

EXHIBIT A

Tax Increment Reinvestment Zone Number Two (Westpark TIRZ) 2016 Annual Report



**City of Denton
Economic Development Department
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January 1, 2016 to December 31, 2016**

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Tax Increment Reinvestment Zone Number Two



Mission Statement

The mission of the Tax Increment Reinvestment Zone (TIRZ) Number Two is to provide a source of funding for public infrastructure improvements to encourage and accelerate necessary development within the largest industrially zoned area within the City.

Background and Purpose

Tax increment financing originated as a tool for governments to publicly finance needed improvements and enhance infrastructure within a defined area in order to stimulate private development and redevelopment. A TIRZ is a defined area where public infrastructure improvements are deemed necessary to promote development. The costs of the improvements to the area are repaid by the contribution of future tax revenues. Specifically, each taxing entity may choose to dedicate all, a portion, or none of the tax revenue that is attributable to the increase in property values. The additional tax revenue that is received from the affected properties is referred to as the tax increment. An ad valorem valuation base is established the first year, and the revenue from the increased valuation from subsequent years is allocated into a TIRZ fund to support development projects.

On December 17, 2012, the City Council adopted Ordinance No. 2012-366 designating and describing the boundaries of Tax Increment Reinvestment Zone Number Two for an industrial district of Denton, Texas; establishing the duration of the Zone; establishing a Tax Increment Fund; and establishing a Board of Directors for the Tax Increment Reinvestment Zone. The City's second TIRZ consists of approximately 800 acres and is located north of Airport Road. This industrial area (Westpark) lacks the public infrastructure necessary to encourage development.

The Westpark TIRZ took effect on January 1, 2013, and will terminate on December 31, 2036, or the date when all project costs are paid and any debt is retired, whichever comes first. It is estimated that the TIRZ would generate approximately \$14.3 million over a 25 year period for infrastructure improvements. The City and Denton County will contribute \$10 million and \$4.2 million into the TIRZ fund, respectively. According to the Finance Plan, the City would retain \$43.9 million and the County would retain \$18.8 million of real and business personal property revenue over the life of the TIRZ.

Participating Jurisdictions

Table 1: TIRZ Two Participating Jurisdictions

Jurisdiction	Years	2012 Tax Rate \$/\$100 Value	Percent of Tax Rate
City of Denton	1-10	0.683340*	40
	11-25	0.71975**	40
Denton County	1-10	0.282867	40
	11-25	0.312867**	40

**Years 1-3 rate was 0.68975*

***Denotes estimate*

The TIRZ board is comprised of fourteen members. The City Council is responsible for appointing twelve members and designating the board Chair. The governing body of Denton County, which levies taxes on real property in TIRZ Number Two, has appointed one board member. Westray Group L.P, the Developer, has also appointed a single board representative.

District History and Accomplishments

This is the fourth year of the Westpark TIRZ. During calendar year 2016, \$6,237 were collected for the City's portion based on the last supplemental valuation of the calendar year from the Denton Central Appraisal District (DCAD). The City's and County's contribution in the TIRZ fund for 2016 was \$6,237 and \$2,267, respectively. An additional \$3 in interest was earned for the period bringing the total 2016 contribution to \$8,508.

The Denton City Council adopted an Ordinance accepting an Agreement with Denton County to participate in Tax Increment Reinvestment Zone Number Two; authorizing the City Manager to execute the Agreement on February 5, 2013. On February 12, 2013, the board for TIRZ Two was appointed by City Council. Economic Development staff coordinated with multiple City departments, the developer and legal counsel to develop a Reimbursement/Developer Agreement with the developer. The Agreement was approved by the Denton City Council on May 13, 2014, through Ordinance No. 2014-142.

On August 23, 2016, the Denton City Council approved the addition of a seat to the Economic Development Partnership (EDP) board for the Texas Woman's University President and Chancellor. The adoption of Ordinance No. 2016-249 brought the EDP board membership to twelve total.

On November 8, 2016, the following changes were made to the TIRZ Number Two board Ordinance Nos. 2012-366, 2014-039 and 2015-370 to establish a TIRZ Number Two board composition that incorporates the current EDP Board:

The Board of Directors shall consist of fourteen (14) members, twelve (12) of whom shall be appointed by the City Council of the City. All members appointed to the board shall meet the eligibility requirements set forth in the Act. Board membership shall consist of the following:

- The twelve members of the Economic Development Partnership Board;
- One member shall be appointed by the governing body of Denton County; and
- One member shall be appointed by the “Developer,” Rayzor Investments, LLP.

The terms of the board members shall be two-year terms; the twelve (12) members appointed by City Council will serve terms concurrent with their EDP terms. A board member may serve no more than three consecutive terms.

Summary of TIRZ Two Board Meetings

The Westpark TIRZ Board recommended approval of the 2015 Annual Report on September 21, 2016. The board also received reports on the 2016 Certified value in the TIRZ and a Second Amendment to the Reimbursement Agreement between the City of Denton, the Board of Directors of the Tax Increment Reinvestment Zone Number Two and Westray Group, LP. The proposed amendment would modify the phases for public improvements, provide the most current probable construction costs, address rail improvements and adds an additional Phase IV.

The Board member attendance is presented below. Phillip Baker, with Rayzor Investments, was also a guest at the meeting.

Table 2: Board Member Attendance

Member	Company/Affiliation	Present 9/21/16
Alex Payne	Denton County	X
Carrell Ann Simmons	Meridian Bank	X
Chris Watts	City of Denton	
Cleve Breedlove	Access First Capital Bank	X
Dianne Costa	CEMA of North Texas, LLC	X
Greg Johnson	City of Denton	X
Jim Fykes	Peterbilt	X
John Baines	John E. Baines PC CPAs	
John Gilmer	Flowers Baking Company	
Larry Parker	Denton Depot	X
Marty Rivers	First State Bank	X
Neal Smatresk/Tom McCoy*	University of North Texas	X

Selwyn Rayzor	Rayzor Investments	
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Ex-Officio Member	Company/Affiliation	Present 9/21/16
George Campbell	City Manager of Denton	
Chuck Carpenter	Denton Chamber of Commerce	X
Jamie Wilson	Denton Independent School District	

**Indicates Proxy*

The following members were added to the TIRZ board on August 23, 2016: Jimmy Mejia, Denton Hispanic Chamber of Commerce, and Joey Hawkins, City Council. Outgoing members included Chris Watts, Dianne Costa, and George Campbell. Todd Hileman, City Manager, is an incoming ex-officio member for 2017.

During 2016, the TIRZ Board received reports and took action on the following items:

1. Recommended approval of the 2015 Annual Report for Tax Increment Reinvestment Zone Number Two to City Council
2. Received reports on the following:
 - a. 2016 Certified Value of TIRZ Number Two
 - b. A proposed Second Amendment to the Reimbursement Agreement between the City of Denton, the Board of Directors of the TIRZ Number Two, the City of Denton, Texas, and Westray Group, LP.

Budget and Project Status

The Westpark TIRZ district has established in its Project and Finance Plans a budget for public improvement expenditures necessary to support public infrastructure and private investment in the district. Table 3, which follows, provides the TIRZ projects and estimated costs.

Table 3: TIRZ Projects Costs

PROJECT	ESTIMATED COST, \$M
Street Improvements	\$8,000,000
Utilities and Drainage	\$5,000,000
Industrial Projects	\$1,275,430
TOTAL	\$14,275,430

Project Definitions

Street Improvements: includes the construction and reconstruction of paving improvements capable of handling heavy truck traffic and that provide common turning radius for semi trailers and may consist of, but are not limited to, primary and secondary major arterial thoroughfares

and collector streets that will provide improved access within the industrial park, to State highways, and Interstate 35.

Utilities and Drainage: includes the extension of water and wastewater lines along the right-of-ways of the streets within the District. Water and wastewater lines will be built to adequately accommodate the District at build-out and its anticipated industrial users.

A number of properties in the district are situated in the floodplain. Adequate stormwater drainage will be built to accommodate the maximum use of the land and comply with the drainage standards in the Denton Development Code.

Industrial Projects: may include grants, loans and services for public and private development. Eligible TIRZ project costs are not limited to public uses and may also include projects that stimulate economic development. Chapter 380 of the Local Government Code grants municipalities in Texas the authority to offer grants and loans of public funds to stimulate economic development.

Revenues

According to Denton Central Appraisal District (DCAD) supplemental valuation figures, the 2016 total appraised valuation of taxable real property in TIRZ Number Two was \$2,401,349. This is a \$2,281,891 increase from the 2012 base value of \$119,458 and represents a 1,910% change in valuation. The valuation and contribution into the TIRZ fund is illustrated in the tables below.

Table 4: City Certified and Supplemental TIRZ Two Valuation Summary

Tax Year	Certified TIRZ Tax Value	Supplemental TIRZ Tax Value*	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue
2013	119,458	119,458	N/A	N/A	N/A	N/A
2014	566,436	555,807	436,349	40%	174,540	1,204
2015	120,538	120,538	1,080	40%	432	3
2016	2,401,349	2,401,349	2,281,891	40%	912,756	6,237
Totals						7,444

Table 5: County Certified and Supplemental TIRZ Two Valuation Summary

Tax Year	Certified Tax Value	Supplemental Tax Value*	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue
2013	119,458	119,458	N/A	N/A	N/A	N/A
2014	566,436	241,101	121,643	40%	48,657	132
2015	120,538	120,538	1,080	40%	432	1
2016	2,401,349	2,401,349	2,281,891	40%	912,756	2,267
Totals						2,400

Table 6: Total Certified and Supplemental TIRZ Two Valuation Summary

Tax Year	Certified Tax Value	Supplemental Tax Value	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue	Interest Income**	Total Revenue
2013	119,458	119,458	N/A	N/A	N/A	N/A	N/A	N/A
2014	566,436	555,807	436,349	40%	174,540	1,336	7	1,343
2015	120,538	120,538	1,080	40%	432	4	10	14
2016	2,401,349	2,401,349	2,281,891	40%	912,756	8,505	3	8,508
Total City and County Contributions						9,845	20	9,865

City Supplemental Cut-off Period is the last Supplement of the year

**Tax Year 2014-City uses Supplement #18 dated 12/23/14 and County used Supplement #20 dated 1/30/15*

***Tax Year 2016 includes interest through 12/31/16*

The 800-acre Westpark TIRZ is comprised of undeveloped land adjacent to the Denton Airport Business Park. Currently, all of the land within the TIRZ boundary has an agricultural exemption. While the net taxable value, after the agricultural exemption, is \$2,401,349 the market value of the district is \$20,122,255. Once the property is sold and developed, the exemption will be removed and the valuation will more accurately reflect the market value of the land.

Expenditures

No funds were expended in 2016.

2016 Work Program

The First Amendment to the Reimbursement Agreement was made in order to accommodate Project Ranger One/WinCo Foods, a company that acquired approximately 77 acres in the Westpark Tax Increment Reinvestment Zone Number Two.

WinCo Foods agreed to execute Phase I of the Reimbursement Agreement and was awarded an economic incentive to reimburse the improvements. The 800,000 square foot distribution facility is located on the west side of Western Boulevard, north of Airport Road. WinCo Foods is a regional retailer with multiple distribution facilities across the United States. The project just received a Certificate of Occupancy in January 2017 and will create 165 jobs with an annual payroll of around \$7.2 million.

The terms of the grant agreement ends when full reimbursement has occurred, and include the following forms of reimbursement: up to \$1 million for water lines, utilizing the City's Water Development Plan Line Fund; up to \$865,000 in reimbursement for the sewer lines, utilizing the City's Wastewater Development Plan Line Fund; 100% of the Sales and Use Tax for construction materials, furniture, fixtures, and equipment for the construction of the project; 100% of the tax increment collected in the TIRZ Number Two fund associated directly with the project, until full reimbursement occurs. The contribution includes the City's 40% contribution to the TIRZ fund annually. The City's remaining 60% of ad valorem revenue will also be utilized until full reimbursement occurs. It is anticipated that full reimbursement will occur in approximately four years and will be approximately \$6.5 million. The first year after full reimbursement, the second term of the grant agreement shall commence, and will include the following: a 60% rebate of the City's ad valorem revenue for a period of four years for an estimated total incentive of \$1.7 million.

The board also received a report on a Second Amendment to the Reimbursement Agreement between the City of Denton, the Board of Directors of the Tax Increment Reinvestment Zone Number Two and Westray Group, LP. The proposed amendment would modify phases II and III for public improvements; provide the most current probable construction costs; and add an additional Phase IV to extend Precision Drive. The draft amendment also seeks to add rail, at any phase, in order be responsive to other economic development leads.

Appendix A:
TIRZ Two (Westpark)
Balance Sheet

CITY OF DENTON
TAX INCREMENT FINANCING REINVESTMENT ZONE (TIRZ) NUMBER TWO
WESTPARK
Budget versus Actual

City of Denton

TIRZ 2 ADOPTED BUDGET					
Tax Year	Certified Tax Value	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue
2013	\$ 119,458	N/A	N/A	N/A	N/A
2014	566,436	446,978	40%	178,791	2,500
2015	120,538	1,080	40%	432	3
2016	2,401,349	2,281,891	40%	912,756	6,237
Totals					<u>\$ 8,740</u>

TIRZ 2 ACTUAL REVENUE					
Supplemental Tax Value*	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue	Over (Under) Budget
\$ 119,458	N/A	N/A	N/A	N/A	N/A
555,807	436,349	40%	174,540	1,204	(1,296)
120,538	1,080	40%	432	3	-
2,401,349	2,281,891	40%	912,756	6,237	-
				<u>\$ 7,444</u>	<u>\$ (1,296)</u>

Denton County

TIRZ 2 ADOPTED BUDGET					
Tax Year	Certified Tax Value	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue
2013	\$ 119,458	N/A	N/A	N/A	N/A
2014	566,436	446,978	40%	178,791	583
2015	120,538	1,080	40%	432	1
2016	2,401,349	2,281,891	40%	912,756	2,267
Totals					<u>\$ 2,851</u>

TIRZ 2 ACTUAL REVENUE					
Supplemental Tax Value*	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue	Over (Under) Budget
\$ 119,458	N/A	N/A	N/A	N/A	N/A
241,101	121,643	40%	48,657	132	(451)
120,538	1,080	40%	432	1	-
2,401,349	2,281,891	40%	912,756	2,267	-
				<u>\$ 2,400</u>	<u>\$ (451)</u>

Total

TIRZ 2 ADOPTED BUDGET					
Tax Year	Certified Tax Value	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue
2013	\$ 119,458	N/A	N/A	N/A	N/A
2014	566,436	446,978	40%	178,791	3,083
2015	120,538	1,080	40%	432	4
2016	2,401,349	2,281,891	40%	912,756	8,504
Totals					<u>\$ 11,591</u>

TIRZ 2 ACTUAL REVENUE					
Supplemental Tax Value	Incremental Increase (Decrease)	Contribution	Adjusted Incremental Value	Annual TIRZ Ad Valorem Revenue	Over (Under) Budget
\$ 119,458	N/A	N/A	N/A	N/A	N/A
555,807	436,349	40%	174,540	1,336	(1,747)
120,538	1,080	40%	432	4	-
2,401,349	2,281,891	40%	912,756	8,505	-
				<u>\$ 9,845</u>	<u>\$ (1,747)</u>

Interest Income**	Total Revenue
N/A	N/A
7	1,343
10	14
3	8,508
<u>\$ 20</u>	<u>\$ 9,865</u>

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

** Tax Year 2016 includes interest earned through 12/31/2016.