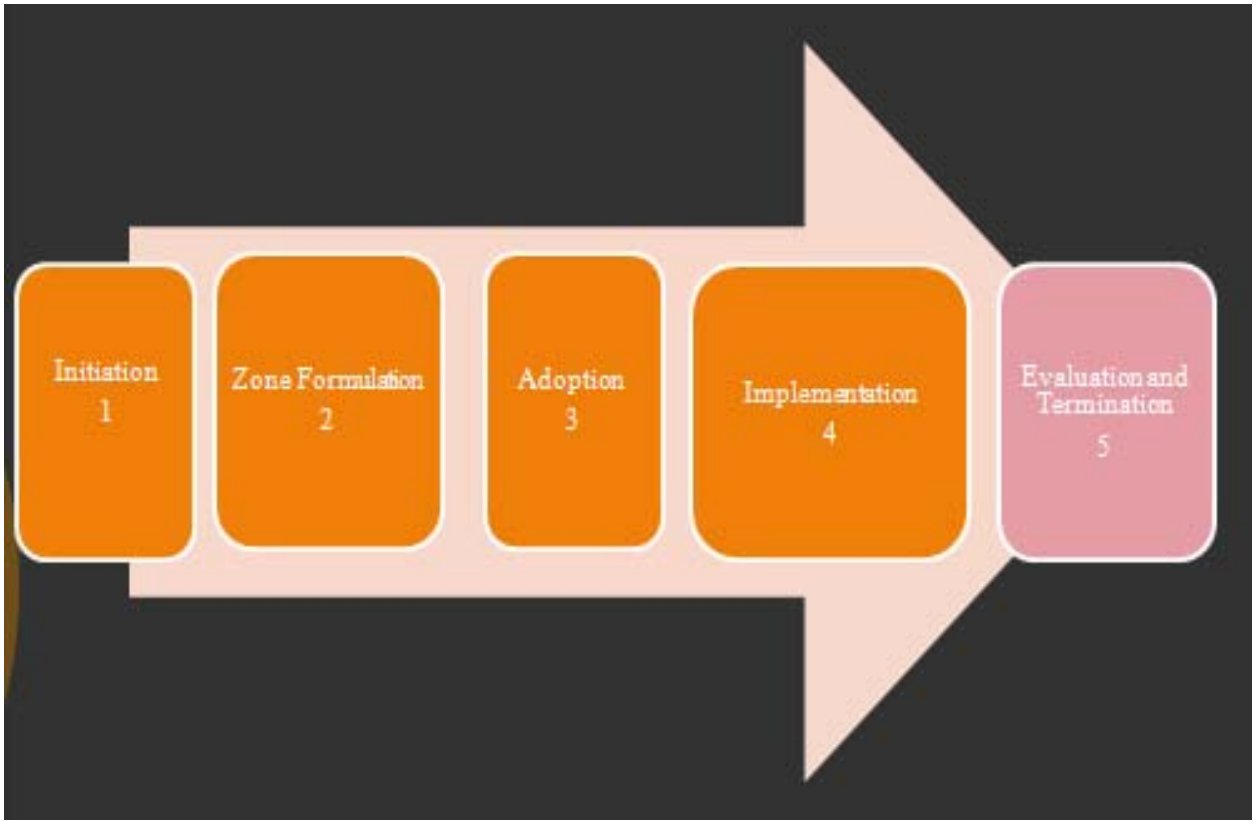


**Figure 2-6. Sequential Implementation Process of Establishing TRZ.**

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# CHAPTER 3 – TRZ FLOW OF FUNDS

## SECTION 1 – CONCEPTUAL FLOW OF FUNDS IN TRZ

TRZs imply a flow of funds (FOF) that must be laid out explicitly as shown in Figure 3-1.

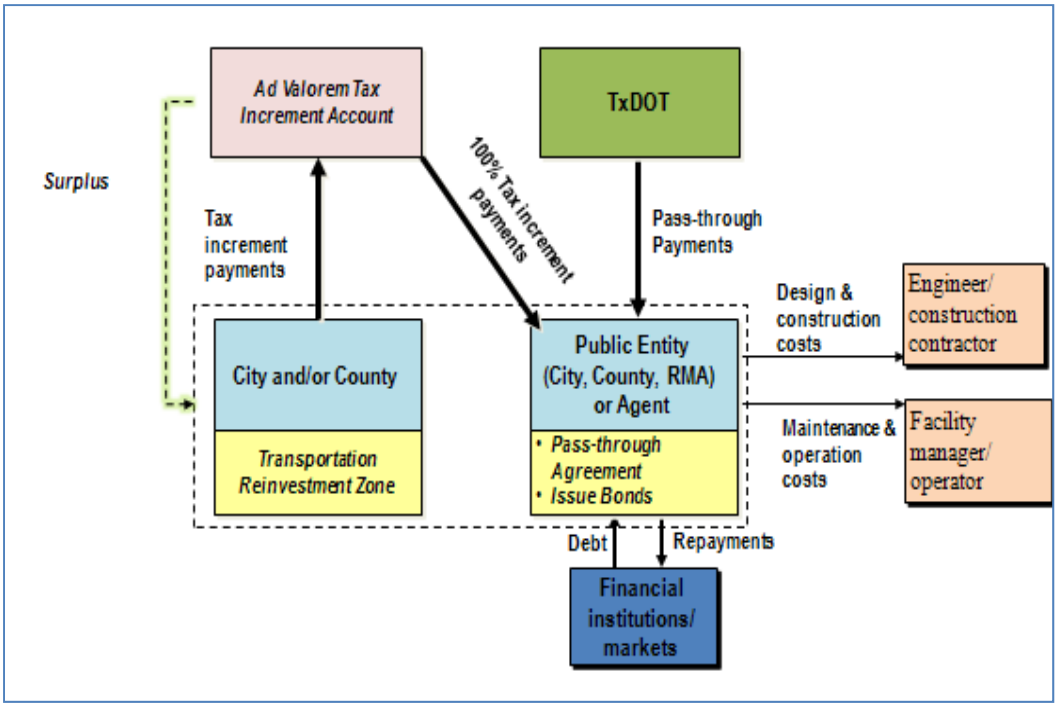



**Figure 3-1. TRZ Conceptual Flow of Funds.**

A city/county establishes a TRZ following the protocol marked by the law. The year when the TRZ is established is considered the base year. At this point in time, the local government in question establishes an account where 100 percent of the tax increment collected will be deposited every year over the life of the TRZ. In the case of a Municipal TRZ, this is called Ad Valorem Tax Increment Account. In the case of a County, the money would flow to a Road Utility District. The funds then flow to the public entity (city, county, RMA) or agent implementing the project. Then, the entity will have to enter into a pass-through agreement with TxDOT, through which pass-through payments will be made to the entity over a pre-specified period of time. The entity will then be able to pledge these two independent cash flow streams to financial institutions or markets to acquire debt and pay for the design, construction, and operation of the project until debt is repaid. The TRZ terminates on December 31 of the year when the project debt is repaid and any surplus funds that remain may then be used by the local government for any other transportation project within the local government's jurisdiction.

In practice, the annual cash flow projections from the TRZ are estimated prior to its establishment and represent a projection and not a binding commitment for the municipality. Rather, the municipality commits the entire tax increment in any given year over the TRZ life,

regardless of whether the amount falls short or exceeds the projection. Consequently, the TRZ revenue securitized represent a contingent liability for the designated local entity, whose commitment to repay debt according to a pre-specified schedule remains. The risk to bondholders in such a situation can be defined as the risk that property values within the TRZ do not perform as expected or development does not occur as planned. In such case, the designated local entity would face a shortfall in revenue, while keeping the obligation to meet its debt service according to schedule. The legislation does not currently offer any guidance in this regard. This FOF suggests that TRZ is a partnership between multiple parties and at a minimum the following entities are involved: local governments (city or county), TxDOT, and the RMA if applicable (in case the city or county is under the jurisdiction of a RMA).

# CHAPTER 4 – PLANNING AND IMPLEMENTING TRZS

This chapter will discuss the various steps involved in planning and implementing a TRZ. The sections in this chapter will cover:

- implementation stages and
- specific decision making tools to aid various stages of implementation will be introduced. These will again be discussed in more detail in a separate chapter.

## SECTION 1 – IMPLEMENTATION STAGES

### Initiation

Initiation is the first stage of the TRZ implementation process. It involves a series of steps. These specifically include:

- Project identification and need:
  - Specific benefit from project(s)-economic,
  - Area eligibility, and
  - Preliminary feasibility analysis;
- Developing stakeholder relations and champions.

Project identification and need refers to the process of identifying specific candidate projects that might be significant from a mobility standpoint and provide other functions. One way to approach TRZs is on a project by project basis. On the other hand, TRZs may also be part of a long range strategy where projects from comprehensive plans or long range plans are screened for TRZ feasibility. In the latter case, TRZ needs to be included in the long range plans as a potential financing strategy.

These projects must be shown to provide economic benefits to the region and address aspects that lead to economic benefits to the region—a good example is significant accessibility improvement. Demonstration of the eligibility of the area as undeveloped or underdeveloped is a requirement under the legislation. In some projects, this analysis may also be used to satisfy environmental review documentation. This analysis specifically requires the following assessments:

- a benefit-cost (B/C) analysis and/or, an economic impact assessment (EIA) study of both regional benefit and local impact. There are many tools available to help with this part of the analysis;
- a screening to assess whether the project can support a TRZ;
- a preliminary revenue feasibility analysis to assess a project as a TRZ candidate; and
- demonstration of unproductive or underdeveloped land in the corridor visually via maps or other methods.

These analyses could be used to initiate a dialogue with the local government entities and with other stakeholders to build support. In yet other cases, a local government entity may also initiate this process, but TxDOT has to become part of the dialogue.

These processes and the entire implementation of a TRZ require a significant amount of interagency collaboration, as the information and support needed to complete the process has to be assembled from a number of stakeholders.

**Data and Information Needs to Support Initiation**

Both EIA and feasibility analyses involve significant data and information needs that must be compiled from:

- TxDOT,
- the appraisal districts,
- city council members,
- county commissioners, and
- RMAs.

The types of data include:

- project related information (costs, tentative limits, and project type),
- parcel layers from appraisal districts and other sources,
- appraisal data,
- land use information, and
- other supporting information to develop EIA and screening study such as demographics.

Hence, developing good solid stakeholder relations and TRZ champions is extremely important to facilitate data sharing. Two applications are provided with this handbook that will allow both initial project screening and revenue feasibility assessments. Stakeholders are encouraged to conduct an independent economic analysis and EIA of the project.

**Zone Formulation**

This second stage involves the following sub steps:

- Define boundaries, zones, parcels.
- Establish benchmark year for tax increment collection.
- Provide a 60-day notice.
- Refine the feasibility analysis.

The first step is to define zone boundaries and identify the parcels that will be within the TRZ. This requires that a zone map showing all the affected parcels and areas must be developed as TRZ and the zone must be assigned a number (example, TRZ #1). Following that, a benchmark year for tax increment collection has to be established as a basis for analysis, i.e., the base year for which the TRZ has to designated and benchmarked.

There is a 60-day notice period that needs to take place before the TRZ is designated. The legislation specifies that the local government hold a public hearing on the creation of the zone, no later than the 30th day before the date when the TRZ is expected to be designated by either the City Council or the County Commissioners Court. Not later than the 7th day before the date of the hearing, notice of the hearing, and the intent to create the zone must be published in a newspaper having general circulation in the municipality or county.

During this 60-day period the feasibility analysis must be refined to ensure that the cash flows will be sufficient to service the debt that the local government is committing to. This includes generating the highest possible cadastral (parcel) data and refining assumptions related to pace of development and property values. The revenue feasibility tool plays an increasingly important role in this phase in the development of revenue consistent buffers and zones. This tool will be discussed in greater detail in a later section.

*TRZ Boundary Development*

This is an important step of the zone formulation stage. It specifically involves the following additional steps:

- Declaration of unproductive/underdeveloped region.
- Actual zonal boundaries limited to a maximum of a 1-mile radius, around the project. In reality, however, political will and revenue considerations drive the development of zones.
- Boundaries may be established prior to knowing exact project limits.

TRZ legislation does not provide express authority to local governments to amend boundaries once they are established. Hence, great diligence must be adopted in this stage of zone formation. Tools are available to ensure that zones are developed that are consistent with revenue sharing goals of local governments. The implementation of the tool requires high quality cadastral data since data precisions lead to higher quality revenue estimates and zones.

*Operationalizing Increment Capture*

After the establishment of zones, there must be protocols in place with the local government to operationalize the capture of the increment. This typically includes the following sequence of steps:

1. Establish Base Year and Base Year Appraised Value.
    a. the year the TRZ is established,
    b. the total appraised value of all real property taxable in the TRZ is defined as the base year appraised value (tax increment base);
2. Determine Final Captured Appraised Value.
    a. Total final appraised value (all real property) in TRZ − Tax Increment Base = Captured Appraised Value;
3. Determine Tax Increment.
    a. amount of ad valorem taxes levied and collected by the municipality for the year;
4. Use the appropriate tax rates—city or county tax rates to develop the portions of tax-increment set aside as the revenue share.

**Adoption of TRZ**

One the zones have been finalized, the adoption stage involves a series of opportunities for public input and comment per legislative mandates in the following ways:

- public hearings,
- ordinance (Municipal TRZ), or
- decree of the County Commissioner's Court (County TRZ).

The public hearings provide an opportunity for public comment and feedback on zones of the TRZ and any other aspect of the TRZ. The adoption is finalized by ordinance in the case of a municipal TRZ and by decree in the case of a County TRZ.

## Implementation

The implementation stage is characterized by the following steps:

- Develop a project queue for payout purposes if multiple projects.
- Determination of TRZ financing aspects including amount of debt or loan, payout schedule, pooling of funding sources, and partnerships to ensure all parties in the agreement are aware of the financing and recognize their roles in the financial collaboration.
- Ensure pass through application is in place.
- Facilitate collection processes:
  - Road Utility District for County TRZ under SB1266 (same boundaries as TRZ),
  - Inter-local agreement (RMA, County through County Commissioner's Court).

### *Payout Schedule and Pass-Through Application*

In the case of a scenario with multiple projects, it is necessary to develop a payout schedule for payout purposes—from the available funding mix to ensure which projects will be allocated the TRZ funds. This includes ensuring that a pass-through application is approved and that the payout schedule is in synchrony with the financing plan.

### *Financing Plan*

The financing plan specifically refers to various types of funds that will be combined together to defray the capital costs. Examples of various types of funds besides TRZ funds include federal dollars, state dollars, toll revenues, if applicable, and other categories of funds. There must be legal counsel advising the partners on mixing funding sources as part of a financing strategy. The next element of the financing plan is the determination of the bonding entity or loan issuing entity, which is typically an RMA in regions where an RMA exists or the local government itself in regions without an RMA and ensuring all parties in the agreement are aware of their roles. In the case of a scenario with multiple projects, it is necessary to develop a schedule for payout purposes from the available funding mix to ensure which projects will be allocated the TRZ funds. This includes ensuring that a pass-through application is approved and in place in synchrony with the financing plan. The last element of the financing is the determination of a strategy to deal with revenue shortfalls in the event there is such a shortfall.

### *Establish RUD and Interlocal Agreement*

Under the current legislation, in the case of a County TRZ, there is a need to establish a RUD with the same boundaries as the TRZ to facilitate the collection of revenues. If an RMA is to be the implementing agency for the project(s) an inter-local agreement should be established to enable the flow of funds to that agency.

**Monitoring and Evaluation**

Monitoring and evaluation are critical steps once such zones are established. To date, only the El Paso TRZ is also the first fully operational TRZ that has moved to the monitoring phase. The Forney TRZ will be in this stage shortly, while the Hidalgo County TRZ is not yet at this stage due to issues in the development of RUD.

As part of this stage, local entities would find it in their interest to establish monitoring and evaluation of TRZ revenues so as to optimize revenue and payment streams. This information may be used for multiple purposes. One example is the to provide greater local government insight into scenarios when revenue from new development may be lower than expected, allowing the implementation of targeted actions that may help facilitate development and bring the revenues to the expected levels.

## SECTION 2 – DECISION MAKING TOOLS

To make the process of TRZ development and planning easier, TTI has provided a set of three decision making tools. An attached disk contains the tools and the user guides for these tools. These tools are as follows:

- A TRZ project screening tool is designed as an Excel® spreadsheet and will take the stakeholders through an investigation on various aspects of the project. This tool can be used at various points of a project from very early stages to more advanced stages. This tool may also be used to screen more than one project at a time to weed out projects that may not qualify for TRZ development. This tool is best used well in internal stakeholder investigations by either the city or TxDOT assuming the project will qualify for a pass-though application. It is certainly recommended in the initiation phase.

- A GIS-Based TRZ Development tool option that allows one to explore and optimize TRZ planning by enabling further scrutiny of land parcels in selected TRZ buffer zones. It also prepares the land parcels database for preliminary revenue assessments.

- Finally, a web-based preliminary revenue feasibility tool is provided. The TRZ Revenue Feasibility tool is currently hosted at: http://ciitr.tamu.edu/RMC.aspx. This tool is recommended in the initiation stage to obtain preliminary revenue assessments. It may also be used in the zone formulation stage, and with high level cadastral data and quality control on inputs it may be used to obtain revenue-consistent zones.

Each of these tools will be discussed in more detail in a later chapter.

# CHAPTER 5 – PARTNERSHIP MODULES AND PUBLIC OUTREACH

## SECTION 1 – PARTNERSHIP MODULES

As a form of innovative transportation finance relying on wealth sharing/set asides from property tax revenues, TRZs do rely on a dialogue between agencies beginning very early in the process. Successful TRZs build upon strong partnerships and dialogue that is best started early in the planning process (Figure 5-1). Effective partnerships may start with long-term regional mobility goals in mind with an ultimate goal to assess whether and when TRZ can become a part of a financing strategy or can be considered an additional revenue stream in transportation plans. Effective partnership may also have a single mobility project as an immediate goal. The local governments and TxDOT must be convinced that the project or projects selected will ultimately deliver the benefit to the region and also create the opportunity for TRZ revenue generation. These agencies include the city government, TxDOT (and an RMA if the region is part of an RMA region) for Municipal TRZs and the county governments, TxDOT, and the RMA for County TRZs. The dialogue across agencies can occur in at least two ways: the joint discussion of needed mobility projects from long range plans for local matching funds and for specific candidate project or group of project(s). The case examples included in this handbook are examples of both options. The discussion and dialogue is an ongoing and continuous process. Finally, this partnership has to occur through the outreach process and beyond.

**Figure 5-1. TRZ as a Partnership Model.**

TRZs rely on strong stakeholder partnerships between TxDOT and local government bodies with respect to many aspects of TRZ planning. These aspects are listed below and include:

- discussion of general or specific projects;
- discussion of projects from plans;
- data sharing agreements once an agreement has been reached on a project or group of projects;
- detailed analysis agreements with respect:
  - Boundaries and revenue sharing,
  - Financing—specifically various types of finances that may be pooled together toward the capital cost of a project;

- public outreach – the Legislation mandates specific public outreach protocols for which cannot proceed without effective partnering; and
- continuing partnership and dialogue beyond adoption and implementation to ensure payments are made and revenue generation is effectively monitored and evaluated.

The early implementation case examples suggest that partnerships have developed from inside out and can start with a single entity or as a group of entities. We have two examples (El Paso and Hidalgo) cases where the dialogue started with two or more entities and one where the city individually initiated the process (Forney, TX). TxDOT is part of the dialogue earlier rather than later. Once the project support is developed and preliminary feasibility analysis is conducted, other stakeholders can be brought into the process through a variety of media. Ultimately, citizen support is critical for meeting the legal requirements. Figure 5-2 illustrates an effective partnership model.

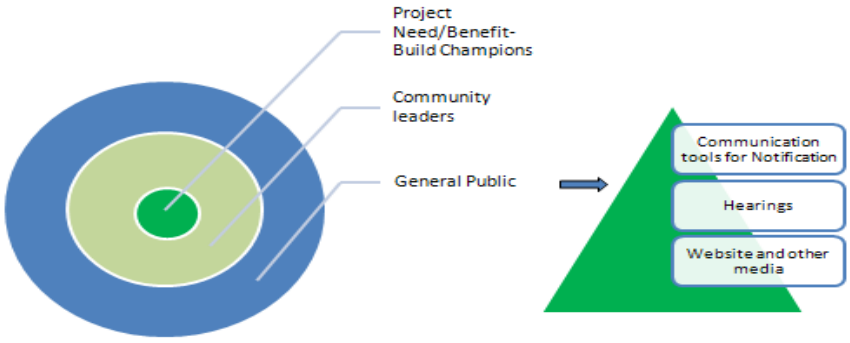



**Figure 5-2. An Effective TRZ Partnership Model Leading to Outreach.**

## SECTION 2 – PUBLIC OUTREACH

Public acceptance plays a critical role in the success of any project. Communicating a new concept like TRZ can be challenging. Effective public outreach programs must consider the goals of the project and tailor the message to meet those goals. Several different techniques can be used to communicate with the public depending on the message that is to be delivered and the objectives. Likewise, a message may be tailored to particular audiences. Most municipalities are familiar with procedures for establishing TIF/TIRZ. The public outreach process in the case of TRZ is similar; the only difference is that it is tied to a transportation project or group of projects. This link merits that the project is one that the public and city council members will be ready to accept.

Three Transportation Reinvestment Zone projects in Texas have been implemented and one is currently under development. Critical to the success of these projects are the project goals and the strategies agencies use to communicate these goals to the public. It is important to understand public perception and public interaction when a new concept of financing transportation is introduced.

*Public involvement* is important as it serves as a method for communicating all aspects of the project, such as goals, objectives, operations, and revenue use.

*Public education* should be a consideration at the first stage of planning a project. All interested parties should be involved in the decision-making process and efforts should be made to contact known stakeholders as well as non-traditional stakeholders who may have a vested interest in a project.

Identifying a *project champion* is also crucial to the success of a project. Research in other arenas has found that projects that have been successfully implemented have had a strong advocate. This person can also serve as a spokesperson in the education process.

Successful projects have *common messages* that have been well received by the public. These include information on choice and use of Transportation Reinvestment Zone as a financing tool along with other funding mechanisms.

# CHAPTER 6 – FUNDING AND FINANCING ASPECTS

With reductions in federal dollars and depletions in the Highway Trust Fund, funding transportation projects, especially critical mobility projects is an issue TxDOT must grapple with. The unique opportunities provided by SB 1266 through TRZs offer a valuable innovative financing strategy for TxDOT. While TIFs and TIRZs are not new to local governments at all, TRZs are certainly new and local entities must now partner with TxDOT in order to finance highway projects.

TRZs are a non-commercial funding source and could play an important part of overall project finance for a TRZ-worthy project. The revenues from tax increment set asides serve as a local match or complementary funding source. Local officials and TxDOT must recognize that TRZ revenues become part of the overall project finance. Successful TRZ projects can combine revenues across multiple sources. Legal counsel is, however, required on what sources of funds can be pooled together with TRZ revenues. Figure 6-1 is an example from the El Paso TRZ where TRZ revenues are combined with sources such as:

- stimulus funds,
- other funding sources, and
- tolls,
- Pass-Through funds.

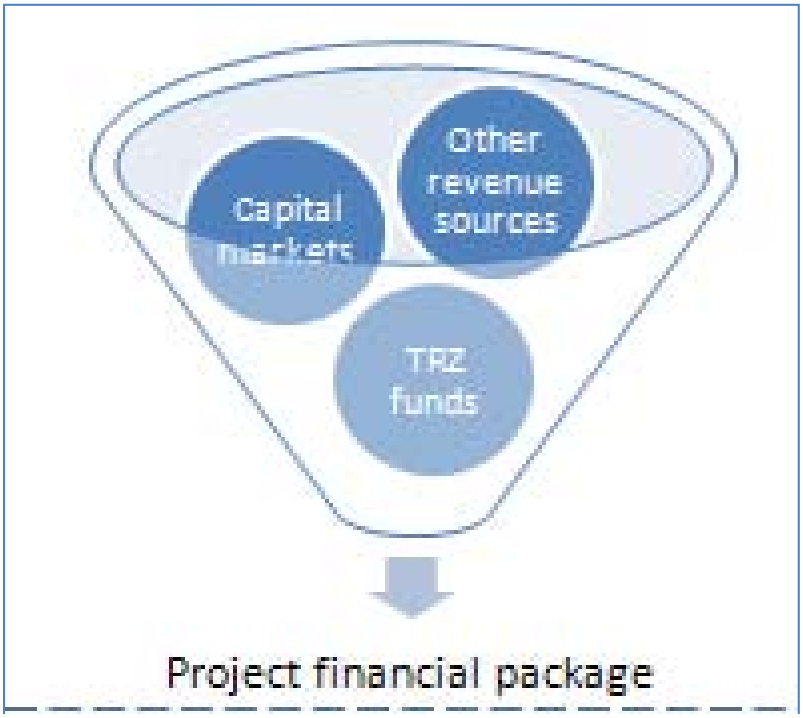



**Figure 6-1. TRZ Revenues as Part of a Financial Package.**

# CHAPTER 7 – DECISION MAKING TOOLS FOR TRANSPORTATION REINVESTMENT ZONES

In this chapter, three decision making tools will be discussed in detail and how they can serve to further the augmentation of TRZs. The tools are as follows:

- a TRZ project screening tool;

- a GIS TRZ Development Tool that allows one to explore and optimize TRZ planning by enabling further scrutiny of land parcels in selected TRZ buffer zones. It also prepares the land parcels database for preliminary revenue assessments;

- a web-based preliminary revenue feasibility tool is also provided. The TRZ Revenue Feasibility tool is hosted at: http://ciitr.tamu.edu/RMC.aspx. This tool is recommended in the initiation stage to obtain preliminary revenue assessments. It may also be used in the zone formulation stage, in conjunction with high level cadastral data and quality control on inputs to obtain revenue-consistent zones.

## SECTION 1 - TRZ SCREENING TOOL

The TRZ Screening Excel Application is most recommended in the initiation phase and for discussions leading to that stage to facilitate exploration and determination of the decision to pursue a TRZ. The use of this application may be conducted dynamically at various points in time as more local or project information is gleaned.

The screening tool is currently designed to evaluate a total of 17 factors from 5 factor groups shown in Figure 7-1 and can be a part of a conceptual framework for deciding when to pursue TRZs. The list of factors considered is detailed in Table 7-1 below. The data needed to use this screening application are minimal and include:

- GIS parcels,
- aerial images,
- Census data,
- panel inputs,
- data from Chambers of Commerce or Economic Development Departments, and
- TxDOT project data.

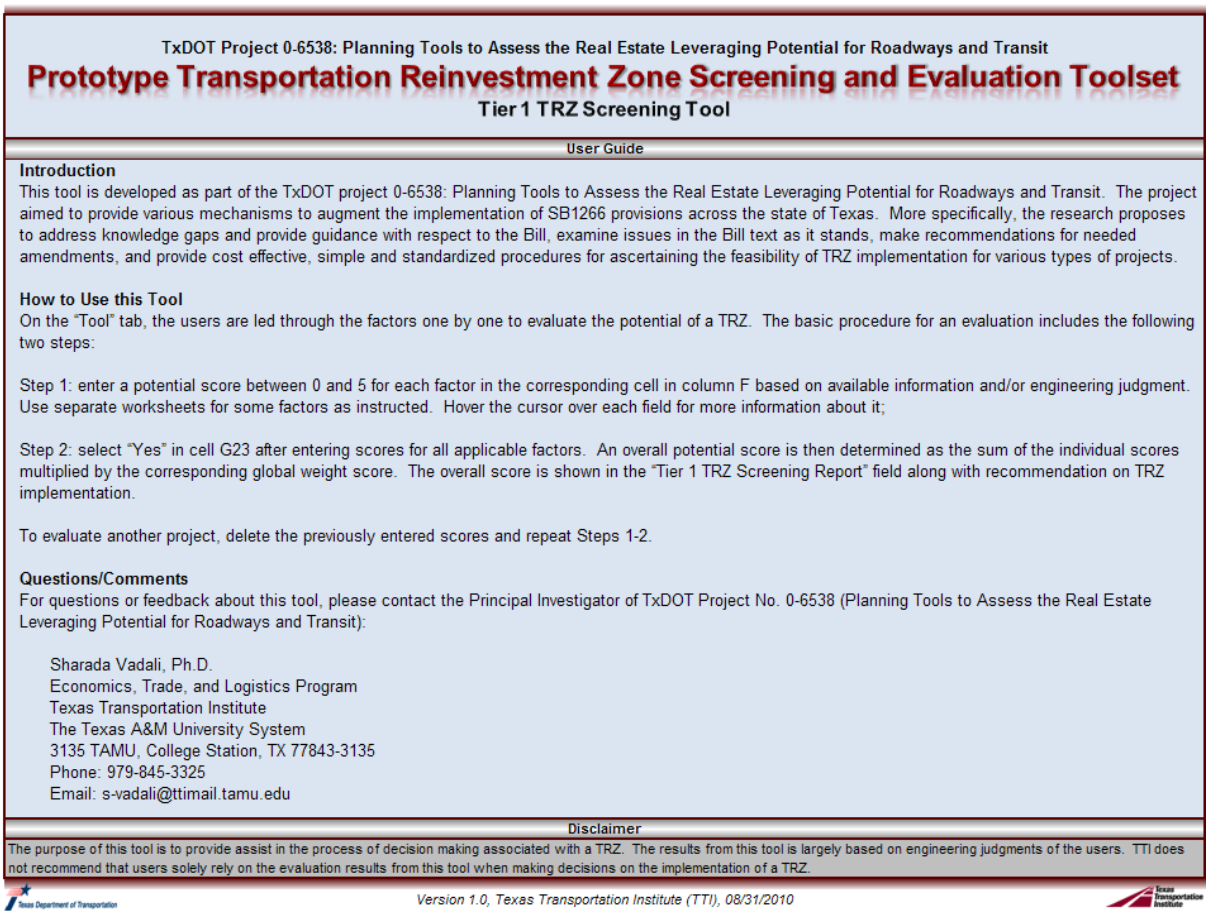
Figure 7-1 is the Guide Tab. Figure 7-2 is a screenshot of the screening tool.

**Table 7-1. TRZ Screening Factors.**

| Factor | Factor Weight | Significance | Source |
|---|---|---|---|
| **Support Factors (3)** | | | |
| Data readiness | Primary (x1) | Lack of good cadastral data limits the ability to enter into planning initiatives pertaining to actual parcels that will part of such an initiative | TGIC data layers recreated for 254 counties in Texas (2009) |
| Stakeholder readiness | Primary (x1) | Lack of political will in developing local partnerships for financing mobility projects can be significant limitation | Panel input based on group dialogue and discussions |
| Anticipated citizen support as necessitated in TRZ establishment protocols | Primary (x1) | TRZ development will require a series of public hearings and an ordinance from the City all of which are contingent on support factors | Panel input |
| **Project Specific Factors (5)** | | | |
| Facility and construction type | Medium (x0.5) | Actual project type is an important consideration in a potential land development impact | Panel input |
| Land use compatibility | Medium (x0.5) | Based on inclusion in long range plans or Metropolitan Transportation Improvement Programs | MPO<br>City |
| Number of proposed projects | High (x0.75) | More eligible projects allow risk pooling/consolidation | Panel |
| Nearby roadway density/Nodal connectivity | Medium (x0.5) | Roadway network of lower density | GIS Road network layers |
| Service quality measure | Low (x0.25) | Improvements in service quality tend to capitalize in land over the long term | MPO |
| *Note: The terms (x1, x0.75, x0.5, x0.25) refers to a weighting factor based on their importance. These are all fixed and may not be changed.* | | | |

**Table 7-1. TRZ Screening Factors (Contd.).**

| Factor | Factor Weight | Significance | Source |
|---|---|---|---|
| **Project Area Type and Existing Land Development Constraints/Threats (4)** | | | |
| Area type | Medium (x0.5) | Are type factors are important in determining expectations on future trends | Panel<br>MPO<br>Census |
| Development constraints in the proposed corridor(s) | Medium (x0.5) | These variables work to determine if land developments impacts can accrue in the presence of other conditions | MPO<br>TxDOT<br>City<br>Corridor analysis and environmental study results |
| Neighborhood factors | Low (x0.25) | These factors are important in expectations of future trends | Census Data |
| Property type and acreage | Medium (x0.5) | Land use diversity is good for TRZ development. Land use mix beyond certain levels could actually work to the detriment of dominant land values. | GIS parcel layers; Panel input on percents |
| **Regional Factors (5)** | | | |
| Historical trends on land developments and property values | High (x0.75) | These factors are important in expectations of future trends | Texas A&M Real estate Center<br>State Comptroller's Office |
| Local demographic information | High (x0.75) | These factors are important in expectations of future trends | Census Data and Local inputs for Bond Ratings |
| Concerted or targeted efforts for economic development | High (x0.75) | A TRZ would have a much better chance to create value increment if it is within a specific region identified for development by regional economic development agencies or undertaking specific actions to promote development | Panel input |
| Area-specific factors | Medium (x0.5) | These factors work jointly with others in expectations formation | Visual |
| Existing TRZs, TIF districts, or TIRZs | Low (x0.25) | The presence of existing similar initiatives could serve as an indicator of a planning sensitive region aware of the issues in local partnerships | Panel input |



TxDOT Project 0-6538: Planning Tools to Assess the Real Estate Leveraging Potential for Roadways and Transit

**Prototype Transportation Reinvestment Zone Screening and Evaluation Toolset**

**Tier 1 TRZ Screening Tool**

User Guide

**Introduction**

This tool is developed as part of the TxDOT project 0-6538: Planning Tools to Assess the Real Estate Leveraging Potential for Roadways and Transit. The project aimed to provide various mechanisms to augment the implementation of SB1266 provisions across the state of Texas. More specifically, the research proposes to address knowledge gaps and provide guidance with respect to the Bill, examine issues in the Bill text as it stands, make recommendations for needed amendments, and provide cost effective, simple and standardized procedures for ascertaining the feasibility of TRZ implementation for various types of projects.

**How to Use this Tool**

On the "Tool" tab, the users are led through the factors one by one to evaluate the potential of a TRZ. The basic procedure for an evaluation includes the following two steps:

Step 1: enter a potential score between 0 and 5 for each factor in the corresponding cell in column F based on available information and/or engineering judgment. Use separate worksheets for some factors as instructed. Hover the cursor over each field for more information about it;

Step 2: select "Yes" in cell G23 after entering scores for all applicable factors. An overall potential score is then determined as the sum of the individual scores multiplied by the corresponding global weight score. The overall score is shown in the "Tier 1 TRZ Screening Report" field along with recommendation on TRZ implementation.

To evaluate another project, delete the previously entered scores and repeat Steps 1-2.

**Questions/Comments**

For questions or feedback about this tool, please contact the Principal Investigator of TxDOT Project No. 0-6538 (Planning Tools to Assess the Real Estate Leveraging Potential for Roadways and Transit):

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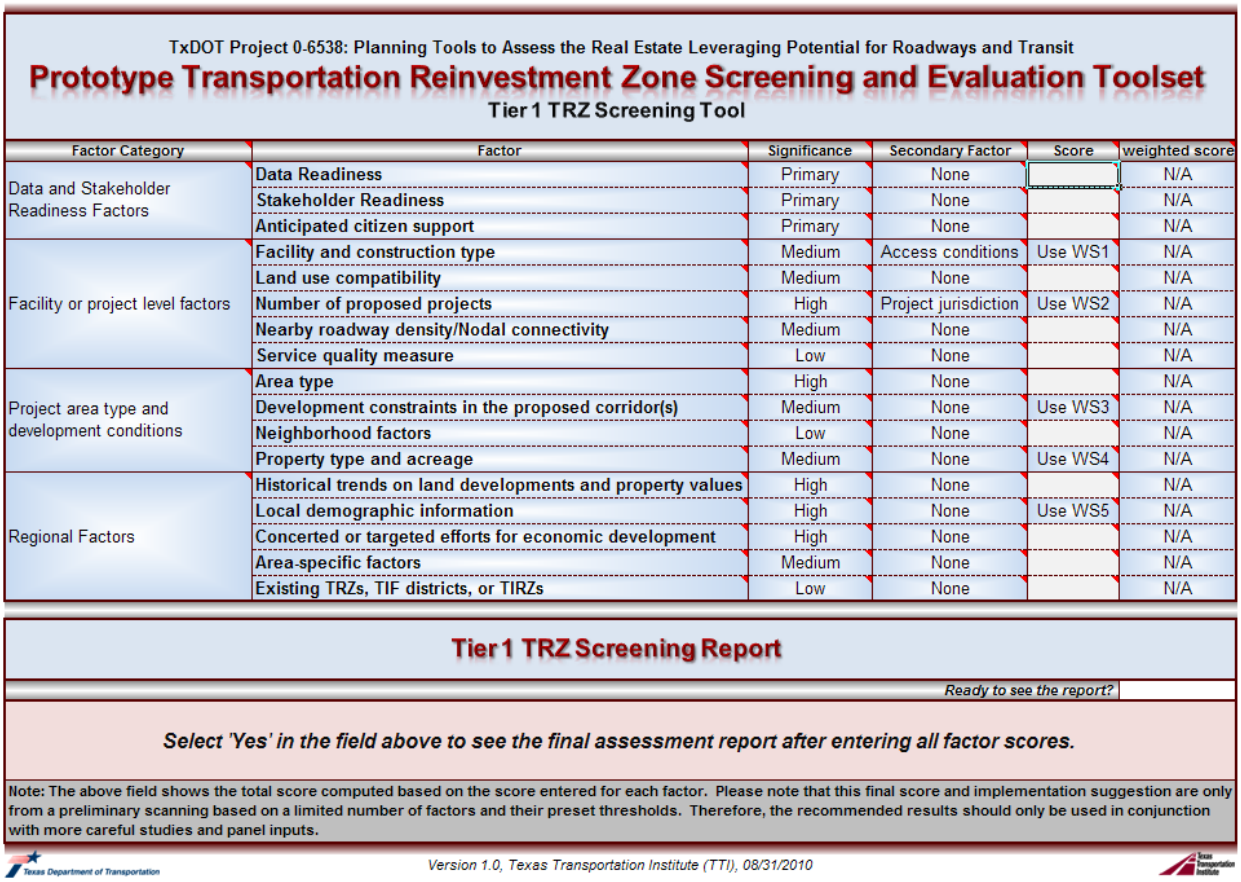
Disclaimer

The purpose of this tool is to provide assist in the process of decision making associated with a TRZ. The results from this tool is largely based on engineering judgments of the users. TTI does not recommend that users solely rely on the evaluation results from this tool when making decisions on the implementation of a TRZ.

*Version 1.0, Texas Transportation Institute (TTI), 08/31/2010*

**Figure 7-1. Tier 1 Tool Guide Tab.**



TxDOT Project 0-6538: Planning Tools to Assess the Real Estate Leveraging Potential for Roadways and Transit

**Prototype Transportation Reinvestment Zone Screening and Evaluation Toolset**

**Tier 1 TRZ Screening Tool**

| Factor Category | Factor | Significance | Secondary Factor | Score | weighted score |
|---|---|---|---|---|---|
| Data and Stakeholder Readiness Factors | Data Readiness | Primary | None | | N/A |
| | Stakeholder Readiness | Primary | None | | N/A |
| | Anticipated citizen support | Primary | None | | N/A |
| Facility or project level factors | Facility and construction type | Medium | Access conditions | Use WS1 | N/A |
| | Land use compatibility | Medium | None | | N/A |
| | Number of proposed projects | High | Project jurisdiction | Use WS2 | N/A |
| | Nearby roadway density/Nodal connectivity | Medium | None | | N/A |
| | Service quality measure | Low | None | | N/A |
| Project area type and development conditions | Area type | High | None | | N/A |
| | Development constraints in the proposed corridor(s) | Medium | None | Use WS3 | N/A |
| | Neighborhood factors | Low | None | | N/A |
| | Property type and acreage | Medium | None | Use WS4 | N/A |
| Regional Factors | Historical trends on land developments and property values | High | None | | N/A |
| | Local demographic information | High | None | Use WS5 | N/A |
| | Concerted or targeted efforts for economic development | High | None | | N/A |
| | Area-specific factors | Medium | None | | N/A |
| | Existing TRZs, TIF districts, or TIRZs | Low | None | | N/A |

**Tier 1 TRZ Screening Report**

*Ready to see the report?*

***Select 'Yes' in the field above to see the final assessment report after entering all factor scores.***

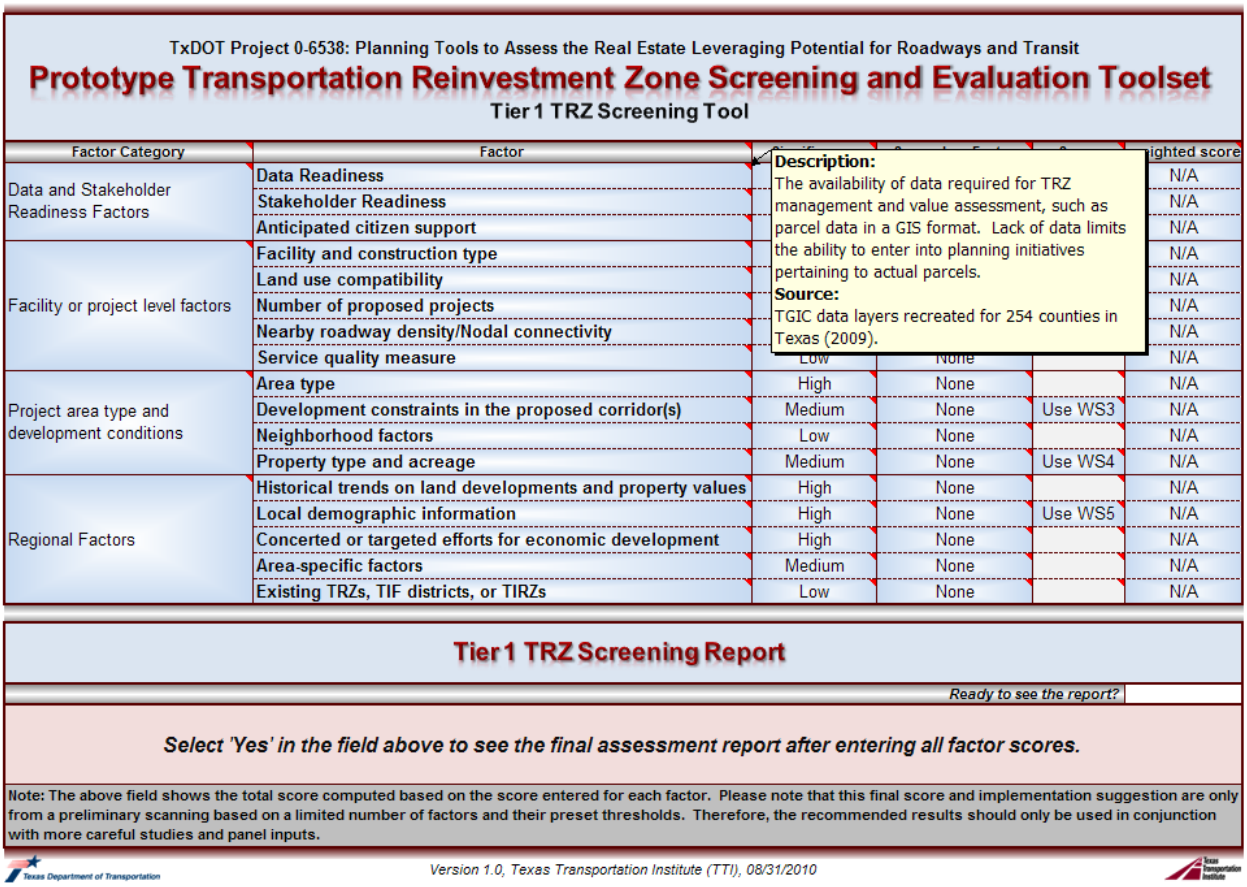
Note: The above field shows the total score computed based on the score entered for each factor. Please note that this final score and implementation suggestion are only from a preliminary scanning based on a limited number of factors and their preset thresholds. Therefore, the recommended results should only be used in conjunction with more careful studies and panel inputs.

Texas Department of Transportation

*Version 1.0, Texas Transportation Institute (TTI), 08/31/2010*

**Figure 7-2. Tier 1 Tool Interface Tab.**

On the tool interface, the users are led through the factors one by one to evaluate the potential of the projects for TRZs in a multidimensional manner. Several factors involve secondary factors and thus require the use of separate worksheets to facilitate the estimation of the scores. When necessary, individual cells on the interface containing additional information are activated when a user hovers the cursor over (Figure 7-3).



TxDOT Project 0-6538: Planning Tools to Assess the Real Estate Leveraging Potential for Roadways and Transit

**Prototype Transportation Reinvestment Zone Screening and Evaluation Toolset**

**Tier 1 TRZ Screening Tool**

| Factor Category | Factor | | | | ighted score |
|---|---|---|---|---|---|
| Data and Stakeholder Readiness Factors | Data Readiness | | | | N/A |
| | Stakeholder Readiness | | | | N/A |
| | Anticipated citizen support | | | | N/A |
| Facility or project level factors | Facility and construction type | | | | N/A |
| | Land use compatibility | | | | N/A |
| | Number of proposed projects | | | | N/A |
| | Nearby roadway density/Nodal connectivity | | | | N/A |
| | Service quality measure | Low | None | | N/A |
| Project area type and development conditions | Area type | High | None | | N/A |
| | Development constraints in the proposed corridor(s) | Medium | None | Use WS3 | N/A |
| | Neighborhood factors | Low | None | | N/A |
| | Property type and acreage | Medium | None | Use WS4 | N/A |
| Regional Factors | Historical trends on land developments and property values | High | None | | N/A |
| | Local demographic information | High | None | Use WS5 | N/A |
| | Concerted or targeted efforts for economic development | High | None | | N/A |
| | Area-specific factors | Medium | None | | N/A |
| | Existing TRZs, TIF districts, or TIRZs | Low | None | | N/A |

**Description:**
The availability of data required for TRZ management and value assessment, such as parcel data in a GIS format. Lack of data limits the ability to enter into planning initiatives pertaining to actual parcels.
**Source:**
TGIC data layers recreated for 254 counties in Texas (2009).

**Tier 1 TRZ Screening Report**

*Ready to see the report?*

***Select 'Yes' in the field above to see the final assessment report after entering all factor scores.***

Note: The above field shows the total score computed based on the score entered for each factor. Please note that this final score and implementation suggestion are only from a preliminary scanning based on a limited number of factors and their preset thresholds. Therefore, the recommended results should only be used in conjunction with more careful studies and panel inputs.

*Version 1.0, Texas Transportation Institute (TTI), 08/31/2010*

**Figure 7-3. Additional Information Window on the Tier 1 Tool Interface.**

## Weights

Users cannot adjust weights on the factors. This tool has a built in hierarchy based on their assumed importance in the process of creating a successful TRZ.

## A Strategy Analysis Using the Screening Tool

The tool is designed to permit a strengths-weaknesses-opportunity-threat (SWOT)-like analysis (familiar in business strategy decision making) of a project within its environment and location using a scoring mechanism (Figure 7-4). At any point in time, each factor may be a strength or weakness, essentially making this a dynamic assessment until a TRZ is put in place. It can be an important part of the early stakeholder partnership dialogue.

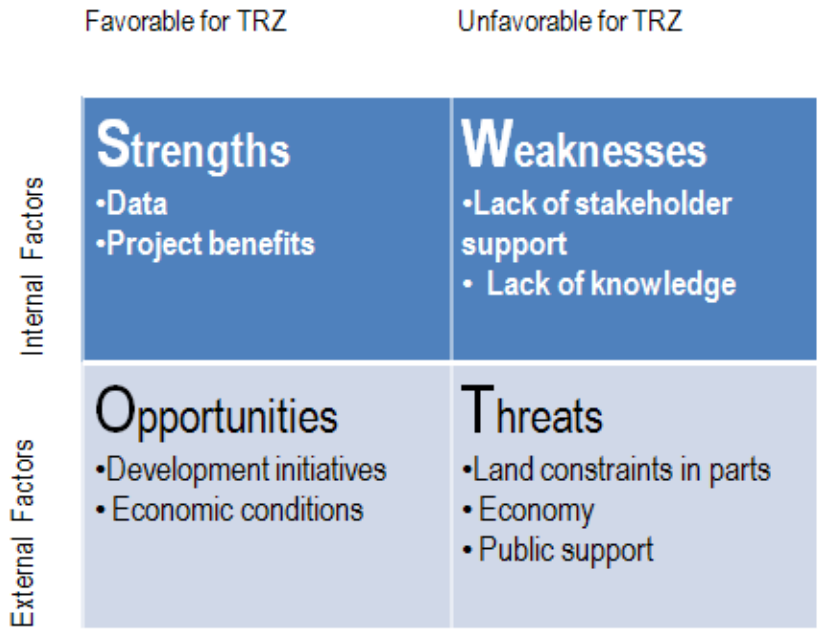



**Figure 7-4. Screening Tool Using It for SWOT Analysis of a Project or Region.**

### Worksheets

There are five simple worksheets that are included as part of this tool.

### Final Scores

Recommendations to develop a TRZ are contingent on the accumulated final scores. As noted, the evaluation is a dynamic process so as a situation changes, the scores and recommendations will also change. The maximum overall score is 52.5. The potential of the evaluated projects is classified into the following five groups based on their overall scores:

- High potential (overall score > 40). Projects in this group have a great potential for setting up a TRZ and for creating value increments as indicated from various aspects. The results suggest that a TRZ set up based on these projects will be highly likely to succeed.
- Medium high potential (30–40). Projects in this group outstand in many aspects toward a successful TRZ. If cautiously implemented, TRZs based on these projects should generate sufficient value increments.
- Medium potential (20–30). Projects in this group have a moderate potential for TRZs. However, if conditions justify and with adequate risk analyses, a TRZ plan may still be implemented.

- Medium low potential (10–20). Projects in this group have a very low potential for generating revenue increments if a TRZ is set up. It is generally not recommended to implement a TRZ for such projects.
- Low potential (0–10). These projects have little or no potential for generating value increments within a TRZ. It is not recommended to implement TRZs based on these projects.

Users should note that the purpose of this tool is to provide a mechanism to facilitate decision makers in assessing the potential of a TRZ. By going through the screening process, users may identify potential risks associated with the implementation of a TRZ and then develop countermeasure to mitigate/eliminate those risks before carrying out the TRZ. Therefore, the use of this screening tool should be repetitive: as the stakeholders mitigate or eliminate negative factors affecting the TRZ, they can go through the screening process for additional rounds to identify additional risks associated with the TRZ. The process should only end when a satisfactory result is reached through the tool, indicating most or all risk factors are fully understood, mitigated, and/or eliminated.

## SECTION 2 - TRZ GIS TOOL (ARCGIS TOOLBAR)

This tool is a GIS option and can assist those stakeholders who have access to parcel and cadastral databases along with road networks to explore TRZ regions and parcels. This is recommended in the TRZ initiation stage as well as zone formulation stage. Its primary goal is to delineate TRZ boundaries and select the parcels that will be part of the TRZ. A second purpose is to develop a database of parcel records that may be directly uploaded to the revenue assessment application so TRZ feasibility may be determined.

### Data and Software Needs

The data, software and information needs for the GIS toolbar are as follows:

- Road Network Layers (ESRI shapefile format),
- Project information,
- Parcel layers (ESRI shapefile format),
- Any other layers around which parcels need to be selected, and
- ESRI ArcGIS ArcVIEW, ArcEditor, or ArcInfo 9.X or higher.

### Operation

After installation, and once the Parcels and Roads have been added, then user may use the Select Features tool to drag and select road segments for which a TRZ is desired. Multiple selections from different areas can be made by holding the shift key down while selecting roads (Figure 7-5).

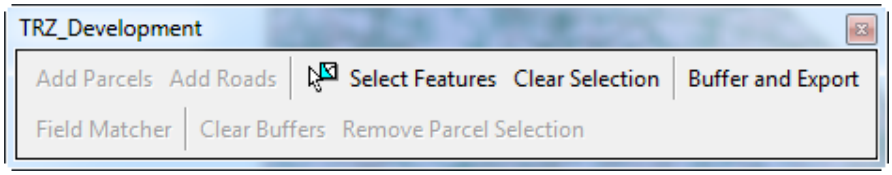



**Figure 7-5. Selection of Features in the GIS Tool for TRZ Development.**

Once the roads have been selected the user may click the buffer and export button to begin the analysis. The user can now input a buffer distance and proceed by clicking the buffer button on the buffer distance dialog box (Figure 7-6).

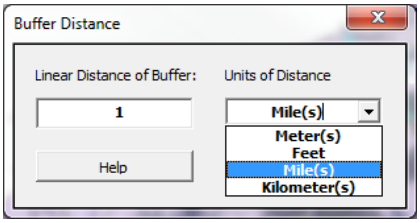



**Figure 7-6. TRZ Zone Development.**

In the last step, the users will need to export the final datasets as comma separated files. These files are key inputs for the next stage of the analysis.

## SECTION 3 - TRZ REVENUE ASSESSMENT TOOL

The last TRZ augmentation tool is a web-based tool housed at http://ciitr.tamu.edu/RMC.aspx. Its express goal is to deliver a preliminary TRZ revenue feasibility assessment based on data files uploaded from the TRZ development stage. This tool is recommended for use in the initiation stage as well as zone formulation stage. The web version is capable of providing preliminary revenue assessments. However, with further local calibration and high quality input data the web version can provide more precise estimates. Its key features are as follows:

- It is a discounted cash flow model.
- It can assist in the valuation of TRZ revenue potential, hence its value in the initiation stage and zone formulation stage when it is important to get an estimated projected revenue stream over the life of the TRZ.
- It can provide the present value of the cash flows accruing to the TRZ over time.
- It can assist a county or municipality to establish revenue-consistent buffer sizes within maximum limits.
- It can facilitate sensitivity, scenario, and Monte-Carlo simulation analyses.

The Tool is built on a framework for revenue projections shown in Figure 7-7. Figure 7-8 shows the welcome screen for the web tool.

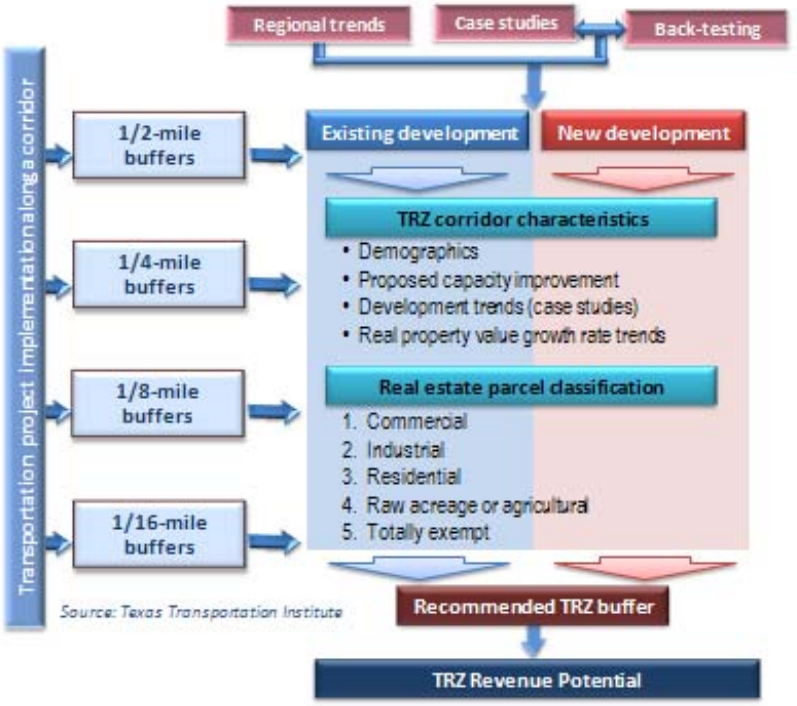



**Figure 7-7. TRZ Revenue Assessment Framework.**

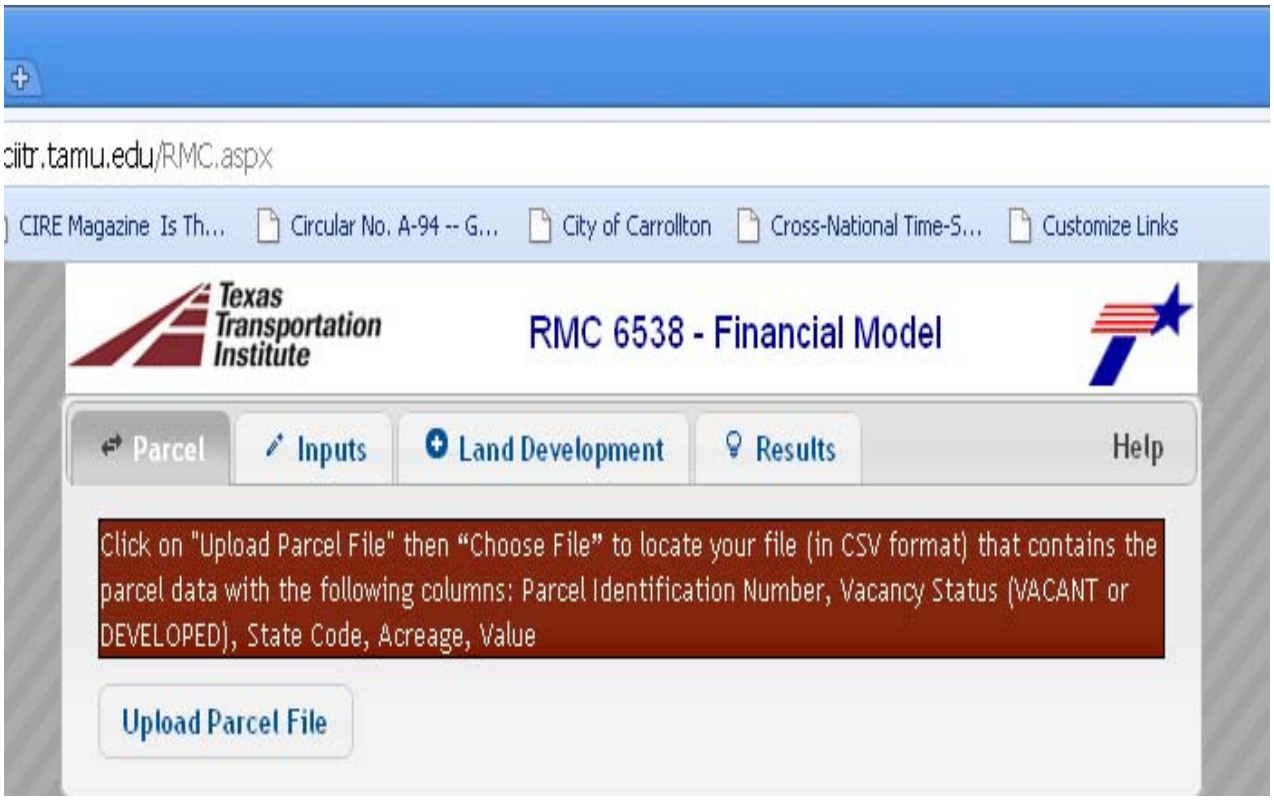



**Figure 7-8. Web-Based Revenue Assessment Tool.**

**Data Needs**

The web-tool only inputs are the parcel data comma separated file obtained from TRZ Development GIS Module.

**Outputs**

Numerical results include the present value of cash flows:

- aggregate TRZ revenues,
- revenues from existing development,
- new development,
- vacant land TRZ-revenues, and
- net capital available + interest on debt + interest earned.

These outputs are of immediate value in zone formulation stage, specifically, aggregate TRZ revenues and net capital available, which are useful for building the financing elements of TRZ as a revenue stream.

# APPENDIX – SB1266 THE ACT

AN ACT

relating to pass-through financing and the designation and operation of transportation reinvestment zones.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 222.104, Transportation Code, is amended by adding Subsection (d-1) and amending Subsection (e) to read as follows:

(d-1) Unless there is an insufficient number of approved proposals for projects to be developed under an agreement providing for the payment of pass-through tolls, in any state fiscal year that begins on or after September 1, 2007, the amount the department agrees to pay under agreements entered into under this section as reimbursement to a public or private entity for project costs may not be less than the yearly average of such amounts from the date of the creation by the commission of the pass-through toll program. This subsection expires September 1, 2009.

(e) The department may use any available funds for the purpose of making a pass-through toll payment under this section except funds derived from the issuance of bonds under Section 201.943.

SECTION 2. Subchapter E, Chapter 222, Transportation Code, is amended by adding Sections 222.105, 222.106, and 222.107 to read as follows:

Sec. 222.105. PURPOSES. The purposes of Sections 222.106

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and 222.107 are to:

(1) promote public safety;

(2) facilitate the development or redevelopment of property;

(3) facilitate the movement of traffic; and

(4) enhance a local entity's ability to sponsor a project authorized under Section 222.104.

Sec. 222.106. MUNICIPAL TRANSPORTATION REINVESTMENT ZONES. (a) In this section:

(1) the amount of a municipality's tax increment for a year is the amount of ad valorem taxes levied and collected by the municipality for that year on the captured appraised value of real property taxable by the municipality and located in a transportation reinvestment zone under this section;

(2) the captured appraised value of real property taxable by a municipality for a year is the total appraised value of all real property taxable by the municipality and located in a transportation reinvestment zone for that year less the tax increment base of the municipality; and

(3) the tax increment base of a municipality is the total appraised value of all real property taxable by the municipality and located in a transportation reinvestment zone for the year in which the zone was designated under this section.

(b) This section applies only to a municipality the governing body of which intends to enter into an agreement with the department under Section 222.104.

(c) If the governing body determines an area to be

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unproductive and underdeveloped and that action under this section will further the purposes stated in Section 222.105, the governing body of the municipality by ordinance may designate a contiguous geographic area in the jurisdiction of the municipality to be a transportation reinvestment zone to promote a transportation project described by Section 222.104 that cultivates development or redevelopment of the area.

(d) The governing body must comply with all applicable laws in the application of this chapter.

(e) Not later than the 30th day before the date the governing body of the municipality proposes to adopt an ordinance designating an area as a transportation reinvestment zone under this section, the governing body must hold a public hearing on the designation of the zone and its benefits to the municipality and to property in the proposed zone. At the hearing an interested person may speak for or against the creation of the zone or its boundaries. Not later than the seventh day before the date of the hearing, notice of the hearing and the intent to create the zone must be published in a newspaper having general circulation in the municipality.

(f) Compliance with the requirements of this section constitutes designation of an area as a transportation reinvestment zone without further hearings or other procedural requirements.

(g) The ordinance designating an area as a transportation reinvestment zone must:

(1) describe the boundaries of the zone with sufficient definiteness to identify with ordinary and reasonable

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certainty the territory included in the zone;

(2) provide that the zone takes effect immediately on passage of the ordinance;

(3) assign a name to the zone for identification, with the first zone designated by a municipality designated as "Transportation Reinvestment Zone Number One, (City or Town, as applicable) of (name of municipality)," and subsequently designated zones assigned names in the same form, numbered consecutively in the order of their designation;

(4) establish an ad valorem tax increment account for the zone; and

(5) contain findings that promotion of the transportation project will cultivate development or redevelopment of the zone.

(h) From taxes collected on property in a zone, the municipality shall pay into the tax increment account for the zone an amount equal to the tax increment produced by the municipality.

(i) Money deposited to a tax increment account must be used to fund projects authorized under Section 222.104, including the repayment of amounts owed under an agreement entered into under that section.

(j) Except as provided by Subsection (k), a transportation reinvestment zone terminates on December 31 of the year in which the municipality complies with a contractual requirement, if any, that included the pledge of money deposited to a tax increment account or the repayment of money owed under the agreement under Section 222.104 in connection with which the zone was designated.

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(k) A transportation reinvestment zone terminates on December 31 of the 10th year after the year the zone was designated, if before that date the municipality has not used the zone for the purpose for which it was designated.

(l) Any surplus remaining on termination of a zone may be used for transportation projects of the municipality in or outside of the zone.

Sec. 222.107. COUNTY TRANSPORTATION REINVESTMENT ZONES; TAX ABATEMENTS; ROAD UTILITY DISTRICTS. (a) In this section:

(1) the amount of a county's tax increment for a year is the amount of ad valorem taxes levied and collected by the county for that year on the captured appraised value of real property taxable by the county and located in a transportation reinvestment zone under this section;

(2) the captured appraised value of real property taxable by a county for a year is the total appraised value of all real property taxable by the county and located in a transportation reinvestment zone for that year less the tax increment base of the county; and

(3) the tax increment base of a county is the total appraised value of all real property taxable by the county and located in a transportation reinvestment zone for the year in which the zone was designated under this section.

(b) This section applies only to a county the commissioners court of which intends to enter into a pass-through toll agreement with the department under Section 222.104.

(c) The commissioners court of the county, after

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determining that an area is unproductive and underdeveloped and that action under this section would further the purposes described by Section 222.105, by order or resolution may designate a contiguous geographic area in the jurisdiction of the county to be a transportation reinvestment zone to promote a transportation project described by Section 222.104 that cultivates development or redevelopment of the area and for the purpose of abating ad valorem taxes imposed by the county on real property located in the zone.

(d) The commissioners court must comply with all applicable laws in the application of this chapter.

(e) Not later than the 30th day before the date the commissioners court proposes to designate an area as a transportation reinvestment zone under this section, the commissioners court must hold a public hearing on the creation of the zone, its benefits to the county and to property in the proposed zone, and the abatement of ad valorem taxes imposed by the county on real property located in the zone. At the hearing an interested person may speak for or against the designation of the zone, its boundaries, or the abatement of county taxes on real property in the zone. Not later than the seventh day before the date of the hearing, notice of the hearing and the intent to create a zone must be published in a newspaper having general circulation in the county.

(f) The order or resolution designating an area as a transportation reinvestment zone must:

(1) describe the boundaries of the zone with sufficient definiteness to identify with ordinary and reasonable

certainty the territory included in the zone;

(2) provide that the zone takes effect immediately on adoption of the order or resolution; and

(3) assign a name to the zone for identification, with the first zone designated by a county designated as "Transportation Reinvestment Zone Number One, County of (name of county)," and subsequently designated zones assigned names in the same form numbered consecutively in the order of their designation.

(g) Compliance with the requirements of this section constitutes designation of an area as a transportation reinvestment zone without further hearings or other procedural requirements.

(h) The commissioners court by order or resolution may enter into an agreement with the owner of any real property located in the transportation reinvestment zone to abate a portion of the ad valorem taxes imposed by the county on the owner's property. All abatements granted by the commissioners court in a transportation reinvestment zone must be equal in rate. In the alternative, the commissioners court by order or resolution may elect to abate a portion of the ad valorem taxes imposed by the county on all real property located in the zone. In any ad valorem tax year, the total amount of the taxes abated under this section may not exceed the amount calculated under Subsection (a)(1) for that year.

(i) To assist the county in developing a project authorized under Section 222.104, if authorized by the commission under Chapter 441, a road utility district may be formed under that chapter that has the same boundaries as a transportation reinvestment zone created under this section.

(j) In any ad valorem tax year, a road utility district formed as provided by Subsection (i) may impose taxes on property in the district at a rate that when applied to the property in the district would impose taxes in an amount equal to the amount of taxes abated by the commissioners court of the county under Subsection (h). Notwithstanding Section 441.192(a), an election is not required to approve the imposition of the taxes.

(k) A road utility district formed as provided by Subsection (i) may enter into an agreement with the county to assume the obligation, if any, of the county to fund a project under Section 222.104 or to repay funds owed to the department under Section 222.104. Any amount paid for this purpose is considered to be an operating expense of the district. Any taxes collected by the district that are not paid for this purpose may be used for any district purpose.

(l) Except as provided by Subsection (m), a tax abatement agreement entered into under Subsection (h), or an order or resolution on the abatement of taxes under that subsection, terminates on December 31 of the year in which the county completes any contractual requirement that included the pledge of money collected under this section.

(m) A transportation reinvestment zone terminates on December 31 of the 10th year after the year the zone was designated, if before that date the county has not used the zone for the purpose for which it was designated.

SECTION 3. This Act takes effect September 1, 2007.

S.B. No. 1266

President of the Senate

Speaker of the House

I hereby certify that S.B. No. 1266 passed the Senate on April 12, 2007, by the following vote: Yeas 31, Nays 0; May 25, 2007, Senate refused to concur in House amendments and requested appointment of Conference Committee; May 26, 2007, House granted request of the Senate; May 26, 2007, Senate adopted Conference Committee Report by the following vote: Yeas 30, Nays 0.

Secretary of the Senate

I hereby certify that S.B. No. 1266 passed the House, with amendments, on May 16, 2007, by the following vote: Yeas 141, Nays 0, two present not voting; May 26, 2007, House granted request of the Senate for appointment of Conference Committee; May 27, 2007, House adopted Conference Committee Report by the following vote: Yeas 142, Nays 1, two present not voting.

Chief Clerk of the House

Approved:

Date