

## **EXHIBIT A**

### **CITY OF DENTON POLICY FOR TAX ABATEMENT AND INCENTIVES**

#### **I. GENERAL PROVISIONS**

A. Denton's central location on the I-35 transportation corridor, educated population, skilled workforce, and friendly business climate make it a natural place for business and industry success. As the county seat of Denton County, Denton is a well-established city that is currently enjoying rapid growth as companies and individuals are drawn to the opportunities found here. The provisions of this policy apply in the city limits of the City of Denton, Texas, (City) and any applicable extraterritorial jurisdiction of the City.

B. The City is committed to promoting economic growth and redevelopment that expands and diversifies the tax base; creates quality jobs; enhances the quality of life for residents; protects human health and the environment, and secures new customers for municipal utilities. The City is a national model for public power through Denton Municipal Electric, which currently incorporates at least 40 percent renewable energy into its portfolio and has committed to obtaining 100% renewable energy by 2020. Local economic development incentives serve as a tool for the City to use in accomplishing these objectives. To provide a framework for the consideration of the use of public resources to stimulate economic activity, the City has established this policy to align the use of incentives with the City's strategic key focus areas and ensure a positive return on investment for the community. Tax incentives, as described herein, are governed by Section 312 of the Texas Property Tax Code and Chapter 380 of the Texas Local Government Code.

C. While this policy is used to outline the procedures and criteria for granting incentives, nothing in this document implies that the City is under any obligation to provide an incentive to any applicant. Further, though this policy provides a framework for evaluation of incentive applications, every project will be considered on a case-by-case basis by the Economic Development Partnership Board (EDPB) and the City Council. Incentives will not be considered if a building permit for new construction has been issued, a permit for commercial alterations has been issued, or purchase of an existing building has been executed (excluding existing businesses seeking to expand).

D. The City has target industry sectors for recruitment that will be given priority consideration: aviation/aerospace; advanced manufacturing; renewable energy; research and development; information technology; supply chain for existing primary employers, and significant consumers of municipal utilities. While these sectors will be given priority consideration, not being in a target industry does not disqualify a business from applying for an incentive if it meets other requirements under the policy.

E. Priority consideration may also be given for projects that further the following City economic goals and objectives:

- Promoting business and community investment
- Expanding and diversifying the tax base
- Promoting public-private partnerships in investment
- Increasing jobs with wages above Denton County's median wage

- Increasing the percentage of jobs paying \$75,000 per year or more from 10 to 14 percent by 2020
- Encouraging higher-skilled and knowledge-based jobs
- Causing infill redevelopment to reduce urban sprawl or to encourage other desirable development
- Encouraging start-up and small businesses to promote entrepreneurship and innovation
- Generating new customers for municipal utilities
- Engaging in sustainable practices or activities

F. Only retail projects (retail stores, restaurants, shopping centers, or malls) that offer unique goods, services, or a brand that is not currently offered in the Denton city limits may be considered for incentives. This consideration is designed to help address unmet demand and minimize retail leakage from the City into the surrounding trade area. A minimum of \$15 million in annual taxable sales generated is required in order to be eligible for consideration of a rebate of sales taxes. The City may rebate a portion of the sales taxes generated not to exceed 50% of the sales tax receipts.

G. This policy is adopted under the authority of the Constitution and Laws of the State of Texas and the City Charter of the City of Denton, Texas.

H. Applicants requesting incentives in Denton will be considered under the provisions of this policy. Projects are evaluated with regard to their return on investment and public benefit. This could include addition of ad valorem tax value, sales tax, quality jobs, or other significant public benefit.

I. Every incentive agreement the City enters into is an investment for the public benefit, and each project is considered with regard to its merit to the community at large. Performance measures will be established for each project, and annual compliance reporting must be completed by incentive recipients prior to receipt of incentives.

J. Projects that do not meet performance measures are subject to recapture of a portion or all of the incentive value. Should an incentive recipient fail to meet performance measures and to perform under the prescribed cures, incentives are subject to repayment to the City of Denton.

K. The Denton County Tax Abatement Policy states that applicants whose projects will be located in or are currently located in a municipality within the county must have an approved and executed Tax Abatement Agreement with that municipality prior to applying for a Denton County tax abatement. Denton County will not utilize Chapter 381 of the Texas Local Government Code to administer a community and economic development program to provide grants as a form of economic development.

## **II. DEFINITIONS**

“Agreement” means a contract between an Incentive recipient and the City clarifying the terms, performance measures, and obligations of the parties.

“Assessed Taxable Value” means the value of the real and business personal property, as appraised

by the Denton Central Appraisal District (“DCAD”/or “District”), after any exemptions have been applied.

“Base Year Value” means the Assessed Taxable Value as of January 1 preceding the execution of the agreement, excluding land value, inventory, vehicles and supplies, as determined by the DCAD.

“Business Park” is defined as a multi-building, multi-tenant, master planned complex of approximately one million square feet or more under roof, constructed to house manufacturing, distribution, assembly, and office facilities.

“Business Personal Property” means property associated with a Project other than Real Property and excluding inventory, vehicles and supplies.

“Capital Investment” means the total actual capital cost to grantee for the acquisition of land, development, and construction of the Project, including a reasonable capital operating reserve, and the furniture and equipment installed at the Project.

“City” means the City of Denton, Texas, and its governing and operating bodies.

“City HOT Returns” means City of Denton Hotel/Motel Occupancy Tax Reports on which the grantee or other persons report and remit City of Denton hotel occupancy taxes imposed under Chapter 351 of the Texas Tax Code on amounts paid for hotel rooms in the Project.

“Community Support and Involvement” may include but is not limited to monetary or active investment in local nonprofits, public institutions or community organizations.

“Council” is the City Council of the City of Denton, Texas.

“Default” is an event in which a party to an Agreement has failed to meet Performance Measures and to perform under prescribed cures.

“Expansion” means an investment in fixed assets that will result in an increase in occupied building areas, increased employment, or higher Assessed Value of Real Property or Business Personal Property by a firm already located in the City.

“Facility” means combined Real and Business Personal Property Improvements that house an economically purposeful activity.

“Higher wage” means having an average annual wage of \$55,000 or greater for all positions or at least 25% of the positions have an annual wage of \$65,000 or greater.

“Improvement” means a building, structure, or fixture erected on or affixed to land.

“Incentive” means any inducement for economic activity given by the City such as a tax abatement or rebate or any other incentives not prohibited by state or federal law.

“Job” means a permanent, full-time employment position that has provided or will result in employment of at least 2,080 hours per position per year. Part-time positions may be aggregated to create a full-time position for consideration in this policy.

“Knowledge-based jobs” are defined as occupations which require specialized and theoretical

knowledge, usually acquired through a college education or through work experience or other training which provides comparable knowledge; require some research, analysis, report writing and presentations; or require special licensing, certification, or registration to perform the job task.

“Leadership in Energy and Environmental Design” (LEED) certification is a voluntary internationally recognized green building certification system, with verification by a third party that a building or community was designed and built using strategies aimed at improving performance across the following metrics: energy savings, water efficiency, CO<sub>2</sub> emissions reduction, improved indoor environmental quality, and stewardship of resources.

“Local Contractors” and “Local Sub-Contractors” refers to vendors that have their “principal office or place of business,” as reported to the Texas Secretary of State Office, located within Denton City Limits or Extraterritorial Jurisdiction (ETJ).

“Modernization” means the replacement and upgrading of existing facilities which increases the productive input or output, updates the technology, or substantially lowers the unit cost of operation, and extends the economic life of the facility. Modernization may result from the construction, alteration, or installation of buildings, structures, fixed machinery, or equipment.

“Performance Measures” are the performance indicators for a Project established by Agreement and reported to the City annually using a certificate of compliance provided in the Agreement or as otherwise prescribed by the Agreement.

“Primary Employer” refers to employers that produce products or services which are sold outside of the community or region.

“Project” means the combination of proposed investment, improvements, and economic activity that is submitted in an application for an economic incentive.

“Real Property” means land or an improvement affixed thereto.

“Retail” means the selling of consumer goods or services to customers.

“Retail Leakage” means that local residents are spending more for products or services than local businesses capture and indicates there is an unmet demand in the community for certain types of products. Keeping sales tax dollars in the City is the goal of minimizing retail leakage.

“Tax Abatement” means the full or partial exemption of ad valorem taxes for eligible properties in a reinvestment zone designated as such for economic development purposes for new or expanded business development for a period of up to 10 years. Abatement may be granted for real property improvements and/or business personal property.

“Tax Rebate” means the full or partial refund of municipally imposed tax liability.

“Reinvestment Zone” is a geographic area designated as blighted and in need of revitalization for the purpose of granting incentives as authorized by law.

“Sales Tax” means the 1% general municipal sales and use taxes imposed by the City of Denton pursuant to Section 321.103(a) of Texas Tax Code and 0.5% additional municipal sales and use tax imposed by the City of Denton from property tax reduction pursuant to Section 321.103(b) of

the Texas Tax Code and arising (i) from any person's collection of sales taxes as a result of sales of taxable items consummated at the Project during the term of this Agreement, (ii) from any person's payments to vendors or directly to the Texas Comptroller of Public Accounts of City Sales Taxes on purchases of taxable items consummated at the Project during the term of this Agreement, and (iii) from City Sales Taxes paid by any person in connection with the construction or equipping of the Project.

"Sustainable materials" or products related to manufacturing may include but are not limited to: biobased; recyclable; pollution reduction equipment or systems; and reclaimed goods.

"Texas Comptroller of Public Accounts' Monthly Sales Tax Report" means reports from the Comptroller to the City as provided in Section 321.3022 of the Texas Tax Code that identify amounts paid from the Comptroller to the City, by period, of Sales Taxes. If during the term of this Agreement, due to a change in law or policy the Comptroller ceases providing such reports with respect to the Sales Taxes, "Texas Comptroller of Public Accounts' Monthly Sales Tax Report" means alternative documentation that the Parties agree establishes the amounts of Sales Taxes received by the City.

"Construction Sales and Use Tax Grant" This incentive involves a rebate of a portion of the local sales and use taxes for the purchase of construction materials and furniture/fixtures/equipment that would generate additional tax revenue that the City of Denton would not otherwise receive.

"Texas Direct Payment Permit" means that permit issued by the State of Texas authorizing Grantee to self-assess and pay applicable state and local use taxes directly to the State of Texas related to selected portions of Grantee's taxable purchases.

"Texas Sales and Use Tax Return" means a return or other statement in a form acceptable to the City setting forth the Grantee's collection of use tax imposed by the City and received by the City from the State of Texas, for the use of taxable items by Grantee at the Property for the applicable grant period which are to be used to determine Grantee's eligibility for a Grant, together with such supporting documentation required herein, and as the City may reasonably request.

### **III. APPLICATION PROCEDURE**

A. To ensure fairness, accountability, and compliance with all applicable regulations, every incentive request must proceed through a uniform application process. Nothing within these guidelines implies or suggests that the City is under any obligation to provide an incentive to any applicant.

- a. Applicant shall complete the attached Incentive Application (Exhibit A). The application will not be considered until it is administratively complete.
- b. Applicant shall prepare a map or other documents providing the following: precise location of the property and all roadways within 500 feet of the site; existing uses and conditions of real property; proposed improvements and uses; any proposed changes in zoning; compatibility with the Denton 2030 Plan and applicable building codes and City ordinances; a complete legal description.
- c. Applicant shall complete all forms and information detailed in the Incentive Application and submit all information to the Economic Development Department, City of Denton, 215 E. McKinney, Denton, TX 76201.
- d. All information in the application package detailed above will be reviewed for

- completeness and accuracy. Additional information may be requested as needed.
- e. The application will be distributed to the appropriate City departments for internal review and comments. Additional information may be requested as needed.
  - f. Fiscal agents of the City may review the application for comment and recommendation. Additional information may be requested as needed.
  - g. The Denton Economic Development Partnership board (EDPB) serves as an advisory body, which makes recommendations to the City Council regarding whether economic development incentives should be offered in each individual case. Its recommendation shall be based upon an evaluation of information submitted in the incentive application and any additional information requested by the EDPB or presented to the EDPB. The EDPB will consider the application at a regular or special-called meeting(s). All meetings of the EDPB shall be held in compliance with the Texas Open Meetings Act, Chapter 551 of the Texas Government Code. Additional information may be requested as needed. The recommendation of the EDPB will be forwarded, with all relevant materials, to the City Council.
  - h. If the City Council decides to grant a tax abatement, it shall call a public hearing to consider establishment of a tax reinvestment zone in accordance with Section 312.201 of the Tax Code. The reinvestment zone must meet one or more of the criteria of Section 312.202 of the Tax Code.
  - i. The City Council may consider adoption of an ordinance or resolution approving the terms and conditions of a contract between the City and the applicant governing the provision of the tax abatement or incentive and the commitments of the applicant, including all the terms required by Section 312.205 of the Tax Code and such other terms and conditions as the City Council may require.
  - j. The City reserves the authority to enter into tax abatement agreements at differing percentages and/or terms as set forth in the guidelines of this Policy, consistent with the requirements of Chapter 312 of the Texas Tax Code. The City also reserves the authority to enter into incentive agreements under Chapter 380 of the Texas Local Government Code.

B. Section 312.003 of the Texas Tax Code makes confidential information provided to the City as a part of this application that describes the specific processes or business activities to be conducted or the equipment or other property to be located on the property. This information is not subject to public disclosure until the incentive agreement is executed. Section 522.131 of the Texas Government Code (Texas Public Information Act) makes confidential information which relates to economic development negotiations between the City and a business prospect that the City seeks to have locate, stay or expand in or near the territory of the City. The information must relate to a trade secret of the business prospect, commercial or financial information which the business prospect can demonstrate based on specific factual evidence that disclosure would cause substantial competitive harm to the person from whom the information was obtained or information about a financial or other incentive being offered to the business prospect by the City or by another person. Information about a financial or other incentive being offered to the business prospect is required to be disclosed when an agreement is made with a business prospect. The City will respond to requests for disclosure as required by law and will assert exceptions to disclosure as it deems relevant. The City will make reasonable attempts to notify the applicant of the request so it may assert its own objections to the Attorney General.

C. Any incentive agreement will address various issues, including but not limited to,

the following:

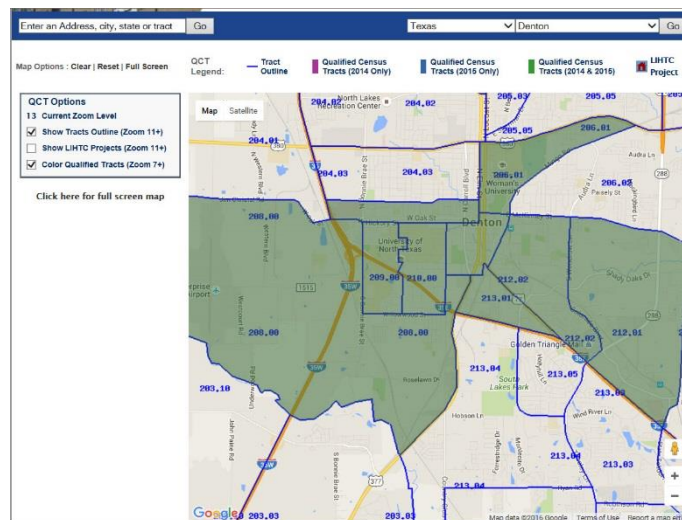
- a. General description of the project
- b. Amount of the incentive and percent of value to be abated or rebated each year
- c. Method of calculating the value of the abatement
- d. Duration of the abatement, including commencement date and termination date
- e. Legal description of the property
- f. Kind, number, location and timetable of planned improvements
- g. Specific terms and conditions to be met by applicant, which will be based on the information submitted by the applicant in the Incentive Application and/or other appropriate criteria
- h. The proposed use of the facility and nature of construction
- i. Contractual obligations in the event of default, violation of terms or conditions, delinquent taxes, recapture, any decrease in valuation, administration and assignment

D. Businesses receiving an incentive are asked to use diligent efforts to purchase all goods and services from Denton businesses whenever such goods and services are comparable in availability, quality and price. The City of Denton also encourages the use, if applicable, of qualified contractors, subcontractors and suppliers who are historically underutilized businesses based on information provided by the General Services Commission pursuant to Chapter 2161 of the Government Code.

E. Businesses receiving an incentive are encouraged to use diligent efforts to hire local contractors and local subcontractors where possible during construction of the project.

F. Businesses receiving incentives are asked to endeavor to make available, or endeavor to cause lessees or assignees to make available full-time or part-time employment for Denton residents. In this effort, the business, lessee or assignee is encouraged to recruit from the low-moderate income Census tracts as further defined by the U.S. Department of Housing and Urban Development's (HUD) Qualified Census Tracts (QCT) map shown in Figure 1. HUD defines QCTs as "census tracts in which one-half or more of the households have incomes below 60 percent of the area median income or the poverty rate is 25 percent of [or] higher.

FIGURE 1: DENTON, TEXAS  
2014-2015 Qualified Census Tracts



## IV. INCENTIVE TOOLS

**A. Tax Abatement:** New, expanding, and modernizing businesses may be considered for a tax abatement if a minimum threshold of \$5 million in ad valorem value will be created by the project. To qualify, companies must meet the minimum threshold in the first 24 months from the execution of the agreement or as specified in the tax abatement agreement.

If, upon initial application, a project qualifies for tax abatement under the guidelines set forth in this Policy, the City may consider the following factors in evaluating its public benefit:

- The project will occupy a building that has been vacant for at least two years;
- The project will create knowledge based, high-skilled or higher-paying jobs as documented by the applicant (An average wage that is above the median wage in Denton County or at least 25 percent of jobs requiring a college bachelor's degree at entry level will be used to determine eligibility);
- The project will involve a significant relationship with one of the two universities in Denton;
- The project will create improvements to the Denton Downtown Implementation Plan area;
- The project is an international or national headquarters facility;
- Renewable energy will be generated, stored, or utilized for the project or the project incorporates significant environmentally sustainable practices that include: Leadership in Energy and Environmental Design (LEED) certification, recycling initiatives, the manufacture of sustainable materials or products that support sustainable industries, or the incorporation of clean technology;
- The applicant is committed to actively supporting the Denton community through non-profit organizations, donations to public schools and/or public art
- 25% of local contractors used in construction or 25% of new jobs filled by Denton residents

All abatements are subject to final approval of the City Council. Even though a project may meet the criteria as set forth in this Policy, an application may be denied at the discretion of the City. The incentive shall not apply to any portion of the land value of the project.

The City may consider the use of incentives to retain existing businesses, which propose to improve or redevelop property within the City limits. The City may also take into consideration the expansion/redevelopment of existing businesses that create new or additional higher wage or knowledge-based jobs. The incentive will only apply to the increased valuation of the improvements over the appraised value of the property prior to such improvements as same is established by the Denton Central Appraisal District the year in which the tax abatement agreement is executed. The City may also consider other tax incentives authorized by law.

**B. Chapter 380 Grants or Loans:** The City may consider incentives to businesses utilizing its authority under Chapter 380 of the Texas Local Government Code (hereinafter referred to as "Chapter 380"). Chapter 380 states that a municipality may establish and provide for the administration of one or more programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. The City of Denton may consider the use of grants and loans as incentives to accomplish one or more of the following economic development purposes:



- Targeted industry cluster or supply chain recruitment initiatives
- Capital grants or loans for start-up and small businesses to promote entrepreneurship
- Grants to offset costs associated with public infrastructure improvements or impact fees
- Cash incentives to gain a competitive position when in direct competition for a project
- Increase the percentage of jobs paying \$75,000 per year or more from 10 to 14 percent by 2020

Chapter 380 incentives will be considered on a case-by-case basis, and may be considered for one or more of the following criteria:

- Net new jobs with wages above Denton County's median wage
- The relocation of a company that promotes the growth of targeted industry sectors listed in Section I.D.
- Incentives for businesses that cause infill redevelopment or other desirable development objectives;
- Any other activity which the City Council determines meets a specific public purpose for economic development.

When the City determines that incentives are required to retain existing businesses that propose to improve or redevelop property within the City limits, the City Council may consider, on a case-by-case basis, and reserve the right to waive the minimum threshold and/or exceed the percentage and term included in Table 1 for a grant.

The City of Denton may also take into consideration the expansion/redevelopment of existing businesses that create new or additional higher wage or knowledge-based jobs. Ad valorem rebates will only apply to the increased valuation of the improvements over the appraised value of the property prior to such improvements as same is established by the Denton Central Appraisal District the year in which the grant agreement is executed.

Job-based grants may be considered for businesses creating higher-wage or knowledge-based jobs.

The City may also consider other tax incentives authorized by law.

**C. Economic Development Investment Fund:** The City may offer cash incentives and grants from the Economic Development Investment Fund (established by Ordinance No. 2016-229) when appropriate and necessary. Such incentives require EDPB and Council approval through a Chapter 380 Agreement. To be eligible for consideration, the company must meet at least two of the following criteria:

- higher wage or knowledge-based jobs;
- substantial capital investment (minimum of \$15 million);
- recruitment of industry sector targets, including aviation/aerospace, advanced manufacturing, renewable energy, research and development, information technology, supply chain for primary employers, or significant consumers of municipal utilities.

**D. Based Aircraft Incentive:** Specific considerations for a based aircraft incentive will include expansion of the tax base, annual fuel consumption, and contribution to the growth and development of Denton Enterprise Airport (DTO). Newly based aircraft may be eligible for an incentive if a minimum of \$1 million in ad valorem value will be created by the aircraft. Aircraft must be operational, air worthy, and based at DTO for a majority of the year; values may not be combined to reach the \$1 million minimum.