
Issues with Reinvestment Zones (CETRZ & TRZs)

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Concerns:

- **Spiraling Property Taxes:** CETRZs (County Energy Transportation Reinvestment Zones) and TRZs (Transportation Reinvestment Zones) and other forms of reinvestment zones were authorized in law to allow local taxing jurisdictions to access and dedicate new revenue from rising property values for specific purposes rather than having to use general revenue. Used as provided in statute, a jurisdiction can maintain existing tax rates while generating new revenue for dedicated purposes. Instead, a number of taxing jurisdictions have created reinvestment zones while substantially raising their tax rates, appearing to be in conflict with the state's truth-in-taxation provisions.
- **Constitutionality:** CETRZs/TRZs are of questionable legality because counties lack the constitutional authority to use tax increment financing—a point affirmed in numerous prior Attorney General Opinions from Ken Paxton (KP-0004 in 2016), Greg Abbott (GA-1076 in 2014 and GA-0981 in 2012), and Mark White (MW-337 in 1981). In 2011 voters rejected a proposed constitutional amendment to legitimize tax increment financing by counties.
- **Lack of Oversight has invited questions of administration.** It appears that some counties may be using these reinvestment zones more as a way of raising taxes than financing transportation projects.
 - **High Administrative/Consulting Expenses:** In several instances, financial records suggest that the single largest expenditure of some transportation tax increment funds has been to pay administering consultants, and not for road improvements.
 - **Co-Mingling of Funds:** In some counties, funds raised on incremental values that by law are restricted for transportation projects are not segregated in separate accounts, making it difficult to track whether the funds are used appropriately.
 - **Lack of Actual Transportation Projects:** There is no record of ongoing road projects in several transportation increment zones in which substantial revenue has been raised.
 - **Unverified value data:** Some jurisdictions have refused to provide documentation supporting the data they used to calculate their transportation increment amounts and their tax rates. In one instance, several basic errors leading to a county consultant's grossly inflated tax increment calculation were identified by the professional appraisal firm employed by the appraisal district.
 - **Truth-in-Taxation Errors:** At least one county, and probably more appears to have adopted tax rates well in excess of what is allowed under current truth-in-taxation provisions.

Implications:

- Inflating the calculation of incremental values overly reduces the amount of appraised values used in the truth-in-taxation calculation, thereby producing an erroneously high effective tax rate that in turn resulted in the county(ies) adopting a substantially higher property tax rate than allowed under current law.

Solutions for Consideration

- The State Auditor and/or the LBB's Government Efficiency and Effectiveness Review team should conduct an inventory and review of CETRZs and TRZs across the state to assess whether they are being created, operated, and funded in accordance with the law.
- Require that any property value numbers used in the truth-in-taxation calculations be certified by the Chief Appraiser and all corresponding tax rate work papers be made publicly available.
- Provide taxpayers with the ability to verify the data.
- Establish some form of independent review or appeal of the local truth-in-taxation calculation.