

City of Denton Incentive Policy and Public Improvement District Guidelines

JANUARY 16, 2018

State Laws Related to Economic Development

Tax Type	Program	Statute
Property Tax	Tax Abatement Agreements	Tax Code, Ch. 312
Sales & Use Tax, Property Tax	Chapter 380 Agreements	Local Gov't Code, Ch. 380
Special Assessment	Public Improvement Districts	Local Gov't Code, Ch. 372

City of Denton Policies & Guidelines Related to Economic Development

City of Denton Policy for Tax Abatement and Incentives

- First approved in 1989
- Most recently approved in April 2016 with no significant changes

Public Improvement District Guidelines for Mixed-Use or Residential PIDs

- First approved in 2007
- Amended in April 2014 to add the option of revenue bond sales for construction financing

Ties to Strategic Plans & Core Values

City of Denton 17-18 Strategic Plan	Dept. of Economic Development 17-18 Strategic Plan	City Core Values
Key Focus Area 3: Economic Development	Goal 1: Business Development	Fiscal responsibility, transparency
“Develop targeted policies and incentives that boost economic growth”	Objective 3: “Revise City of Denton Economic Development Incentive Policy”	

Policy for Tax Abatement and Incentives

Review and Revision Process

- Reflection on lessons learned from prior incentive agreements and incentive administration
- Staff review of incentive policies from comparable North Texas communities
- Incorporation of Total Impact 2.0 analysis into the application process
- Discussion with Finance, Legal and CMO departments regarding proposed changes to the policy
- Work session with EDP Board

Proposed Format Changes

- Revise to improve organization, clarity, and readability
 - Expand general provisions to define Denton's economic development goals and target industries
 - EDP Board requested clarification in the policy that not being in a target industry does not disqualify a business from applying for an incentive if it meets other requirements under the policy
 - Expand Definitions section
- Bring all existing incentive programs under one “umbrella policy”
 - ED Investment Fund and Based Aircraft Incentive will become part of the revised policy

Proposed Content Changes

Staff Proposed Change	EDP Board Comments
<ul style="list-style-type: none">• Limit Ch. 380 tax rebate agreements to terms of 10 years or less<ul style="list-style-type: none">• consistent with state law on the term of tax abatements	<ul style="list-style-type: none">• Desire to preserve the flexibility for Ch. 380 terms beyond 10 years; don't limit options<ul style="list-style-type: none">• Option to grant more than one 10-year phase with thresholds to initiate subsequent phases• Option to reduce percentage of incentive over the term of the grant
<ul style="list-style-type: none">• Exclude retail projects except those that address a gap or leakage in the Denton market<ul style="list-style-type: none">• Project must generate at least \$15 million in annual taxable sales to be considered• Sales tax rebates will be capped at 50% of sales tax receipts	<ul style="list-style-type: none">• Re-word to "Prioritize retail projects that address a gap or leakage in the City of Denton"<ul style="list-style-type: none">• Define "retail"• Define "gap" and/or "leakage"

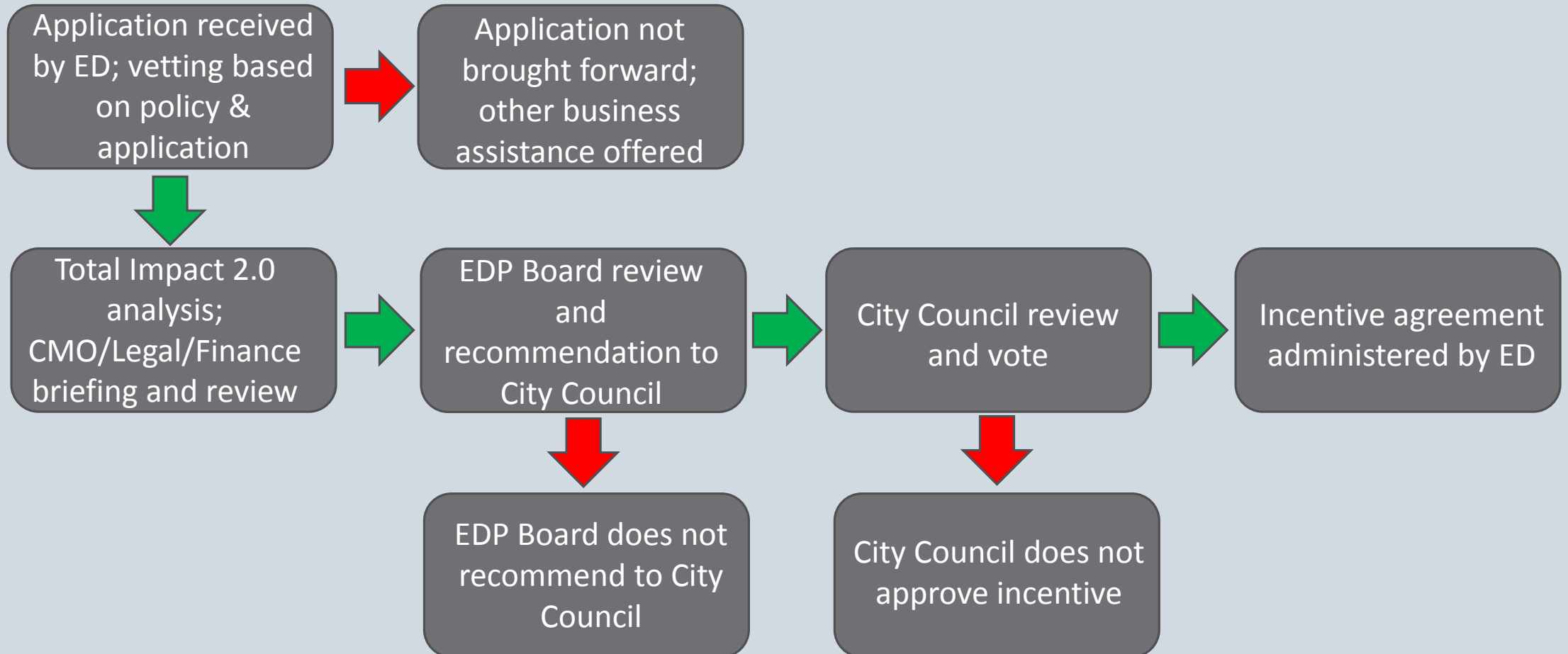
Proposed Content Changes

Staff Proposed Change	EDP Board Comments
<ul style="list-style-type: none">Remove existing capital-investment based framework and “additional factors”<ul style="list-style-type: none">Retain \$5 million minimum value of structure and business personal property to be considered for a tax incentive	<ul style="list-style-type: none">Retain some additional factors, such as use of green technologies, local hiring and contractors, and community involvement, but don’t tie to increased percentage of incentive
<ul style="list-style-type: none">Addition of jobs-based incentive for businesses that do not meet the \$5 million minimum value of structures and business personal property or \$15 million in annual taxable sales<ul style="list-style-type: none">Criteria could include net new jobs with wages above the Denton County median or net new knowledge-based or high-skilled jobs created in a target industry sector	<ul style="list-style-type: none">Concern regarding a business with no significant capital investment being easily able to leave the communityDesire for a minimum threshold of jobs created to be eligible to apply for such an incentivePossible use of total payroll as a threshold

Proposed Content Changes

Staff Proposed Change	EDP Board Comments
<ul style="list-style-type: none">• Addition of minimum thresholds:<ul style="list-style-type: none">• New development – Denton Central Appraisal District (DCAD) valuation of the project must be at least 80% of the eligible investment submitted in the incentive application• Expansion/redevelopment – DCAD valuation of the incremental increase in value must be at least 50% of the eligible investment submitted in the incentive application• Jobs – actual jobs created must be at least 80% of what is submitted in the application	<ul style="list-style-type: none">• Allow the ability for an incentivized company to request an amendment to its incentive agreement if it doesn't meet the minimum threshold• Allow for a proportional reduction in the incentive if the threshold is missed• Do not terminate an incentive if a company doesn't meet its threshold in a given year, but do not make an incentive payment in that year

Incentive Application Process



Public Improvement District Guidelines for Mixed-Use or Residential PIDs

Public Improvement Districts in Denton

- A number of inquiries have been made for PIDs in Denton
- Only one has been established: Rayzor Ranch PID No. 1
 - Established in March 2014
 - Reimbursement agreement approved by Council in March 2016
 - Service and Assessment Plan (SAP) and Finance Plan required by state law not yet submitted by the developer

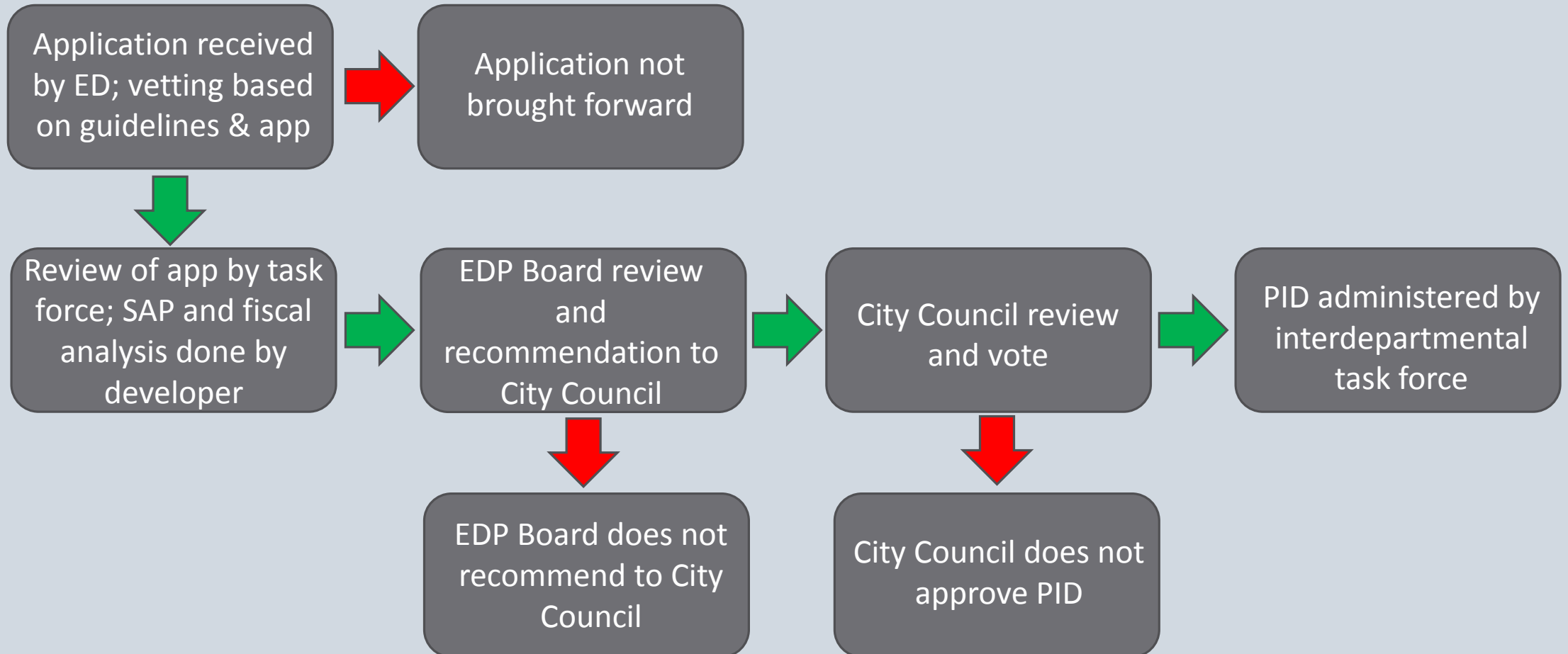
Review and Revision Process

- Reflection on lessons learned from prior PID requests from developers
- Staff review of policies from comparable Texas communities
- Discussion with Finance, Legal and CMO departments regarding proposed changes to the guidelines
- Work session with EDP Board

Proposed Changes

Staff Proposed Change	EDP Board Comments
<ul style="list-style-type: none"> Develop a PID application 	
<ul style="list-style-type: none"> Establish an interdepartmental task force to review PID applications (Economic Development, Development Services, Legal, and Finance) 	
<ul style="list-style-type: none"> Require a Service and Assessment Plan and Finance Plan prior to establishment of a PID 	
<ul style="list-style-type: none"> Require a developer-funded, City-administered Fiscal Impact Analysis prior to the establishment of a PID 	
<ul style="list-style-type: none"> Require a minimum home value threshold <ul style="list-style-type: none"> Options: greater than the median City of Denton home value or median Denton County home value 	<ul style="list-style-type: none"> Development of lower-end housing creates a burden on the City and DISD Need to better define what we're looking for Use a market-value or current average new home value basis for threshold

PID Application Process



Next Steps

- Incorporate Council direction
- Present draft policies to EDP Board in February for review and recommendation to Council
- Present draft policies to Council in February for individual consideration

