
INFORMAL STAFF REPORT TO MAYOR AND CITY COUNCIL

SUBJECT:

Expiring incentives for Economic Development.

EXECUTIVE SUMMARY:

This Informal Staff Report was prepared in response to a two-minute pitch by Council Member Jester on utilizing expiring incentives as a funding mechanism for the Catalyst Fund.

BACKGROUND:

The City Council created the Economic Development Investment Fund in 2016 to increase the City's competitiveness in the recruitment and retention of large or desirable companies. A total of \$150,000 of mixed beverage tax revenue served as the dedicated funding source.

In 2019, the City recognized the need to raise additional funds to support economic development. Municipalities often raise such funds through an economic development sales tax. However, the City reached its State set maximum sales tax in 2004 when voters chose to dedicate the City's remaining 0.5% local sales and use tax to support the Denton County Transportation Authority (DCTA). The City engaged economic development consulting firm TIP Strategies to lead Denton's comprehensive economic development strategic planning process.

Staff and the TIP team worked together for more than a year to engage community stakeholders and develop a strategic plan for economic development that outlines a specific vision for Denton, as well as the strategies and tactics to bring the vision to fruition. The final plan was adopted by City Council on Feb. 9, 2021. A strategy outlined in the plan was the creation of the Catalyst Fund, made up of contributions of various funding sources that would provide support for economic development programs, incentives, and initiatives. The strategy focused on ensuring Denton was well positioned to execute the recommendations and priorities laid out in the Economic Development Strategic Plan.

Several funding mechanisms for the Catalyst Fund were reviewed during the work session on July 26, 2022. Following discussion, the Council gave direction to establish the Catalyst Fund. The ordinance establishing the Catalyst Fund allowed Council to commit a portion of fees, taxes, and other funds. The fund was authorized and approved in the FY2022/23 Budget for \$7.3 million, with the actual fund balance ending at \$4.3 million. The Catalyst Fund was created on September 27, 2022 with the renaming and assigning of the Economic Development Investment Fund via adoption of Ordinance 22-1803. Summaries of the approved flow of funds into the Catalyst Fund since its creation can be seen below. As a Special Revenue Fund, the Catalyst Fund is included in the City's annual budget but is separate from the Economic Development department budget (which is funded through the General Fund).

Catalyst Fund FY 2022-23		<u>Budget</u>	<u>Actual</u>
Beginning Fund Balance		\$1,023,834	\$1,023,834
<u>Resources</u>	<u>Definitions:</u>		
Mixed Beverage Tax		\$150,000	\$150,000
Investment Income	Interest on funds	-	118,822
Transfers In	Water and Wastewater Planned line Funds, Utility Line Funds and Franchise Fee Returns	7,000,000	3,000,000
Use of Reserve		143,325	-
Total Resources		\$7,293,325	\$3,268,822
<u>Expenditures</u>			
Capital Outlay		\$7,000,000	\$ -
Operations		293,325	-
Total Expenses		\$7,293,325	\$ -
Ending Fund Balance		\$1,023,834	\$4,292,656

DISCUSSION:

A funding mechanism that is being considered is re-dedicating dollars from sales tax incentives as they terminate to the Catalyst Fund. A 10-year analysis of expiring incentives is detailed in Exhibit 1. If this method of funding is used, eligible expiring Chapter 380 incentives (including mixed beverage, sales tax, construction sales and use tax, and property tax) would generate \$6.9 million for the fund over a 10-year period. In addition, if eligible expiring tax abatements were included, the total would be \$8.8 million.

ATTACHMENT(S):

Exhibit 1 – Expiring Incentive Analysis

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REQUESTOR: Council Member Jill Jester

PARTICIPATING DEPARTMENTS:

Economic Development and Finance

STAFF TIME TO COMPLETE REPORT:

Five hours

Expiring Incentive Summary

Eligible Expiring Incentives Summary

	1	2	3	4	5	6	7	8	9	10	
Incentive	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 203-32	FY 2032-33	FY 2033-34	Eligible Expiring Total
Chapter 380 Ad Valorem	\$38,174	\$55,991	\$253,506	\$336,596	\$352,630	\$369,466	\$371,235	\$389,797	\$409,287	\$429,751	\$3,006,433
Chapter 380 Mixed Beverage and Sales Tax	\$0	\$28,542	\$94,392	\$99,111	\$104,067	\$109,270	\$114,734	\$120,471	\$126,494	\$3,102,006	\$3,899,087
Total Ad Valorem, Mixed Beverage and Sales Tax Rebate	\$38,174	\$84,533	\$347,897	\$435,707	\$456,697	\$478,737	\$485,969	\$510,267	\$535,781	\$3,531,757	\$6,905,520

Incentive	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 203-32	FY 2032-33	FY 2033-34	Eligible Expiring Total
Tax Year		25	26	27	28	29	30	31	32	33	
Tax Abatement Ad Valorem	\$0	\$135,551	\$142,329	\$208,651	\$219,084	\$230,038	\$241,540	\$253,617	\$266,298	\$279,613	\$1,976,721
Total Tax Abatement Ad Valorem	\$0	\$135,551	\$142,329	\$208,651	\$219,084	\$230,038	\$241,540	\$253,617	\$266,298	\$279,613	\$1,976,721

Incentive	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	Eligible Expiring Total
Expiring Total	\$38,174	\$220,085	\$490,226	\$644,359	\$675,781	\$708,775	\$727,509	\$763,884	\$802,079	\$3,811,370	\$8,882,241
Cumulative Total	\$38,174	\$258,259	\$748,485	\$1,392,843	\$2,068,625	\$2,777,399	\$3,504,908	\$4,268,793	\$5,070,871	\$8,882,241	\$8,882,241

Ineligible Incentives Summary

Incentive	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	Ineligible Expiring Total
Chapter 380 Job-based Expansion/Headquarters/Relocation	\$0	\$0	\$0	\$136,275	\$117,525	\$105,025	\$105,025	\$105,025	\$105,025	\$105,025	\$778,925
Ineligible Total Chapter 380 Job-Based Expansion/Relocation	\$0	\$0	\$0	\$136,275	\$117,525	\$105,025	\$105,025	\$105,025	\$105,025	\$105,025	\$778,925

Ineligible Incentives Summary includes the Chapter 380 Job-based Expansion/Relocation Grants, which are funded through the Catalyst Fund

New not Budgeted Incentives Total **\$2,780,135**

New not budgeted incentives included in their respective categories: Bloomfield (sales tax), Enginetech (ad valorem and Expansion/HQ/Relocation), and Southwire (ad valorem)