

City of San Marcos

An Overview of Tax Increment Financing (TIF)

The City has several Tax Increment Financing (TIF) Funds that have been adopted by City Council to provide funding for different economic development projects. The City has two types of TIFs, the first is a Tax Increment Reinvestment Zone (TIRZ) and the second is a Transportation Reinvestment Zone (TRZ).

How does a TIF work?

When a TIF is created, a base year for property tax collected for the properties within the TIF boundary is established. As the properties and improvements within the zone become more valuable, the taxes collected equal to the base year go to the General Fund and the designated percentage of collections above the base year, or the growth increment, goes into the TIF fund.

Current City TIF's

The City currently has 4 TIRZ zones and 1 TRZ zone.

TIRZ #2-Blanco Vista

TIRZ #2 was created in 2005 to reimburse the developer for construction of the bridge that goes over the railroad tracks at Yarrington Road. In this TIRZ, 100% of the taxes collected by both the City and County over the base year is deposited in the TIRZ fund and paid to the developer to reimburse for the improvement costs. The City keeps \$175 per house for administration costs. This was a joint TIRZ, with the County contributing up to \$1,000,000 of the taxes collected to the TIRZ fund. The County met their \$1.0M obligation in FY18. Based on the debt structure, staff asked and Council approved the pay off of this debt and the Developer was paid in full \$8,737,000 in March 2021. An Ordinance was brought before Council on September 21, 2021 to terminate the TIRZ effective September 30, 2021. At this point, all funds remaining within the TIRZ will be transferred to the General Fund.

TIRZ #3-Conference Center

TIRZ #3 was created in 2006 to pay for a portion of the construction of the San Marcos Conference Center on McCarty Road. In this TIRZ, 100% of the taxes collected over the base year for the conference and hotel site is deposited in the TIRZ fund and used to pay the debt service on the bonds issued for construction. This is a joint TIRZ, with the County contributing the M & O portion of taxes collected to the TIRZ fund.

The taxes generated in the TIRZ, in addition to the 2% venue tax, are used to pay the debt service on the bonds issued for the construction of the Conference Center. The remaining principal balance on these bonds is \$6.73M which is scheduled to be paid off

in 2032.

TIRZ #4-Kissing Tree

TIRZ #4 was created in 2011 to pay for water/wastewater, drainage, and road infrastructure in the Kissing Tree housing development. In this TIRZ, 40% of the taxes collected over the base year is deposited in the TIRZ fund and is paid to the developer to reimburse for the infrastructure costs. This is a joint TIRZ, with the County contributing 40% of taxes collected to the TIRZ fund. The City's maximum liability for this TIRZ is \$30M. Development of the site started later than anticipated but is expected to be complete by approximately 2030. Full repayment of the TIRZ is anticipated by 2032.

TIRZ #5-Downtown

TIRZ #5 was created in 2011 to pay for re-development of the former Justice Center and link the area to downtown. The TIRZ boundaries follow the area that was previously designated as the Downtown SmartCode District which encompasses 244 acres in the downtown bounded by Texas State University on the west, CM Allen on the north, IH-35 on the east, and primarily commercial areas on the south. This project did not move forward and the building was ultimately redeveloped by a private party. Minimal funds have been distributed out of the TIRZ fund which currently has a balance of \$1.8M as of September 30, 2021. The TIRZ board (made up of 2 representatives from both the City and County and a 5th person mutually agreed on by both entities) approved the latest project and financing plan in March 2021. In this TIRZ plan, 70% of the taxes collected over the base year is deposited in the TIRZ fund. This is a joint TIRZ, with the County contributing 70% of taxes collected to the TIRZ fund as well. For FY2021 and FY2022, the TIRZ board approved a reduced contribution to the TIRZ fund of 25%. This TIRZ was initially adopted for a five year term. After the first five year term, it was extended for another 5 year term by mutual agreement of the City and County and currently is approved through December 2027.

TRZ #1-Loop 110

TRZ #1 was created in 2013 to pay for the City's portion of the construction of the Loop 110 which will go from McCarty Road to Yarrington on the east side of town. This TRZ zone covers the east side of the City bounded by IH-35 on the west, and the City limits on the north, east and south of the City with the exception of properties already in another TIF zone and the outlet malls. In this TRZ, 50% of the taxes collected over the base year is remitted to the County to reimburse TxDOT for certain funds loaned for construction of the project. The obligation to the City is approximately half of the construction funds to be reimbursed to TXDOT, which TXDOT is loaning to the City and the County interest free. Since the formation of the TRZ, the growth rate has exceeded the projections, the City increased the tax rate, and the costs for the project have increased. The County is currently updating the calculation and the timeframe for meeting the obligation may vary as a result.

Summary of Base Years and Current Values

(Source: FY2020 Comptroller reports)

	Base Year Value	Tax Year 2019 Value	Increment Captured	Total City Taxes Collected	City Taxes Deposited in TIF Fund
TIRZ #2 Blanco Vista	\$628,810	\$274,378,896	\$273,750,086	\$1,682,082	\$1,495,214
TIRZ #3 Conf Center	\$1,306,800	\$23,775,670	\$22,468,870	\$145,959	\$105,649
TIRZ #4 Kissing Tree	\$1,948,070	\$87,456,106	\$85,508,036	\$531,052	\$200,462
TIRZ #5 Downtown	\$104,184,156	\$247,861,432	\$143,677,276	\$1,549,168	\$616,057
TRZ #1 Loop 110	\$715,472,845	\$1,193,828,247	\$478,355,402	\$7,340,927	\$1,464,398
Total	\$823,540,681	\$1,827,300,351	\$1,003,759,670	\$11,249,188	\$3,881,780