



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
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AGENDA INFORMATION SHEET

DEPARTMENT: Economic Development

CM/ DCM/ ACM: Bryan Langley

DATE: October 24, 2017

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding Tax Increment Reinvestment Zone Number One (Downtown TIF), City of Denton, Texas.

BACKGROUND

During a June 20, 2017, public hearing regarding the Downtown TIF, Council directed staff to gather information on planned capital improvement projects within the Downtown TIF Zone.

Economic Development staff worked with several City departments to compile information on *planned* capital improvement projects for the next five years within the Downtown TIF Zone (Exhibit 2). Staff then expanded the request and worked with the departments to develop a list of additional *proposed* capital improvement projects that could be done within the Downtown TIF Zone in the next five years (Exhibit 2). This group of projects is designed to complete a full capital improvement plan in the Downtown TIF.

Total estimated costs for the *planned* projects are \$11.9 million and total estimated costs for the *proposed* projects are \$35 million.

Staff presented the information on the *planned* projects to three stakeholder groups (Economic Development Partnership Board, Downtown Task Force, and the Denton Mainstreet Association Board) to solicit their input on project prioritization. Feedback from the majority within the three groups was consistent in placing parking projects first, sidewalk projects second, and street light projects third. Some stakeholders advocated for the completion of the Industrial Street Park, and others expressed a preference for prioritization of downtown drainage projects. Staff shared the *proposed* projects with stakeholder groups via email.

On June 20, Council also directed staff to look into whether the Downtown Reinvestment Grant Program could be funded using TIF funds. The Downtown Reinvestment Grant Program began in 2007 and has awarded more than 40 grants (Exhibit 3). It is a reimbursement grant program for capital expenses related to redevelopment, improvement, and historic preservation of downtown buildings; \$25,000 is the maximum amount an applicant can receive under the program. The Legal Department's opinion is that TIF funds may be used to fund the Downtown Reinvestment Grant Program, but only for projects within the TIF zone as opposed to the Downtown Implementation Plan zone, which is the current grant program boundary.

Subsequent to the June 20 work session, Councilmembers inquired whether Downtown TIF funds could be used to fund or partially fund the reconstruction of the Cedar Street parking lot (the site of the old Central

Fire Station). Under the Downtown TIF Project Plan, Parking/Transportation is an eligible category for expenditures, and this project falls in that category.

HISTORY

As authorized by Chapter 311 of the Texas Tax Code, a Tax Increment Financing Reinvestment Zone (TIF) is a tool that local governments can use to publicly finance needed structural improvements and enhanced infrastructure within a defined zone. These improvements are usually undertaken to promote the viability of existing businesses and to attract new commercial enterprises to the zone. An ad valorem valuation base is established in the first year, and the revenue from the increased valuation in subsequent years is allocated into a TIF fund to support eligible projects.

Chapter 311 stipulates that an area must meet at least one of a list of criteria in order to be considered for tax increment financing. The following criteria were used for Denton's Tax Increment Financing (TIF) Reinvestment Zone Number One (Downtown TIF):

- It is a contiguous geographic area located wholly within the corporate limits of the municipality.
- The area's present condition substantially impairs the sound growth of the municipality creating the zone or constitutes an economic or social liability in its present condition and use because of the presence of:
 - A substantial number of substandard or deteriorating structures
 - Deterioration of site or other improvements
 - Inadequate sidewalks or street layout
 - Conditions that endanger life or property by fire, flooding, or other causes
- The proposed project plan includes the use of land in the zone in connection with the operation of a proposed regional commuter or mass transit rail system.

At the time of the Downtown TIF's creation, the statute read that a reinvestment zone may not be created if more than 10% of the property in the proposed zone (excluding publicly owned property) is used for residential purposes, which is defined as any property occupied by a house which has less than five living units. The statute now states that a reinvestment zone may not be created if more than 30% of the property in the proposed zone is used for residential purposes.

The Downtown TIF Board members are: Sara Bagheri and Gerard Hudspeth (two City Council members), Melissa Lenaburg and Virgil Strange (resident of the zone and owner of property within the zone), Ben Eseley and Hank Dickenson (business owner within the zone and member of the Denton Chamber of Commerce Board of Directors), and Paul Meltzer (a qualified voter in the City of Denton).

PRIOR ACTION/REVIEW

September 18, 2017 – Main Street Association Board received a presentation regarding the Downtown TIF, including planned capital improvement projects within the next 5 years within the zone. The Board provided input regarding prioritization of planned projects.

September 14, 2017 – Downtown Task Force (a subcommittee of the Economic Development Partnership Board) received a presentation regarding the Downtown TIF, including planned capital improvement projects within the next 5 years within the zone. The Task Force provided input regarding prioritization of planned projects.

September 13, 2017 – Economic Development Partnership Board received a Work Session presentation regarding the Downtown TIF, including planned capital improvement projects within the next 5 years within the zone. The Board provided input regarding prioritization of planned projects.

June 20, 2017 – Council held a courtesy public hearing regarding the Downtown TIF.

June 6, 2017 – Council received a Work Session presentation regarding the Downtown TIF.

September 15, 2015 – Council passed Ordinance No. 2015-300 approving a Chapter 380 incentive grant of \$76,000 for five years (\$380,000) from the Downtown TIF fund for the Railyard development at 608 E. Hickory.

August 5, 2014 – Council passed Ordinance No. 2014-221 approving the following amendment to Exhibit D of the Project Plan:

“Pursuant to the Texas Local Government Code, section 272.001, the City of Denton may utilize City-owned property that is located in a reinvestment zone to facilitate economic projects which the City and TIF Board deem appropriate and desirable. The City may acquire, lease, sell or otherwise transfer property to accomplish the public purpose of economic development that is consistent with the Project Plan. Such projects may include public-private partnerships, transit-oriented developments, or the recruitment of specific industries including, but not limited to, hi-tech or emerging technology companies, local start-up businesses, artisan or “maker” industries, the creative sector, bakeries, microbreweries, micro-distilleries, wineries, grocery stores, or other industries that the TIF Board and the City Council deem desirable.”

August 16, 2011 – Council passed Ordinances No. 2011-128 and 2011-129, the Downtown TIF Project Plan and Finance/Feasibility Plan, respectively. The plans define the boundaries, scope, feasibility, and projects that may be funded by the TIF.

December 7, 2010 – Council passed Ordinance No. 2010-316, which established the Downtown TIF. It took effect on January 1, 2011, and the City of Denton is the sole participating jurisdiction.

August 17, 2010 – The DTIP was approved by City Council (Resolution No. R2010-032). It identified specific projects and goals in order to spur development and redevelopment in Downtown, as well as financing opportunities, which included creating a TIF district. The Downtown Master Plan, the RTKL Catalyst Project study, and the DTIP all were reviewed and endorsed by stakeholders, the Downtown Task Force, the Economic Development Partnership Board and City Council. All three of these studies/plans recommended the creation of a TIF.

2008 – Council reviewed the process and purpose of a TIF. After several meetings regarding the Downtown TIF, it was decided to postpone the establishment of the TIF until the Downtown Implementation Plan (DTIP) was complete.

2005 – RTKL was hired to identify five catalyst projects Downtown that would be capable of becoming viable developments and would spur other development in those areas. This information was one of the primary sources ultimately used in formulating the Downtown TIF Project, Feasibility and Finance Plans.

2003 – The Downtown Master Plan (Ordinance No. 2003-164) was adopted by the City Council after a review process that included a public hearing and a report and recommendation by the Planning and Zoning Commission. The plan was a framework of recommendations on future land use, transportation, and public improvements that was formulated to assist with redevelopment and development in the Downtown area.

FISCAL INFORMATION

The Downtown TIF is set to terminate on December 31, 2041, or when the budget of \$24.8 million has been collected. The percentage of the increased valuation allocated to the TIF fund is as follows:

Years 1-5	100%
Years 6-10	95%
Years 11-20	90%

Years 21-30 85%

Estimated project costs are as follows:

<u>PROJECT</u>	<u>ESTIMATED COST</u>
Parking / Transportation	\$8.0 million
Complete Streets	\$7.9 million
Support for Downtown Projects	\$4.9 million
Utility / Drainage Improvements	\$4.0 million
TOTAL	\$24.8 million

On September 15, 2015, the City Council passed Ordinance No. 2015-300 approving a Chapter 380 incentive grant of \$76,000 for five years (\$380,000) for the Railyard development at 608 E. Hickory. To date, two payments have been made.

As of September 30, 2017, the actual tax revenue that has gone into the Downtown TIF Fund is \$1,313,757. The year-end estimated fund balance for the fund is \$1,161,757. The current estimated bonding capacity of the Downtown TIF fund is \$9-12 million based on a 4% growth in revenue.

The Finance Department developed two financial forecast scenarios for the Downtown TIF Fund:

- Scenario A assumes the current contribution rate and shows an ending fund balance in 2041 of \$16.4 million
- Scenario B assumes a reduced contribution rate of 75% of base year in 2022 and 50% of base year in 2032 and shows an ending fund balance of 11.2 million

POTENTIAL USES OF TIF FUNDS

Under the TIF Project Plan, eligible categories for expenditures include:

- Parking/Transportation – garages, surface parking, parking lighting or signage, wayfinding, transit oriented development
 - Example: Wayfinding signage in the Downtown TIF zone, to include three phases of the five-phase project
- Complete Streets – sidewalks, bus or bicycle lanes, bike racks, crosswalks, pedestrian lighting, etc.
 - Example: Complete Street elements for Elm and Locust in the Downtown TIF zone
- Downtown Projects – includes grants, loans, and services for public and private development (historic preservation, environmental remediation, economic development)
 - Example: Funding the Downtown Reinvestment Grant program, but only within the boundaries of the Downtown TIF zone, not in the larger Downtown Implementation Plan area
- Utility Drainage – physical provisions to accommodate and regulate stormwater runoff
 - Example: Elements of the Denton Downtown Drainage Master Plan, such as the Downtown Storm Sewer Improvements Trunk Line, South Bell and Oak Street Systems project, or the Hickory System and Parkway Laterals system

OPTIONS

1. Terminate the Downtown TIF via ordinance, at which point the fund balance would revert to the General Fund and the Downtown TIF Fund would cease to exist.
2. Preserve the Downtown TIF under the existing Project and Finance/Feasibility Plans, but identify eligible projects for immediate use of TIF funds, including funding the Downtown Reinvestment Grant Program with TIF funds. Cash funding or debt funding are choices under this option.
3. Change the terms of the Downtown TIF to alter its length (by amending the creation ordinance) or the percentage of the tax increment that is dedicated to the TIF Fund (by amending the Finance Plan).

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Economic Development

Related Goal: 3.4 Encourage development, redevelopment, recruitment, and retention

EXHIBITS

Exhibit 1 – Agenda Information Sheet

Exhibit 2 – Downtown TIF Zone 5 Yr CIP Projects: Planned and Proposed

Exhibit 3 – Fiscal Scenario A: Current Contribution Rate

Exhibit 4 – Fiscal Scenario B: Reduced Contribution Rate

Exhibit 5 – Downtown Reinvestment Grant List

Exhibit 6 – Background and Progress on Downtown Plans and TIF

Exhibit 7 – Presentation

Respectfully submitted:

Caroline Booth

Director of Economic Development