



# Economic Development Catalyst Fund

City Council

July 26, 2022



# Background



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- In February 2021, City Council adopted The Economic Development Strategic Plan, the first economic development plan in the last 17 years.
- The Plan is the basis for economic development programs and operations.
  - Implementation of the Strategic Plan was adopted as a Council priority at their Feb. 2021 planning session.
  - Staff worked to align the Denton Tax Abatement and Incentive Policy with the strategic plan and the City's Core Values.
- The Catalyst Fund is a critical to Plan implementation, and City Council asked staff to bring this discussion back as part of the budget process.
- **At the July 20, 2022 EDPB meeting, the EDBP recommended City Council establish the Catalyst Fund and incorporate staff recommendations in the FY 2022-23 Budget.**

# Economic Development Strategic Plan



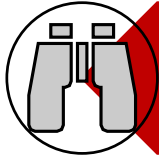
# Economic Development Strategic Plan

## GUIDING PRINCIPLES



### CORE RESILIENCY

Protect the City's core economic base and major employers by retaining businesses and providing them with the support necessary to continue doing business in Denton.



### FUTURE FOCUSED

Position Denton for future growth by understanding trends and adopting a proactive approach to economic development.



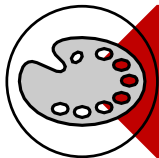
### INCLUSIVE GROWTH

Enhance economic opportunity for all residents by utilizing different strategies that recognize the diverse needs and assets of different communities, especially those in south and east Denton.



### ENTREPRENEURIAL SPIRIT

Cultivate the City's entrepreneurial ecosystem by investing in quality of place and catalyzing innovation that will continue to attract creative professionals to Denton.



### CULTURAL VITALITY

Strengthen Denton's cultural vitality by continuing to promote arts and music while also marketing the City as DFW's cultural hub.

## ACCELERATE RECOVERY

Coordinate short-term economic recovery efforts from the COVID-19 pandemic by aggregating information, collaborating with regional partners, and allocating resources to top priorities.

## FOSTER GROWTH

Attract long-term economic growth aligned with community priorities by focusing on four strategic growth areas: connectivity, creativity, sustainability, and competitiveness.

## STRENGTHEN COMMUNITY INCLUSION

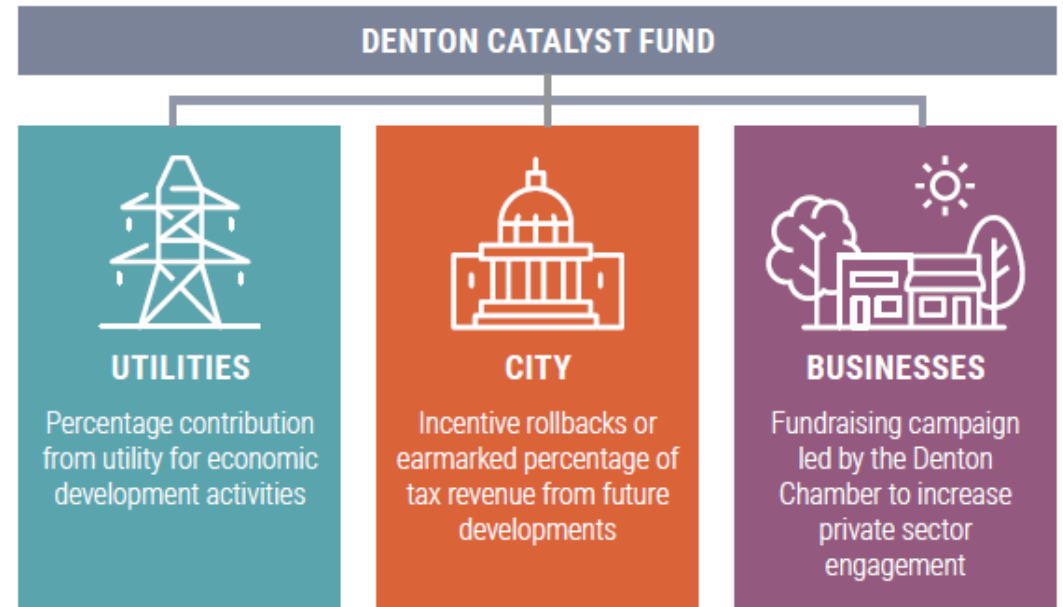
Align economic, workforce, and community development efforts to meet critical community needs and to strengthen community inclusion.

## GOALS


# Catalyst Fund

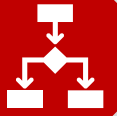
- The Plan included recommendations related to capacity and resource building to provide resources and funding for proposed economic development strategies.
- The Plan recommended creation of the Denton Catalyst Fund, made up of contributions of various sources.

FIGURE 9. RECOMMENDED STRUCTURE FOR A DENTON CATALYST FUND





# Considerations for Building a Catalyst Fund

 The goal of building a catalyst fund is to meet the strategic objectives of the plan.

 Flexibility will be necessary to determine the path to meet those goals and objectives.

 Investing in economic development will require building resources over time.

 The level of resources needed to carry out the plan each year is not static.

 Denton needs a toolbox of different resources and mechanisms to support economic development.

**Current State**

**Investment Fund**

Adopted by City Council in 2016.

\$150,000 of mixed beverage sales tax allocated annually.

Cash grants considered when 2/3 program criteria are met.

**Future State**

**Catalyst Fund**

New resolution to create fund will be developed.

Portion of Utility System ROI allocated annually.

New program criteria to be developed based on strategic goals.



# Investment to Implement Strategic Plan

- Based on assumptions, staff and TIP developed an estimated investment value of **\$7-9 million**.
- The value was determined by working towards a targeted fund balance for the Catalyst Fund for individual programs identified within the Strategic Plan that would be funded through the Catalyst Fund.

FUND PURPOSE	GOAL ALIGNMENT	DESCRIPTION
Business recruitment	Multiple goals	Fund for recruiting and attracting new businesses to Denton.
Business retention and expansion	Goal 2A: Connected Denton	Fund for the retention and expansion of existing businesses, particularly in the Westpark Industrial Park area.
Infrastructure, utilities, and development assistance	Goal 2D: Competitive Denton	Fund to support major infrastructure and development needs, including broadband connectivity.
Job-based grants	Multiple goals	Grants to businesses based on number of jobs and wages.
Innovation and entrepreneurship	Goal 2B: Creative Denton	Fund to grow and expand Denton's entrepreneurship ecosystem.
Access for historically underutilized businesses (HUBs)	Goal 2B: Creative Denton	Fund to provide resources to businesses owned by women and people of color in Denton.
Green incentives	Goal 2C: Sustainable Denton	Fund providing incentives to attract environmentally conscious businesses or support greater energy efficiency.
Class A office space development	Goal 2D: Competitive Denton	Fund to incentivize the development of Class A office space, especially in the downtown area.
Affordable housing or housing redevelopment	Goal 3: Strengthen Community Inclusion	Fund to support the City's affordable housing goals and priorities.



# Catalyst Fund



# Type A and B Annual Collections

CITY	TOTAL COLLECTIONS	TAX RATE	4A	4B	4A/4B	%	2021 Census Population Estimate	4A/4B Allocation Per Capita
Frisco	\$127,144,691	\$0.02	\$31,786,173	\$31,786,173	\$63,572,345	6.46%	210,719	\$301.69
McKinney	\$80,992,221	\$0.02	\$20,248,055	\$20,248,055	\$40,496,111	4.12%	202,690	\$199.79
Allen	\$52,095,933	\$0.02	\$13,023,983	\$13,023,983	\$26,047,967	2.65%	106,874	\$243.73
The Colony	\$46,803,547	\$0.02	\$11,700,887	\$11,700,887	\$23,401,774	2.38%	45,000	\$520.04
Coppell	\$51,936,721	\$0.02	\$0	\$14,839,063	\$14,839,063	1.51%	42,221	\$351.46
Mesquite	\$55,941,815	\$0.02	\$0	\$13,985,454	\$13,985,454	1.42%	147,691	\$94.69
Roanoke	\$23,801,166	\$0.02	\$5,950,291	\$5,950,291	\$11,900,583	1.21%	9,878	\$1,204.76
Southlake	\$40,149,677	\$0.02	\$0	\$10,706,580	\$10,706,580	1.09%	31,105	\$344.21
Lewisville	\$52,376,149	\$0.01	\$0	\$10,475,230	\$10,475,230	1.06%	112,944	\$92.75
North Richland Hills	\$18,856,960	\$0.02	\$0	\$6,285,653	\$6,285,653	0.64%	70,209	\$89.53
<b>TOTAL</b>	<b>\$550,098,880</b>		<b>\$350,184,712</b>	<b>\$633,568,909</b>	<b>\$983,753,621</b>	<b>100.00%</b>	<b>979,331</b>	

## 4A and 4B Sales Taxes in Area Cities

Mesquite (147,691) has the closest population to Denton (148,146)

4A and 4B Sales Taxes similar to the ~\$4 Million budgeted

CITY	TOTAL COLLECTIONS	TAX RATE	4A	4B	4A/4B	%	2021 Census Population Estimate	4A/4B Allocation Per Capita
Buda	\$11,852,147	\$0.02	\$0	\$3,950,716	\$3,950,716	0.40%	15,643	\$252.55
Cleburne	\$16,734,722	\$0.02	\$0	\$4,183,680	\$4,183,680	0.43%	31,999	\$130.74
League City	\$33,835,676	\$0.02	\$0	\$4,229,460	\$4,229,460	0.43%	115,595	\$36.59
Keller	\$15,352,861	\$0.02	\$0	\$4,386,532	\$4,386,532	0.45%	45,397	\$96.63
Weslaco	\$17,810,347	\$0.02	\$4,452,587	\$0	\$4,452,587	0.45%	41,024	\$108.54
De Soto	\$17,833,805	\$0.02	\$3,343,839	\$1,114,613	\$4,458,451	0.45%	55,729	\$80.00
Kerrville	\$14,282,022	\$0.02	\$0	\$4,760,674	\$4,760,674	0.48%	24,477	\$194.50
	<b>\$127,701,580</b>		<b>\$7,796,426</b>	<b>\$22,625,675</b>	<b>\$30,422,100</b>		<b>329,864</b>	



# Annual Allocation per Capita

## Geographical Competitors

- Roanoke: \$1,204
- The Colony: \$520
- Coppell: \$351
- Frisco: \$301
- Allen: \$243
- Mesquite: \$94
- Lewisville: \$92

## ~\$4 Million in Total Allocation

- Buda: \$252
- Kerrville: \$194
- Cleburne: \$130
- Weslaco: \$108
- Keller: \$96
- DeSoto: \$80
- Denton: \$27

# Potential Project Pipeline

- Prospective Recruitment/New Development: New business or developments not currently existing within the City
  - Capital Investment: \$272,800,000
  - Incentive Estimate: \$4,200,000
- Prospective Redevelopment: Development of existing sites that result in added value to the City
  - Capital Investment: \$138,000,000
  - Incentive Estimate: \$12,500,000
- Project Total
  - Total Capital Investment: \$410,800,000
  - **Total Incentive Estimate: \$16,700,000**

# Fund Sustainability and Continuity

- “But for” requirement based on financial gap analysis
- Outside underwriting for larger incentive request
- Project Feasibility
- Three types of “Gaps”
  - Lack of capital: Loan to value requirement results in an equity gap
  - Cost of capital: Project returns cannot support debt service
  - Return on equity: ROE is too low to attract private investment or higher returns can be achieved in other markets

# Fund Sustainability and Continuity

- Leverage of other forms of private and public financing
  - Sponsor and private equity
  - Private debt
  - Mezzanine funds; PACE financing, Grow America Fund, etc.
  - Federal tax credits; Historical Tax Credits, New Markets Tax Credits, Low Income Housing Tax Credits etc.
  - State and other Local Incentives; TIRZ, Tax Abatements, Texas Enterprise Fund, Texas Enterprise Zone, Skills Development Fund, etc.
- Funding options
  - Grants
  - Loans

# Public Benefit

- Fiscal Impact
  - Direct and Indirect tax revenues for all taxing entities
- Economic Impact
  - Direct and Indirect of private investment or spending
- Jobs
  - Target Industries
  - Higher wages
- “Double Bottom Line”
  - Environmental Sustainability
  - Inclusive Development
  - Historical and Cultural

# Project Examples





# Fiscal Benefit: WinCo Foods Distribution Example

	Property Tax	Sales Tax	Total
Cumulative Property Valuation	\$419,433,244	\$0	<b>\$419,433,244</b>
Cumulative Property Tax Generated	\$2,611,322	\$0	<b>\$2,611,322</b>
Cumulative Sales Tax Generated	\$0	\$361,030	<b>\$361,030</b>
Cumulative Property & Sales Tax	\$2,611,322	\$361,030	<b>\$2,972,352</b>
Less Incentives	\$1,068,387	\$361,030	<b>\$1,429,417</b>
Net Property and Sales Tax Revenue	\$1,542,935	\$0	<b>\$1,542,935</b>
Cost Benefit Percentage	144%	0%	108%
Jobs Created/Retained	150	0	150



From 2015-2021 direct and induced jobs



The Difference in valuation in the Westpark TIRZ from 2015-2017 is \$62.9 M and 52,256%

Tax Year	Fiscal Year as of 9/30	Supplemental Tax Value	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Combined Tax Rate	Annual TIRZ Ad Valorem Revenue	Interest Income	Total Revenue	Total Expenditures	Fund Balance*
2013	2013-2014	\$ 119,458	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A
2014	2014-2015	555,807	436,349	40%	174,540	0.961950%	1,336	7	1,343	-	1,343
2015	2015-2016	120,538	1,080	40%	432	0.951750%	4	10	14	-	14
2016	2016-2017	2,401,349	2,281,891	40%	912,756	0.931749%	8,505	81	8,586	-	8,586
2017	2017-2018	63,108,366	62,988,908	40%	25,195,563	0.875668%	220,629	2,534	223,163	-	223,163
2018	2018-2019	72,165,650	72,046,192	40%	28,818,477	0.846051%	243,819	8,885	252,704	198,991	53,713
2019	2019-2020	119,113,120	118,993,662	40%	47,597,465	0.815732%	388,268	7,713	395,981	195,734	200,247
2020	2020-2021	175,546,028	175,426,570	40%	70,170,628	0.815439%	572,198	4,995	577,193	197,336	379,857
2021	2021-2022	226,957,789	226,838,331	40%	90,735,332	0.798909%	724,892	-	724,892	197,203	527,689
Totals							\$ 1,434,759	\$ 24,225	\$ 2,183,876	\$ 592,061	\$ 1,394,612

WinCo Foods received a Certificate of Occupancy (CO) on 1/18/2017

Tax Year 2014 - City uses Supplement #18 dated 12/23/14 and County uses Supplement #20 dated 1/30/2015.

\*Fund Balance as of December 30, 2021 is \$1,394,612, which includes the County portion of \$211,491 that has not yet been received.



# Economic Benefit to the Westpark TIRZ: WinCo Foods



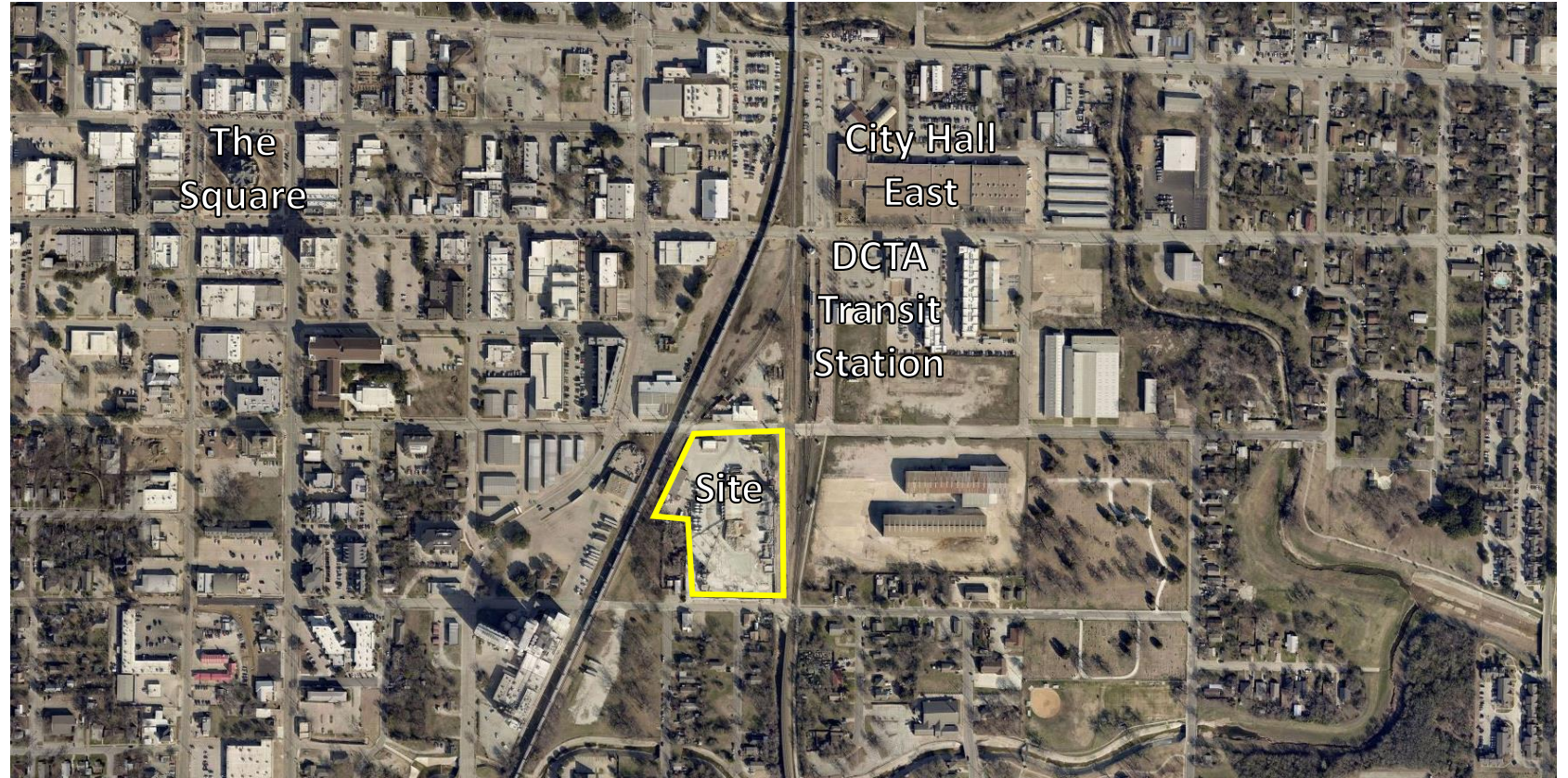
**WinCo Foods assumed responsibility of Phase I improvements along Western Blvd. in the TIRZ in order to control the schedule for the development of the public improvements and construction of their distribution center.**

**A number of industrial projects, which will total over three million square feet, are currently underway in the zone.**



# Vulcan Materials (Redi-Mix)

- **2022-2023 Key Focus Area Support Healthy and Safe Communities**
  - Priority: Collaborate with Vulcan Materials to relocate the concrete plant

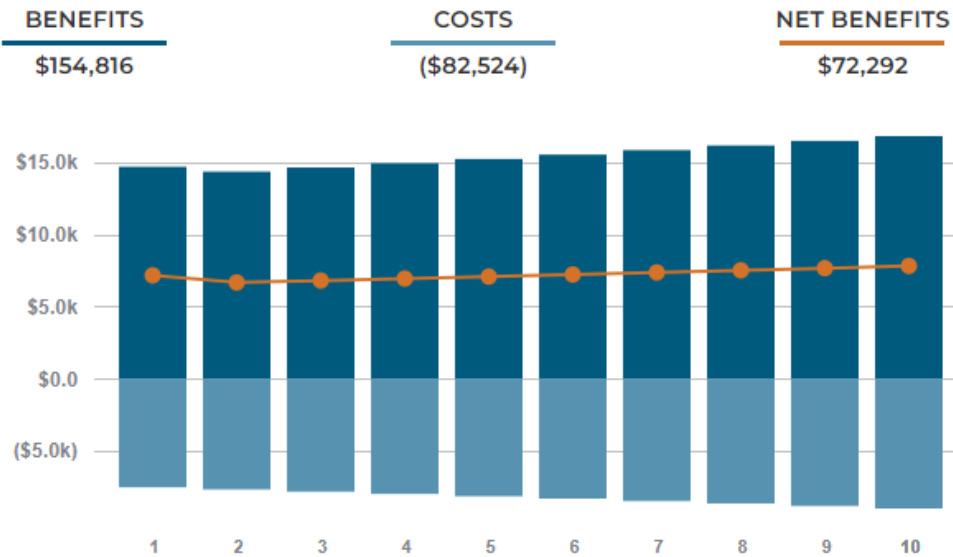


# Redevelopment Opportunity

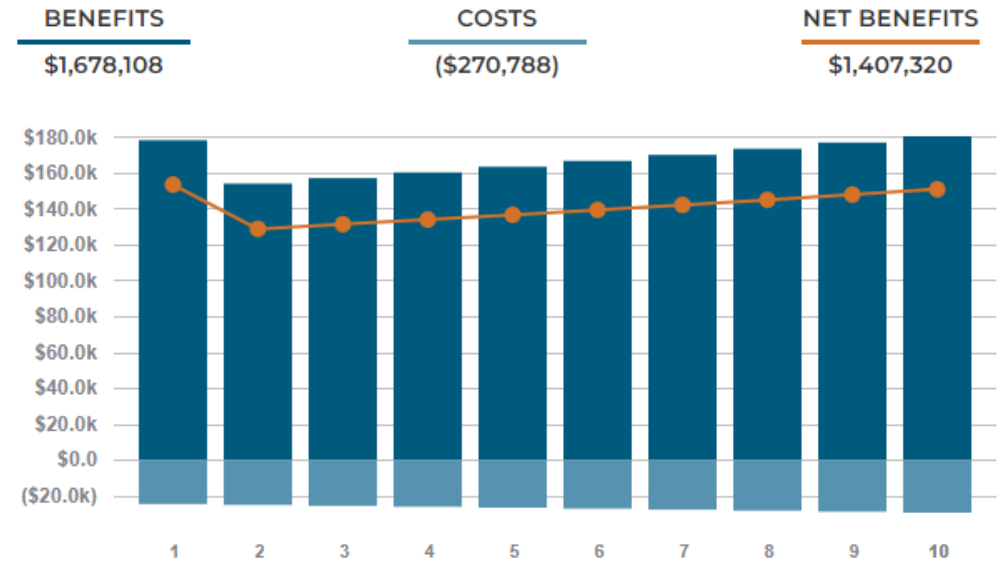


# Fiscal Benefits – City of Denton

## Fiscal Benefits: Present Conditions

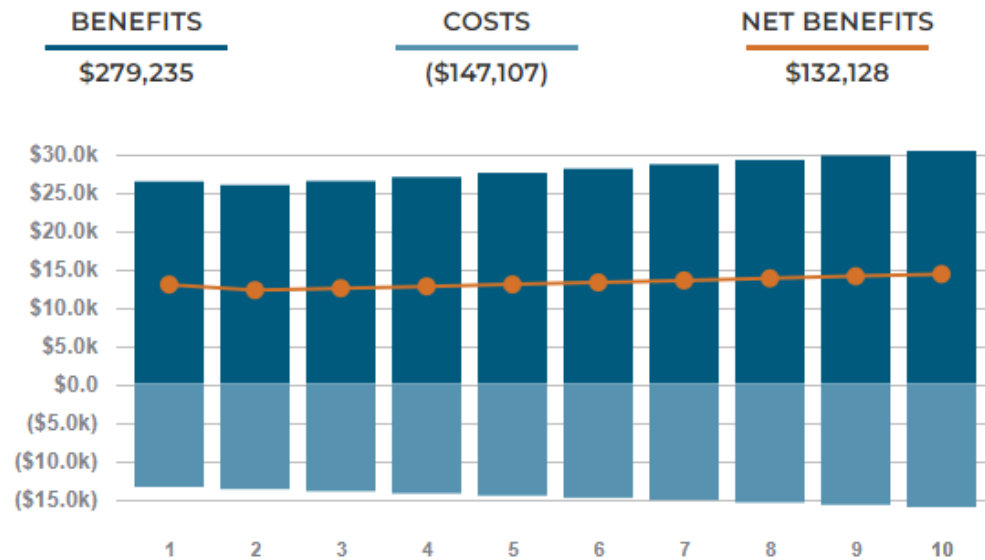


## Fiscal Benefits: Potential Conditions

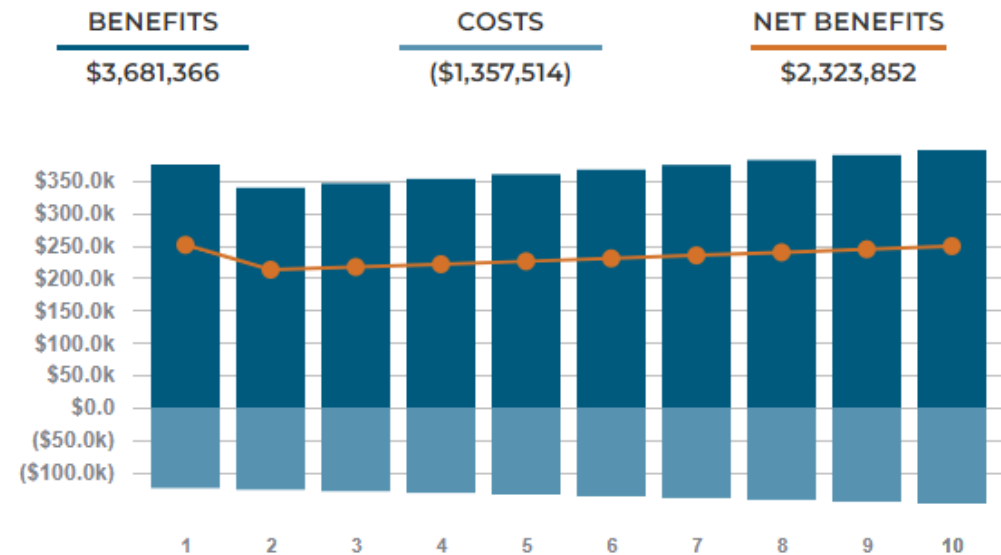


# Fiscal Benefits – Community (All Taxing Entities)

## Fiscal Benefits: Present Conditions



## Fiscal Benefits: Potential Conditions



# Economic Benefits

## Economic Benefits: Present Conditions

SUMMARY OF ECONOMIC IMPACT OVER 10 YEARS IN CITY OF DENTON			
IMPACT	DIRECT	SPIN-OFF	TOTAL
Jobs	31.0	15.5	<b>46.5</b>
Annual Salaries/Wages	\$3,100,000	\$1,098,090	<b>\$4,198,090</b>
Salaries/Wages over 10 Years	\$33,944,135	\$12,023,780	<b>\$45,967,915</b>
Taxable Sales/Purchases in City of Denton	\$2,162,898	\$751,486	<b>\$2,914,384</b>

Totals may not sum due to rounding

## Economic Benefits: Potential Conditions

SUMMARY OF ECONOMIC IMPACT OVER 10 YEARS IN CITY OF DENTON			
IMPACT	DIRECT	SPIN-OFF	TOTAL
Jobs	100.0	58.0	<b>158.0</b>
Annual Salaries/Wages	\$2,700,000	\$1,647,000	<b>\$4,347,000</b>
Salaries/Wages over 10 Years	\$29,564,247	\$18,034,190	<b>\$47,598,437</b>
Taxable Sales/Purchases in City of Denton	\$17,347,417	\$1,127,137	<b>\$18,474,554</b>

Totals may not sum due to rounding



# Double Bottom Line Benefits

- Inclusive Development – Opportunities for underserved communities
- Environmental Sustainability – Improvements in sustainable development
- Historical and Cultural – Expands on Denton's cultural strengths and history



# Funding Options



# Funding Options

Funding Options	Advantages	Disadvantages	Funding
Incentive roll-off	No sudden impact to the General Fund	<ul style="list-style-type: none"> <li>No immediate revenue</li> <li>Will take time to develop substantial fund</li> <li>General Fund forecast includes funds being captured as incentives expire</li> </ul>	Variable
One-time Water & Wastewater Contribution	One-time contribution creates minimal impact to operations	Projects and areas are limited	\$2 million total for Water and Wastewater
Core Scientific	Better suited for one-time costs	<ul style="list-style-type: none"> <li>Variable and not suited for ongoing costs</li> <li>Contingent on revenues being realized in FY23</li> </ul>	<ul style="list-style-type: none"> <li>\$4-5 million in data mining revenue</li> <li>Available from associated Core Scientific ROI &amp; Franchise Fee contributions</li> </ul>
Increase to Water & Wastewater ROI (0.5%)	<ul style="list-style-type: none"> <li>No impact to General Fund</li> <li>Long-term funding mechanism</li> </ul>	Possible impacts to ratepayers	Approximately \$365,000 per year for every 0.5%
Dedicated percent of utility system ROI	Burden to the General Fund	Impact to tax payers	Approximately \$3 million for every 1% of ROI
Dedicated portion of or additional property tax	Stable revenue stream that could grow over time	Revenue must be made up in the General Fund or additional cent must be added to tax rate	Approximately \$1.4 million for \$0.01 of tax rate

# Data Center Revenue

- FY23 estimate \$14 million to General Fund through ROI & FF
  - Avoid reliance on single business for recurring General Fund expenses
  - Phase 1 (22 MWH) operational
  - Phase 2 (128 MWH) estimated operational by end of September 2022
  - Phase 3 (150 MWH) estimated operational by end of January 2023
- Preliminary FY23 Allocation
  - Catalyst Fund - \$5 million
  - Sustainability Framework Fund - \$4 million
  - One-time General Fund Capital - \$3 million
  - Streets capital - \$2 million

# Expiring Incentives

	1	2	3	4	5	6	7	8	9	10	
Incentive	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY2031-32	Expiring Total
Chapter 380s Ad Valorem	\$0	\$0	\$90,100	\$95,506	\$149,296	\$156,760	\$164,598	\$172,828	\$181,470	\$458,366	\$1,468,924
Chapter 380s Sales Tax	\$0	\$0	\$0	\$73,509	\$77,185	\$81,044	\$85,096	\$89,351	\$93,818	\$98,509	\$598,512
Chapter 380 Job Based Expansion/Relocation	\$0	\$0	\$0	\$21,300	\$104,925	\$140,285	\$140,285	\$140,285	\$140,285	\$140,285	\$827,650
<b>Total Ad Valorem and Sales Tax</b>	<b>\$0</b>	<b>\$0</b>	<b>\$90,100</b>	<b>\$190,315</b>	<b>\$331,405</b>	<b>\$378,089</b>	<b>\$389,979</b>	<b>\$402,464</b>	<b>\$415,573</b>	<b>\$697,161</b>	<b>\$2,895,087</b>

Incentive	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY2031-32	Expiring Total
Tax Abatements Ad Valorem	\$0	\$0	\$0	\$0	\$0	\$174,457	\$184,924	\$245,285	\$260,002	\$275,603	\$1,140,271
<b>Total Ad Valorem</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$174,457</b>	<b>\$184,924</b>	<b>\$245,285</b>	<b>\$260,002</b>	<b>\$275,603</b>	<b>\$1,140,271</b>

## Total

Incentive	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY2031-32	Expiring Total
Expiring Total	\$0	\$0	\$90,100	\$190,315	\$331,405	\$552,546	\$574,903	\$647,749	\$675,575	\$972,763	\$4,035,357
<b>Cumulative Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$90,100</b>	<b>\$280,415</b>	<b>\$611,820</b>	<b>\$1,164,366</b>	<b>\$1,739,270</b>	<b>\$2,387,019</b>	<b>\$3,062,594</b>	<b>\$4,035,357</b>	<b>\$4,035,357</b>

# Staff Recommendation

Funding Mechanism	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY2031-32
<b>Beginning Available Funds</b>	\$0	\$7,000,000	\$9,000,000	\$10,090,100	\$10,370,515	\$10,982,335	\$12,146,701	\$13,885,970	\$16,272,988	\$19,335,581
<b>Recurring Funds</b>										
Current Year Expiring Incentives Roll-Off	\$0	\$0	\$90,100	\$190,315	\$331,405	\$552,546	\$574,903	\$647,749	\$675,575	\$972,763
Captured Expired Incentives	\$0	\$0	\$0	\$90,100	\$280,415	\$611,820	\$1,164,366	\$1,739,269	\$2,387,018	\$3,062,593
<b>One Time Funds</b>										
Core Scientific	\$5,000,000	\$2,000,000	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water/Wastewater Utility	\$2,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Ending Available Funds</b>	<b>\$7,000,000</b>	<b>\$9,000,000</b>	<b>\$10,090,100</b>	<b>\$10,370,515</b>	<b>\$10,982,335</b>	<b>\$12,146,701</b>	<b>\$13,885,970</b>	<b>\$16,272,988</b>	<b>\$19,335,581</b>	<b>\$23,370,937</b>

# Next Steps

- Council's direction will be incorporated into the City Manager's Proposed FY 2023 Budget.
- City Manager's Proposed FY 2023 Budget is scheduled for Council discussion at August 6<sup>th</sup> Budget Workshop.

**Questions?**

