



City of Denton

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AGENDA INFORMATION SHEET ECONOMIC DEVELOPMENT PARTNERSHIP BOARD

DEPARTMENT: Economic Development

CM/ DCM/ ACM: Bryan Langley

DATE: January 10, 2018

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding the City of Denton's Policy for Tax Abatement and Incentives and Public Improvement District Guidelines.

EXECUTIVE SUMMARY

When the City Council desires to incentivize a company to locate or expand in Denton, it may use the tools of property tax abatement, property or sales tax rebate, or public improvement district (PID) special assessment to do so.

The City has both a Policy for Tax Abatement and Incentives and Public Improvement District Guidelines for Mixed Use or Residential PIDs. Under state law, the Policy for Tax Abatement and Incentives must be approved by the City Council every two years. There is no legal requirement for PID guidelines or a PID policy to be approved by the City Council.

Since the Policy for Tax Abatement and Incentives must be reapproved in April 2018 and there has been a surge in inquiries about PIDs, staff is initiating discussion of proposed revisions to these documents with the Economic Development Partnership Board so that the Board may make its recommendations to the City Council.

BACKGROUND

When the City Council desires to incentivize a company to locate or expand in Denton, it may use the tools of property *tax abatement*, property or sales *tax rebate*, or *public improvement district* (PID) special assessment to do so.

- *Tax abatement* – A local agreement between a taxpayer and taxing unit that exempts from taxation all or part of the increase in the value of real property and/or tangible personal property for a period not to exceed 10 years.
- *Tax rebate* – Chapter 380 of the Texas Local Government Code gives cities broad discretion to make loans and grants of public funds to promote business development; each agreement may be uniquely tailored to address the specific needs of both the city and the business.
- *Public improvement district* – These districts offer a means for improving infrastructure to promote economic growth in an area by authorizing cities to levy and collect special assessments (fees) on properties within their city limits.

The City's ability to use these incentive tools is granted by either the Texas Tax Code or Local Government Code. The City has both a Policy for Tax Abatement and Incentives and Public Improvement District Guidelines for Mixed Use or Residential PIDs. Under state law, the Policy for Tax Abatement

and Incentives must be approved by the City Council every two years. There is no legal requirement for PID guidelines or a PID policy to be approved by the City Council.

Policy for Tax Abatement and Incentives

The City Council first approved a policy for tax abatement in 1989. The policy has been amended and approved a number of times, most recently in 2016 (current policy attached as Exhibit 2). By state law, the policy must be reapproved every two years. The City has 17 active tax incentives.

As part of the policy review and revision process, staff reflected on lessons learned from prior incentive agreements, the recent initiation of a number of incentives and the termination of others, and ongoing incentive administration. Staff reviewed policies from comparable North Texas communities, incorporated Total Impact 2.0 fiscal and economic analysis into the application process, and discussed proposed policy changes with the Finance and Legal departments and City Manager's Office.

Beginning with formatting changes, staff suggests revisions to improve organization, clarity, and readability. We propose expanding the General Provisions to define Denton's economic development goals and target industries. We further propose expanding the Definitions section as well as bringing all existing incentive programs – the ED Investment Fund and the Based Aircraft Incentive – under this policy.

Staff proposes the following content changes to the policy:

- Limit Ch. 380 tax rebate agreements to terms of 10 years or less
 - consistent with state law on the term of tax abatements
- Exclude retail projects except those that address a gap or leakage in the Denton market
 - 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
- Remove existing capital-investment based framework and "additional factors"
 - Retain \$5 million minimum value of structure and business personal property to be considered for a tax incentive
- Addition of minimum thresholds:
 - 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
- Addition of jobs-based incentive option for businesses that do not meet the \$5 million minimum value of structures and business personal property or \$15 million in annual taxable sales
 - Criteria could include net new jobs created with wages above the Denton County median or net new knowledge-based or high-skilled jobs created in one of Denton's target industry sectors

Public Improvement District Guidelines for Mixed Use or Residential PIDs

The City Council approved PID guidelines for the first time in 2007; the guidelines were amended in 2014 (current guidelines attached as Exhibit 3). The City has one existing PID: Rayzor Ranch PID No. 1.

Due to a recent surge in developer inquiries about new PIDs, City Council requested a work session regarding the City's PID guidelines. In preparation, staff has reflected on lessons learned from prior PID requests, reviewed PID policies from comparable Texas communities, and has discussed proposed changes with the Finance and Legal departments and City Manager's Office.

Staff proposes the following content changes to the guidelines:

- Develop a PID application

- Establish an interdepartmental task force to review PID applications (Economic Development, Development Services, Legal, and Finance)
- Require a Service and Assessment Plan prior to establishment of a PID
- Require a developer-funded, City-administered Fiscal Impact Analysis prior to the establishment of a PID
- Require a home value threshold
 - Options: greater than the median City of Denton home value or median Denton County home value based on the most recent ACS Census

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: 3.1 Develop targeted policies and incentives to achieve desired economic growth

EXHIBITS

Exhibit 1 – Agenda Information Sheet

Exhibit 2 – Current Policy for Tax Abatement and Incentives

Exhibit 3 – Current Public Improvement District Guidelines for Mixed-Use or Residential PIDs

Exhibit 4 – Presentation

Respectfully submitted:
 Caroline Booth
 Director of Economic Development