

Negative Issues Associated with Tax Increment Reinvestment Zones (TIRZ)

Introduction

Tax Increment Reinvestment Zones (TIRZ), commonly known in other states as Tax Increment Financing (TIF) districts, are economic development tools used by local governments to encourage redevelopment and infrastructure investment in designated areas. When a TIRZ is created, the property tax revenue generated above the base value of the area—the “tax increment”—is redirected to fund improvements within the zone. While proponents argue that TIRZs stimulate economic growth and revitalize underdeveloped areas, critics point to several negative consequences, including reduced funding for essential public services, limited transparency, inequitable development, and long-term financial risk.

Diversion of Tax Revenue from Public Services

One of the most significant concerns about TIRZs is the diversion of property tax revenue away from general government services. Normally, increases in property tax revenue would go toward funding schools, public safety, parks, and other municipal services. However, within a TIRZ, the incremental tax revenue is captured and reinvested solely within the designated zone.

This diversion can place financial pressure on local governments and school districts that rely heavily on property taxes. In some cases, surrounding communities must compensate for the lost revenue through higher tax rates or reduced services. Critics argue that this arrangement benefits a specific area while limiting resources available for the broader community.

Lack of Transparency and Public Oversight

Another criticism of TIRZ programs is the limited level of transparency and oversight in their administration. TIRZ boards are often composed of appointed members rather than elected officials, and decision-making about how funds are spent may occur with minimal public scrutiny.

Because these boards manage large sums of public money, the lack of direct voter accountability can raise concerns about governance. Critics worry that decisions regarding development projects may prioritize private developer interests rather than the broader public good.

Potential for Favoritism Toward Private Developers

TIRZs frequently partner with private developers to finance infrastructure improvements or redevelopment projects. While public-private partnerships can accelerate development, critics argue that TIRZs sometimes disproportionately benefit developers rather than taxpayers.

Developers may receive subsidies, tax incentives, or publicly funded infrastructure improvements that increase property values and profits. In some cases, projects supported by TIRZ funds might have occurred without the incentive, meaning the public subsidy was unnecessary.

Gentrification and Displacement

Redevelopment within TIRZ districts can lead to increased property values and higher rents. While this may be seen as a sign of economic growth, it can also result in gentrification and displacement of long-time residents and small businesses.

As property values rise, lower-income residents may no longer be able to afford housing in the area. Similarly, small local businesses may struggle to keep up with increasing commercial rents, leading to a shift toward more expensive retail and residential developments that cater to higher-income populations.

Uneven Economic Development

Another concern is that TIRZs can create uneven patterns of development within a city. Because resources are concentrated within designated zones, areas outside the TIRZ may receive fewer public investments.

Critics argue that this approach can widen economic disparities between neighborhoods. Instead of spreading development efforts across the entire community, TIRZs may focus investment in already desirable areas or politically favored districts.

Long-Term Financial Obligations

TIRZ districts often exist for decades, sometimes lasting 20 to 30 years. During this time, tax increments remain dedicated to the zone rather than contributing to general municipal budgets. If development does not generate the anticipated increase in property values, the financial projections used to justify the TIRZ may not materialize. In such cases, municipalities may face long-term financial commitments without the expected economic benefits, potentially leading to budget shortfalls or increased taxpayer burdens elsewhere.

Conclusion

While Tax Increment Reinvestment Zones are designed to stimulate economic development and improve infrastructure, they also present several potential drawbacks. These include the diversion of tax revenue from essential public services, concerns about transparency and governance, preferential treatment for private developers, gentrification and displacement, uneven economic development, and long-term financial risks. As a result, policymakers and communities must carefully evaluate the costs and benefits of establishing TIRZ districts and consider implementing stronger oversight and accountability measures to ensure that these programs serve the broader public interest.

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