Local tax districts have had mixed success

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In the late 1990s, city officials in Northeast Tarrant County bet they could predict the future.

Five cities adopted a total of seven tax increment financing districts. The controversial economic tools allowed cities to take on millions of dollars in debt while assuming that future economic development within the districts would generate tax revenue to cover the costs.

More than a decade later, it's clear that some cities turned out to be poor soothsayers.

Northeast cities have struggled to preserve their tax districts while responding to the unexpected: lower-than-anticipated tax revenues, pivotal projects collapsing or enduring delays and a staggering economic downturn.

Some cities' districts have fared better than others, but most haven't performed as originally promised.

"It's easy to play Monday morning quarterbacking sitting here today, but at the time I think they were looking at the information they had and at how things were going," Keller City Manager Dan O'Leary said.

Still, by and large cities believe they made the right decision on the tax districts, and at least one Northeast Tarrant city is preparing to issue almost $19 million in bonds against the promise of future tax revenues.

Researchers disagree

In a tax increment financing district, a city and other taxing entities target an area for development by funding millions of dollars in improvements, which may include sewers, streets and public buildings. The city issues either general obligation bonds to cover the initial costs or certificates of obligation, which do not require voter approval. The city then plans to funnel the increased tax revenue from the district into a fund to cover the debt payments.

If all goes according to plan, the area is given new life without all the city's taxpayers having to foot the bill.

Some researchers say the tax districts really do foster development. Others say they allow politicians to take credit for progress that would have occurred anyway in some form.

In 2006, David Merriman, an economist and researcher on tax districts with the University of Wisconsin at Madison, co-authored a study on tax increment districts in cities in Illinois. While he found clear growth in the districts, they appeared to slow the growth of commercial property values in other parts of the city.

"You could see the areas around the TIF losing commercial development as it moves into the TIF area," Merriman said.

City leaders in Northeast Tarrant County hoped that the tax districts would cultivate the kind of signature developments that could turn their communities into regional destinations.

Proponents credit the districts for successful projects like Southlake Town Square, but even that wasn't a sure bet. Southlake had to spend $2.4 million of its own money to subsidize the tax district between 2004 and 2007.

"It was mainly that development came on slower than we had anticipated," Finance Director Sharon Jackson said. The tax district is now covering its debt and will be able to pay back Southlake for the subsidies by 2018, she said.

It's a different story in Colleyville, where the tax district has exceeded original projections and is easily covering its costs. Yet 10 years later, the impact of the effort is questionable. Though tax revenues paid for upgrades like a new City Hall, development in the target area along Texas 26 remains the city's top priority, as empty storefronts dominate in parts.

Grapevine approved two tax districts in the late 1990s for what would become two of the city's biggest successes, Grapevine Mills Mall and the Gaylord Texan Resort & Convention Center on Lake Grapevine.

Assistant City Manager Tommy Hardy said the city was careful with its tax districts and focused on proposed projects rather than hoping that development would show up. Despite some early hiccups such as when the Gaylord opened later than expected, both are now financially healthy.

"You have to make sure you get realistic numbers instead of what a developer is promising you," Hardy said.

Keller's decision

The Keller City Council will vote Tuesday on whether to stem the bleeding on its tax district by refinancing.

It's a situation that city leaders didn't see coming in 1998 when they approved the district amid Keller's development boom. The City Council assumed that the future tax revenue from their planned Keller Town Center development would cover the payments on 20-year bonds worth $33 million.

"At the time, I could see why they would think their observations seemed reasonable," O'Leary said.

In 2001, the tax district was $10,000 shy of its revenue goal of $422,209. In retrospect, that was a good year.

Keller's tax district has been $12.4 million short of its revenue projections over the last decade. The city has had to dip into its general fund several times to help cover the debt.

Town Center now sports a City Hall, natatorium and other amenities, but private development has been limited. The refinancing plan would kick the bond payments 10 years down the road but could cost the city an extra $2.8 million if the commercial interest never materializes.

Doug Miller of Keller, a longtime TIF critic, urged council members at a recent meeting to avoid refinancing and "take the pain now" by slashing spending.

O'Leary said refinancing will let the city cover its tax district payments regardless of whether Town Center gets the extra development that many assumed was inevitable.

"We're hoping it will develop as originally planned," O'Leary said. "If it doesn't, then we're still going to be OK."

'Maintain conservatism'

Amid a shaky economic recovery, North Richland Hills plans to soon issue $18.8 million in certificates of obligation for the largest capital project in its history: an 85,000-square-foot recreation center in the Home Town development.

The project has been a long time coming. When the tax district that included the project was adopted in 1999, city officials said the recreation center would be built within five years.

The holdup was due to the tax district's lagging performance -- about two-thirds of what was projected. Finance Director Larry Koonce said that among the early obstacles was the recession after 9-11.

Problems have persisted. The tax district collected $2.6 million in fiscal 2009, well short of the original prediction of $4 million.

Previously, the city issued certificates of obligation to pay for a library in the tax district.

Despite some weak returns, the city has never had to subsidize its Home Town tax district, officials said. Instead, it has held off on projects until city officials felt comfortable that the tax district had enough revenue to handle the debt.

That's why city leaders are not hesitating to finally get rolling on the recreation center, though the economy remains shaky, Koonce said. Along with the $18.8 million in certificates for the recreation center, the city will issue about $5 million in debt, including some projects within the Home Town tax district and in the city's other tax district.

As long as the Home Town tax district maintains its current revenue, the city will be able to cover the future debt payments for the recreation center, Koonce said. However, if development in Home Town shrank, causing the district to take in less money, the city might have to cover the debt payments from its general fund.

"There's no way we can foresee what's going to happen in the future, but we believe that given the current development ... we want to go forward," Koonce said.

Marty Wieder, Colleyville's economic development director, helped set up North Richland Hills' two tax districts and said the city's careful approach shows that the districts can be smart investments.

"I think the key is to maintain conservatism," Wieder said. "As long as it's laid out in a fiscally astute manner, then even with the ups and downs of the global economy, there are still ways to make sure you're not overextending yourself."

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