

Building a Thriving Urban Economy: Transit and Neighborhood Initiatives

Economic Development &
Housing / Transportation &
Environment Committees
March 19, 2007

Purpose of the Briefing

- To outline a set of policies that will:
 - Secure Dallas' share of emerging market demand for dense, mixed-use development
 - Address a legacy of problems associated with deteriorated/dilapidated multifamily properties
 - Accomplish these two objectives while enhancing our fiscal position
 - More revenue into the City's General Fund quicker
 - Reduce City's service expenses

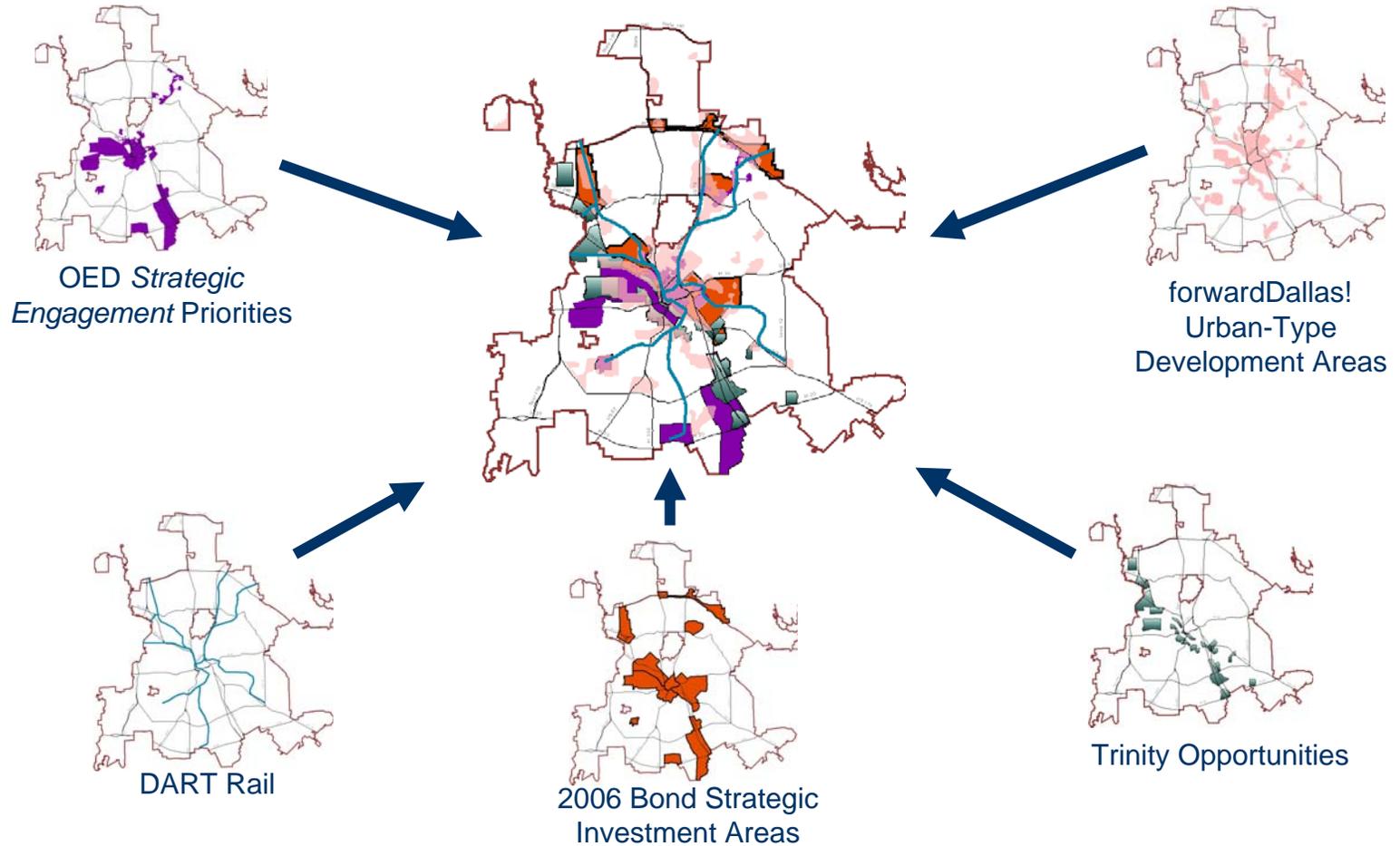
Outline

- Recent development strategies and results
- Challenges and opportunities
- Transit oriented development
- Deteriorated multifamily
- Development tools
- Next steps

Recent Development Strategies

- While economic development occurs for a myriad of interconnected reasons, the City has recently focused on many initiatives to leverage available resources and strengthen our impact:
 - Comprehensive plan
 - 2006 capital bond program
 - Results oriented budgeting
 - Development policies and programs
 - Relationship building with numerous public and private partners

Multiple Initiatives Converge



Development Progress

- Property tax base has more than doubled since 1995 (101.1%)
- New construction activity increased 70.7% between FY 00-01 and FY 05-06
- 40,493 new housing units were added since 2000 (gross, single family (some townhomes))
- Between 2000 and 2006:
 - Gross City Product grew by 15.2%
 - Personal Income grew by 17.4%
 - Unemployment rate fell by 0.9 percentage points

Development Progress (continued)

- Since last recession (2000) Public Private Partnership program supported projects resulting in 10,155 jobs and \$819.9 million in new tax base
- TIF districts saw a 65.8 % increase in taxable value over their base year
- Total investment in all TIF districts to date = \$4.1B, of which \$3.8B was private
 - Each public dollar leveraged \$15.9 in private investment
 - These investments will continue to generate tax revenue, produce employment and improve quality of life

Development Progress (continued)

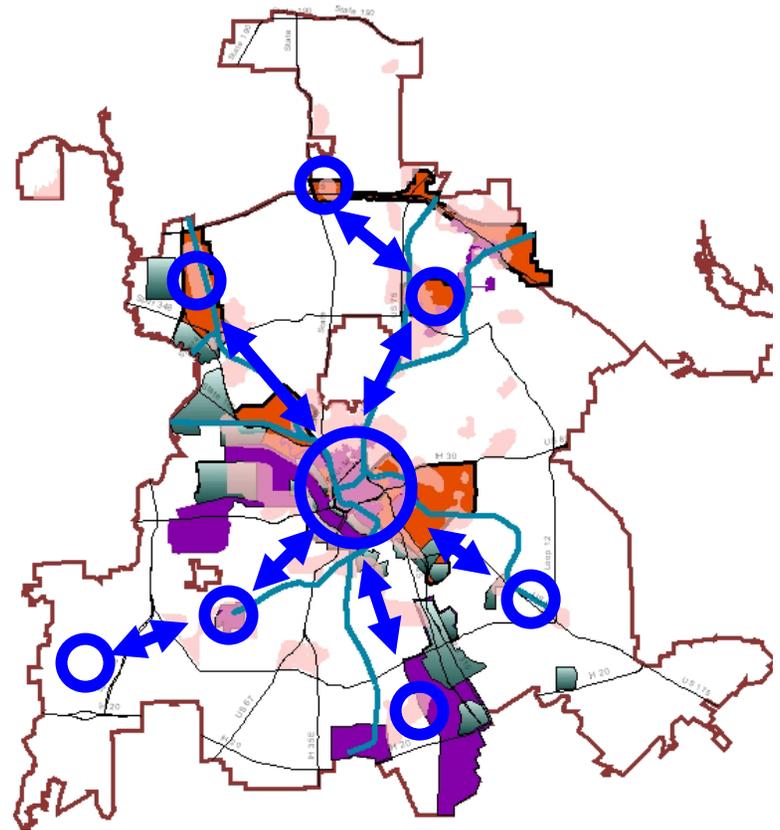
- These investments:
 - Enhance values in areas adjacent to targeted investment and protects surrounding neighborhoods from decline and disinvestment
 - Change the perception of the investment potential of the area by catching the attention of other developers

Development Gaps

- These gains have been heavily concentrated in downtown, Uptown and certain other neighborhoods with existing strong economic development assets
- Much of the rest of Dallas faces challenges in achieving similar levels of investment and prosperity
- If private reinvestment cannot be spread to more neighborhoods, Dallas will face long-term revenue and service challenges and the City will be less effective in competing for investment and talent

Addressing the Gaps: Connect the Dots

- Success in the central city and DART can be leveraged to fill in gaps and create appropriate clusters of new development based on a denser, mixed-use, pedestrian friendly form
- A network of modern urban neighborhood centers connected to the core by DART is achievable



Upcoming Opportunities

- Fortunately for Dallas, while we face significant challenges, we have so much on which to build:
 - A massive rail project underway
 - Developer/investor interest
 - Synergy in the downtown core
 - Trinity River related development on the planning table
 - Strategically targeted capital bond program

Two historic opportunities

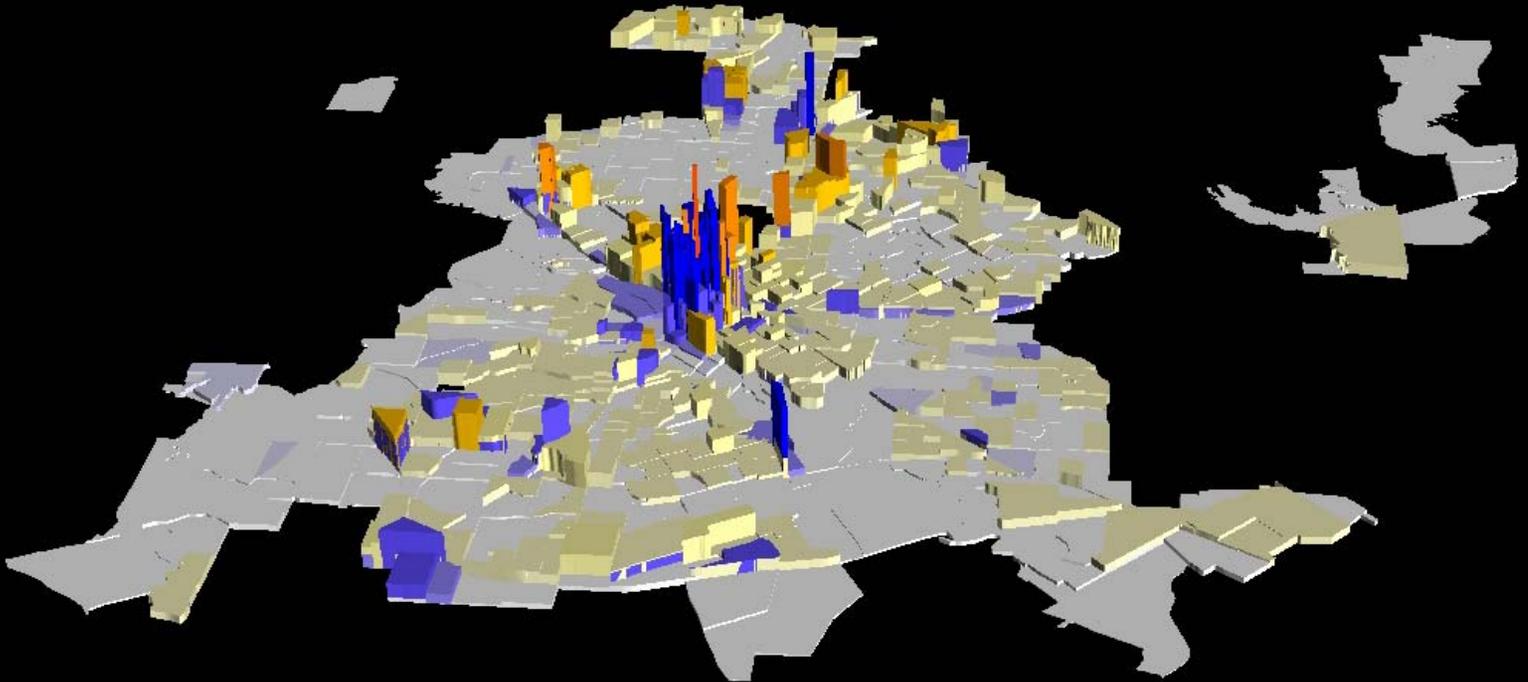
- Leverage our growing DART rail system and in-town successes to capture a large share of the emerging market for mixed-use development which is resulting from changes in household composition, demographics and lifestyles
- Transition deteriorated multifamily properties that were never appropriate to the context of their neighborhoods and that are now a severe drain on city resources and whose code and crime problems are a drag on the entire neighborhood

Why pursue these new opportunities?

- Fiscal trends show the need to accommodate growth: 400,000 jobs and 200,000 new households by 2030
- More tax revenue can be generated from more intense, higher quality development than from traditional development patterns
- Increase investment and the close retail gap in the southern sector
- Address continued competitive pressures from suburban markets for investment and development activities

Transit-Oriented Development

Aligning the Vision with Development Opportunities



Why do we need these new development opportunities?

- Supports Southern Sector mixed-use & mixed-income developments and close retail gaps
- Offers quality of life experience through convenient places to live, work, and play.
- Enhances mobility and reduces dependence on automobiles for residents, commuters and visitors.
- Increases DART ridership and leverages investment in targeted areas of Dallas in TOD cases
- Results in more efficient and valuable real estate near stations
- Enhances our ability to maintain economic competitiveness with our suburbs
- Reduces traffic congestion and required parking
- Responds to changing demographics and family structure
- Good for a sustainable environment

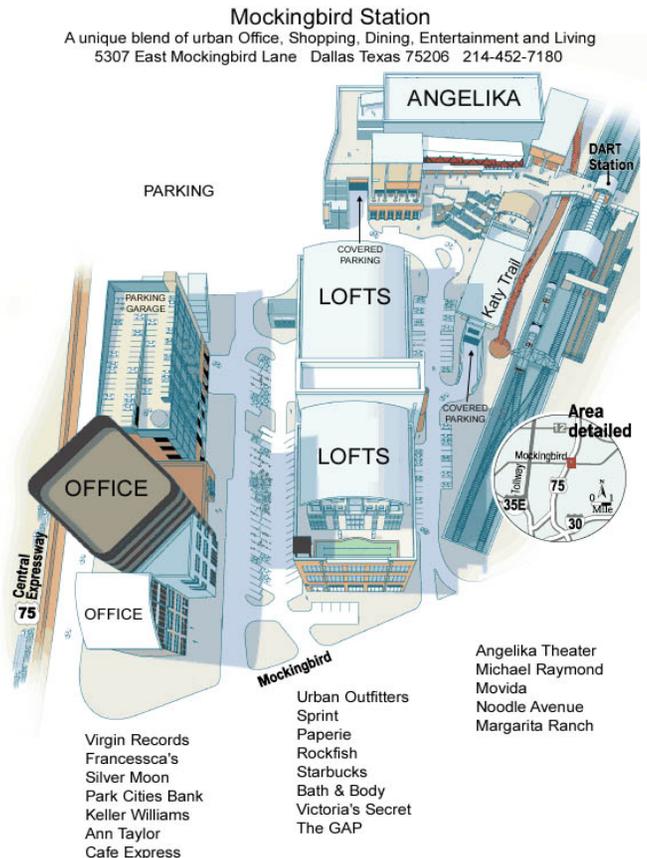
New Market Opportunities with TOD

- With the development and expansion of DART, several mixed-use, high density projects have occurred in Dallas and a number exist and are planned in our suburbs.
- Examples include: West Village, City Place, Mockingbird Station, Victory, South Side on Lamar and Park Lane Place among others.



Proven Development Potential

- Mockingbird Station
 - 215,000 sf residential/211 units
 - 138,000 sf office
 - 212 sf retail
 - 8.7 acres
 - Taxable Value \$72.8M



New Development Initiatives

- Park Lane Place
 - 750,000 sf retail
 - 336,000 sf office
 - 500,000 sf residential
 - 200 hotel rooms
 - 33 acres
 - Estimated taxable value after completion \$450M



Aligning vision with Development Opportunity

- Mixed-use, mid-high density projects in Dallas represent the confluence of City initiatives and market forces
 - Opportunities to assemble property ready for redevelopment
 - Synergies with existing or planned developments adjacent to sites
 - Leveraged public investment and popular support



Challenges to Mixed-Use Development

- Horizontal Development:
 - Outdated zoning and platting
 - Finance
 - Land assembly
 - Parking
 - Outdated, inadequate infrastructure
- Vertical Development
 - Market demand and phasing
 - Finance
 - Outdated building code

Drawbacks to the Old Zoning Approach

- Lack of consistency, predictability
- Time and cost of securing zoning
- Lack of transparency in understanding regulations
- Increased risk of error in regulation interpretation and enforcement

Old Zoning Approach

- Currently, these land uses are easy to develop in Dallas



Example: West Village

Places like West Village are very difficult to develop currently in Dallas

Currently, West Village-type development requires an individual **Planned Development (PD)** with a myriad of special exceptions and variances

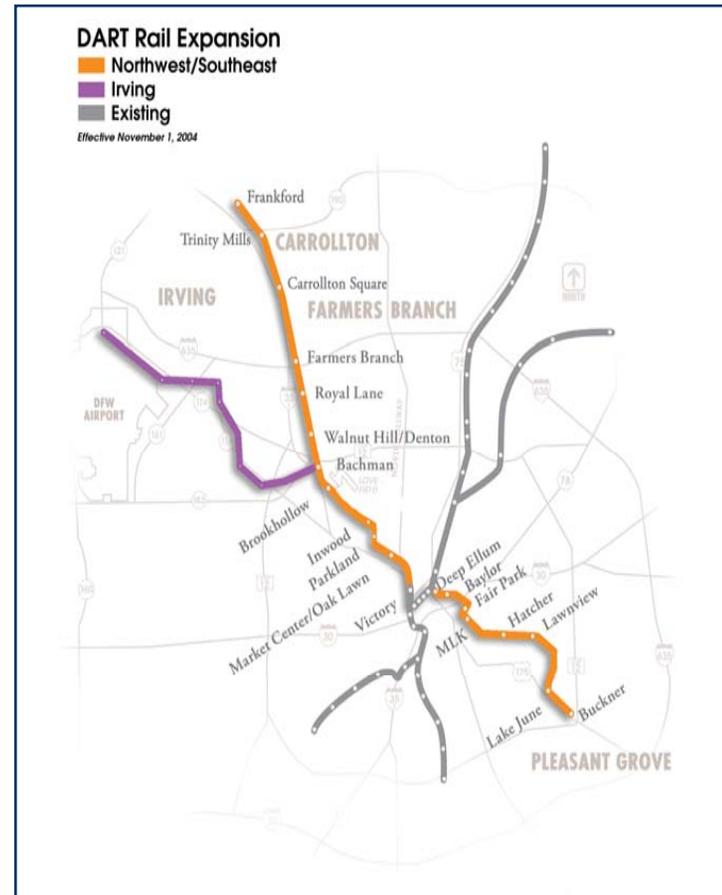
Specific requirements for each PD proposed:

- Ingress/Egress
- Design Standards
- Landscaping
- Detailed Site Plans



A Coordinated Urban Center Development Strategy

- Develop a proposal for a mixed-use, high density zoning that actually makes it easier for developers to tackle these projects
- Look for opportunities for pilot areas to apply new overlay
- Partner with DART and Dallas' OED to facilitate development plans
- Focus on the types of buildings and the character of the place
- Build connections through walkable open space and streets



Development Code Amendments

- Create new zoning tools to encourage desirable, mixed use projects in new development and redevelopment situations
- Coordinate with concurrent Trinity River Corridor zoning efforts and *forwardDallas!* Small Area Plans and TIF districts.
 - Focus on urban design standards that promote walkable environments and parking requirements that match supply with demand

Development Code Amendments Process Underway

- Advisory Committee appointed
- Regular monthly Advisory Committee meetings/workshops to begin in April
- Briefings to Zoning Ordinance Advisory Committee and Joint Council Committee (Quality of Life and Trinity) at three key milestones:
 - Project Initiation
 - Regulatory Approach
 - Draft Ordinance

Development Code Amendments Partnership Effort

- Partner Development Services with the City of Dallas' Office of Economic Development to attract and assist potential transit-oriented development and deteriorated multi-family complexes
- Market-tested approach so final regulations will facilitate development

Sponsorship, Financial Backing and Land Assembly Critical to Mixed-use Success

- OED issued an RFQ for a responsible and capable private partner to engage as a developer
- Selected a partnership between Cherokee Investments and Parsons Brinckerhoff (Cherokee Development Team - “CDT”) from three respondents
- Engaged in ongoing negotiations with CDT designed to create a proposed master agreement for the development of multiple Dallas TOD sites for City Council consideration
- Developed suggested amendments to the Public/Private Partnership Program for City Council consideration outlining a special TOD category and establishing minimum eligibility and potential economic incentives for TOD projects

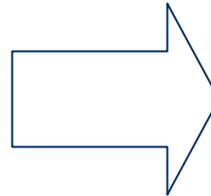
Proposed Terms for a Master Development Agreement

- CDT to develop a Master Plan guiding future real estate development at underdeveloped (existing and planned) station sites accounting for neighborhood context and DART line advantages.
- CDT will follow a public process for community meetings involving surrounding property owners and residents related to proposed developments.
- CDT will commit to assemble and “horizontally” develop sufficient land to enable a minimum of four sites for “vertical” development (minimum of 2 to occur Southern Sector).
- CDT will follow the City’s Good Faith Effort plan for M/WBE participation goals and preferred contracting with businesses located within the city.

Proposed Terms for a Master Development Agreement with CDT (continued)

- CDT will ensure 20% affordable housing set aside for all residential at eighty percent of median income in North Dallas and mixed income housing development in Southern Sector.
- Incentives will cease once a 12% Return On Investment is achieved based on project pro forma.
- City will provide necessary and appropriate economic incentives to support private investment through amended Public\Private Partnership Program and TIF financing (primary finance tool).

Deteriorated Multifamily



Deteriorated Multifamily

- Throughout Dallas a large number of apartment communities were developed in the 1960s and 1970s. Many of the buildings in these communities are reaching the end of their useful life.
- Failure to transition these properties from deteriorated multifamily prolongs the downward cycle of property decline:
 - Absentee (not local) ownership and lack of code compliance
 - Substandard infrastructure that the City may be forced to replace to provide basic services but dilapidated residential properties will remain in place
 - Functionally obsolete dwelling units – inhumane living conditions
 - Cosmetic remodeling does not produce full economic recovery
 - Property taxes have no opportunity to realize substantial growth
 - Little to no possibility for improvement in retail or neighborhood services
 - Code compliance failures increase

Deteriorated Multifamily (continued)

- These properties have a negative impact on the entire neighborhood
- A sample of multifamily properties in Chapter 54 lawsuits
 - Property values grew by 44 percent in the ½ mile around these properties compared to 92 percent citywide since 1997

Lemon into lemonade

- With the right development partners dilapidated multifamily (or commercial) properties can become opportunities for redevelopment and new mixed-use arrangements
- These efforts require:
 - Upgrade / replacement of infrastructure
 - Preparation of properties
 - Provisions for relocation of tenants
 - Sensitivity to attainability of quality housing choices
 - Ability to access significant capital

How do bigger, bolder private partnerships facilitate mixed-use developments?

- Have experience and demonstrated financial ability in these types of developments
- Have ability to make large initial investment in a catalyst project
- Can more easily assemble land for large projects
- Have ability to navigate the complexities of mixed-use developments
- Can create synergies & leverage other resources

Potential Pilots in Oak Cliff

- Proposed TIF Districts in Kessler Woods and Ft. Worth Avenue focus on removal of deteriorated apartment units and replacement with for-sale housing and mixed-use developments
- Both proposals share characteristics of previous TIF successes:
 - Demonstrate strong financial backing and significant land assemblage
 - Fill in a gap between nearby real estate markets that are fairly stable
 - Plan for mixed income housing
 - Maintain a strong requirement for design excellence in projects with density and an urban feel
 - Plan for green space and park land in urban style developments
 - Distanced in such a way as to grow together

Proposed Neighborhood Center Pilot: Kessler Woods TIF District

- The proposed district would span an area along Davis St. between Cedar Hill and Cliffdale

Proposed Neighborhood Center Pilot: Kessler Woods TIF District

- The proposed Kessler Woods TIF District incorporates property in four concentrations of apartments in the North Oak Cliff area
- The proposed boundary includes 96 acres
- The estimated increase in property value in the corridor over the next 20 years is approximately \$600 million.
 - Would replace 1,703 deteriorated rental units with 1,700 homes with an average sales price of \$317K
- The sponsor, INCAP Fund, has strong development track record, financial strength and proposes to develop projects valued at approximately \$110 million over the first 5 years of the proposed TIF District

Proposed Neighborhood Center Pilot: Kessler Woods TIF District (continued)

- The living conditions in the apartment communities are poor



Proposed Neighborhood Center Pilot: Kessler Woods TIF District (continued)

Service Request Summary Report

06-00026807

Printed Date: Dec 20, 2006 02:41 PM

Type: Substandard Structure Apts - Dcc
 Area: Census Tract 004201
 Group: Multi-Family Apts/Response - DCC
 Jurisdiction: City of Dallas
 Input By: CARRIZALES, BEATRICE
 CC Groups:
 Location: 829 Cedar Hill Ave, Dallas, Tx, 75208, 214
 Location Details:

SR #: 06-00026807
 Priority: MCC Priority
 Status: Closed
 Status Date: Feb 02, 2006 09:48 AM
 Created Date: Jan 30, 2006 09:03 AM
 Created As: Original
 Method Received: Phone

Flex Questions	Answers
What type of property/building is it?*	Residential/Business (General Code)
What type of structure?	Main Structure / house
What is the structure problem?	Structure Needs Paint,Interior - Holes in Ceiling,OTHER,Roof Interior needs repairs
Would you like to be contacted?	Yes
If yes, by which method?	Telephone

Description: ceiling has falling in and mgr won't repair, wet carpet, hole is still open in ceiling, there is a newborn in the house cannot live like this- Send update to Beatrice in Code Admin on this request.

Activities	Assigned Staff	Due Date	Complete Date	Outcome
Inspect Site - Multi-Family	CONTRERAS, MONICA	Feb 09, 2006 09:07 AM	Jan 30, 2006 03:18 PM	DCC - Violation Confirmed
Response	CCI found that an area (approximately 2'x2') of the ceiling had fallen. There is a whole in the roof, which allowed water to leak onto carpet.			
Details: ...Monica...				
Issue Violation Notice	CONTRERAS, MONICA	Jan 31, 2006 04:00 PM	Jan 30, 2006 03:20 PM	DCC-Issued Personal Delivery
Details: NoV was issued to person in control.				
...Monica...				
Re-inspect Site	CONTRERAS, MONICA	Feb 01, 2006 04:00 PM	Feb 01, 2006 07:57 AM	Complied By Owner
Notify Caller	CONTRERAS, MONICA	Jan 31, 2006 04:00 PM	Jan 30, 2006 03:22 PM	DCC-Issued Personal Delivery
Details: Caller met inspector at unit. Tenant is currently staying with her mother because of her baby.				
...Monica...				
Notify Caller	CONTRERAS, MONICA	Jan 31, 2006 04:00 PM	Jan 31, 2006 03:23 PM	DCC-Issued Personal Delivery
Details: Tenant was home at time. She stated that she was leaving the unit, but that she did not know where she would be moving to.				
...Monica...				
Close Case	CONTRERAS, MONICA	Feb 02, 2006 04:00 PM	Feb 01, 2006 07:58 AM	Complete
Issue Notice of Violation	CLERICAL, CLERICAL	Feb 02, 2006 09:48 AM	Feb 02, 2006 09:48 AM	DCC-Issued Regular Mail
Manager's Coming Due SR		Dec 01, 2006 09:07 AM		
Asst. Director Coming Due SR		Dec 31, 2006 09:07 AM		

Excerpt from Code Compliance report:

“Structure Needs Paint, Interior – Holes in Ceiling, OTHER Roof Interior needs repairs.”

Excerpt from Code Compliance report:

“Ceiling falling in and mgr won't repair, wet carpet, hole is still open in ceiling, there is a newborn in the house cannot live like this...”

Proposed Neighborhood Center Pilot: Kessler Woods TIF District (continued)

In summary:

- This area fits the general model of successful TIF Districts
 - A financially strong / experienced developer / investor ready to move forward with a catalyst project and significant front-end equity
 - There are several large tracts of land under single ownership reducing land assembly difficulties
 - The area is surrounded by a relatively strong real estate market – the Kessler Park area
 - Substantial infrastructure needs inhibit redevelopment
- Negotiations are ongoing

Proposed Neighborhood Center Pilot: Fort Worth Avenue TIF District

- The proposed District incorporates property along both sides of Fort Worth Avenue and Commerce Street between Westmoreland and the Trinity River

Proposed Neighborhood Center Pilot: Fort Worth Avenue TIF District (continued)

- Proposed Fort Worth Avenue TIF District
 - The estimated increase in property value in the corridor over the next 20 years is approximately \$800 million. Proposed district would include 460 acres.
 - An initial project, La Reunion, has submitted an application for TIF funding. The application is for a \$204 million mixed use project planned for the SW corner of Colorado Blvd and Ft Worth Ave. Over 1 million square feet of development is planned, including 740 rental units, 70 townhomes, 80,000 square feet of retail, and 30,000 square feet to be used as a movie theater.
 - The developer, La Reunion Towncenter, LLC, has already purchased 21 acres of land and has a contract on 6 more acres, for a total land acquisition cost of \$18 million.
 - The current development schedule shows \$174 million worth of development completed by the end of 2008, with another \$30 million to be completed by the end of 2009.
 - The La Reunion project will replace the Colorado Place Apartment community.

Proposed Neighborhood Center Pilot: Fort Worth Avenue TIF District (continued)



La Reunion Project catalyst project in the proposed district

Proposed Neighborhood Center Pilot: Fort Worth Avenue TIF District (continued)

- **Proposed Fort Worth Avenue TIF District:**
 - The TIF proposal helps the City capitalize on the large public investment in the Trinity River and signature bridges. Due to the topography of the area, all sites will have premier views of the Trinity River basin and downtown Dallas,
 - The DART Light Rail Service plan shows a transit line, at an exact location to be determined, serving this area.
- **This area fits the general model of successful TIF Districts:**
 - There is a developer ready to move forward with a catalyst project,
 - There are several large land tracts of land held in single ownership – to reduce land assembly difficulties,
 - The corridor links two relatively strong real estate markets – the Kessler Park area and Victory,
 - Infrastructure needs are great in the area and inhibit redevelopment.
- **The proposed TIF plan incorporates:**
 - City Council (authorized February 2005 by Res. # 05-0745) mandated policy considerations such as design restrictions, affordable housing requirements, open and green space planning, trail connections, etc.
- **The TIF proposal was developed as a volunteer effort by the local community and carries a great amount of community support.**

Tools to Expedite Development Strategies

- Programs
 - Public Private Partnership
- Bond Funds
- Fed/State Grants/Tax Credits
- TIF's

Tax Increment Financing

- Establishes revenue stream for public improvement from increased tax base
- Is to assist projects that otherwise would not occur or not occur with the desired densities / quality

BUT FOR

- Generates income into zone, but can also enhance revenue for the General Fund

Some Challenges w/TIFs

- State Law limit
 - No more than 15% of the City's Ad Valorem Tax base can be in the reinvestment zones' total tax base
- Current City Council FMPC Policy
 - No more than 5% of the City's tax base can be in TIF's total tax base
- Creates tax revenue for project benefit, but often takes time to create significant revenue for the General Fund

Let's think about it

- TIF's help create new development that otherwise would not occur
 - But For
- We are generating a ratio of private to public investment of around 15 to 1 in TIF's
 - This is the DIRECT investment
 - More tax revenue is generated in sales and increment contributed to General Fund
 - Creates employment
 - Reduces city expense with Public Safety, Code Enforcement, and Utility
 - Stabilizes/enhances adjacent neighborhoods
- But, the more successful the TIF, the more it takes up available TIF capacity (relative to the Cap) REGARDLESS of how much increment goes into the General Fund
- By restricting ourselves with the Cap, we restrict one of our more powerful development tools

How can we enhance these benefits?

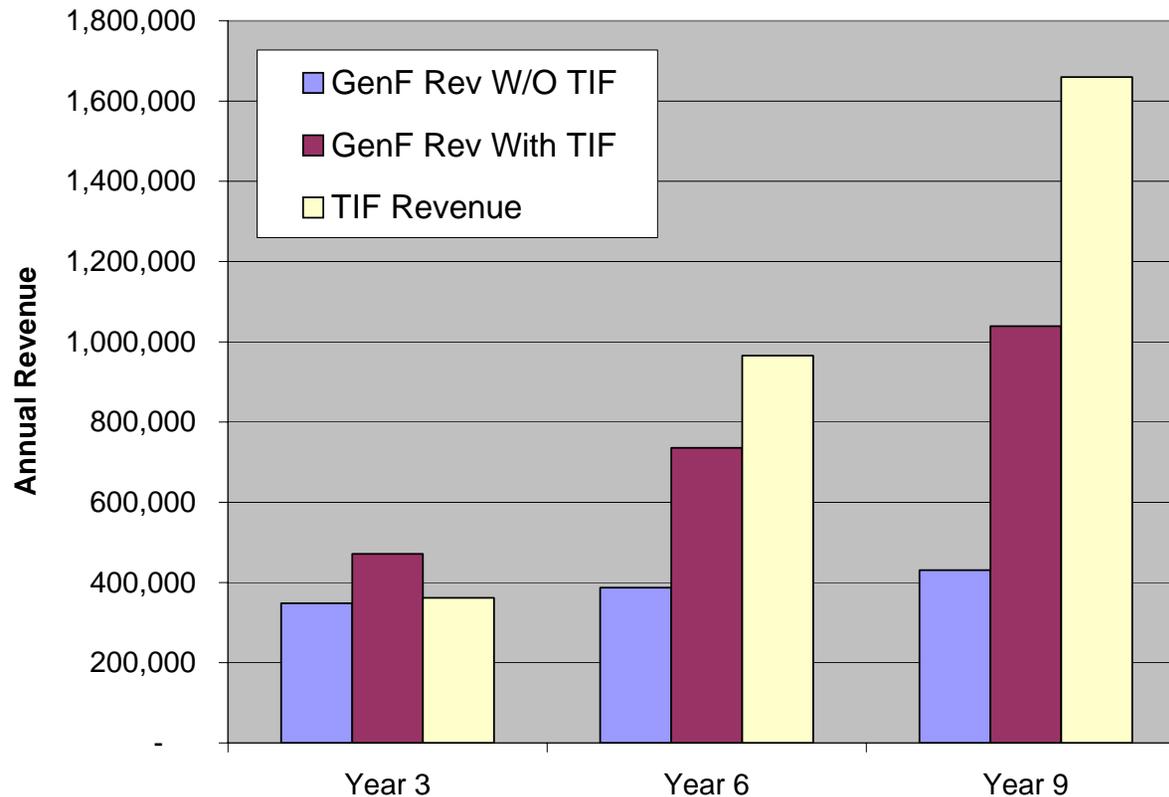
- Insist that New TIF's
 - Have significant (over \$200 million) of project commitments to begin immediately
 - Make contributions early into the General Fund
 - Increase mixed use densities
 - Target redevelopment opportunities
 - Implement the City's Comprehensive Plan

The above observations are made from lessons learned through our TIF experiences. See Appendix.

How to not compromise short-term fiscal health:

- Accelerate the delivery of property tax revenue to the general fund
- Maintain high design and fiscal standards in the creation of TIF districts
- Promote developments that have a positive impact on the revenue to services ratio
 - Lower code and crime costs
 - Increase sales tax revenue

Proposed Neighborhood Center Area: A TIF vs. No-TIF General Fund Property Tax Revenue Comparison



Next Steps

- Submit recommendations on March 26th to Finance Committee to amend City FMPC with potential Council consideration on April 11th
- Submit recommendations to amend the City's Public/Private Partnership Program including a classification for TOD projects and associated incentives on April 11th
- Submit to City Council a resolution of intent authorizing staff to negotiate definitive documents for a Master Development Agreement with CDT on April 11th

Next Steps (continued)

- Upon negotiation of final terms, submit the Master Development Agreement for TOD to City Council for consideration in late April or May
 - Individual project development agreements will be submitted to City Council for approval pursuant to the terms outlined in the Master Agreement
- Upon completion of negotiations for Kessler Woods and Fort Worth Avenue proposals and subject to timely submission of all documentation by the applicants, brief Economic Development & Housing Committee with final terms April 16, 2007
- Request to call Public Hearings to consider creation of TIF Reinvestment Zones for the Kessler Woods and Fort Worth Avenue TIF Districts, April 25, 2007
- City Council consideration of TIF Reinvestment Zones for the Kessler Woods and Fort Worth Avenue TIF Districts, May 23, 2007

Appendix: Using TIF Districts to Accelerate General Fund Revenue

TIF Policy Has Evolved

- Initial seven TIF districts were viewed as a long term investment in downtown and surrounding neighborhoods
- Recently created districts provide immediate revenue to the General Fund as they focus on more strategic targets
- Future TIF districts will be designed to close development gaps or jumpstart catalyst projects while they provide revenue neutrality early on and positive return to the general fund after a number of years

TIF Districts: Lessons Learned

- Performance of first seven districts was mixed
- Lessons learned that will increase the contribution of the next generation include:
 - Limit private developer return on investment – typically City does not support returns higher than 12%
 - Minimize City participation rate in new TIF Districts
 - Minimize term of TIF district
 - Maximize financial participation from other taxing entities
 - Apply TIF tool only if a highly qualified private sector partner can participate – development experience, substantial financial backing, etc.

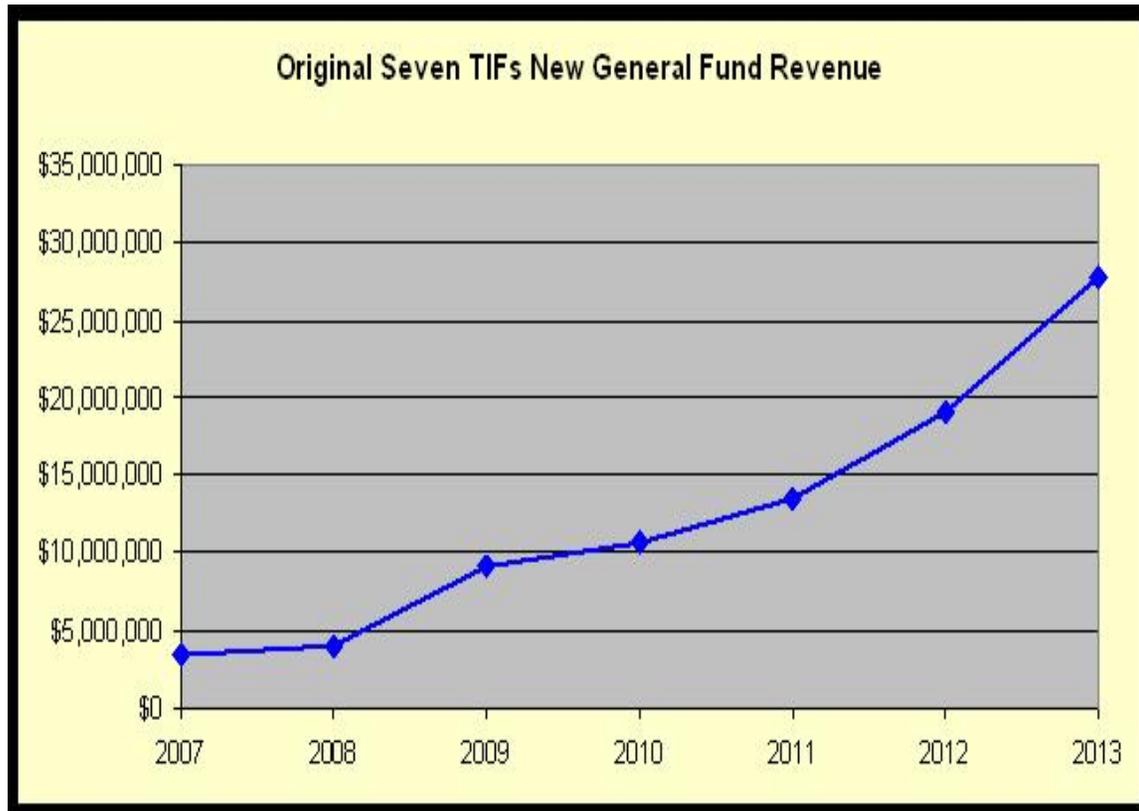
TIF Districts: Lessons Learned (continued)

- More lessons learned that will increase the contribution of the next generation include:
 - Require significant up-front private investment to “prime the pump” for subsequent projects
 - Require a larger initial private investment for residential-only projects since they lack a sales tax generator
 - Include provisions to scuttle the TIF if the large, up-front / catalyst project is not started within the first five years
 - Favor new TIF districts that connect-the-dots, that is, bridge existing development assets to create clusters or corridors of redevelopment – acknowledging that in the southern sector DART rail provides connectivity to assets throughout the urban core

First Generation TIF Districts

- All retained 100% of the tax increment for reinvestment
- State Thomas District is now paying 100% of property tax revenue to the General Fund
- By 2013 the initial 7 TIFs will add \$30M annually to the General Fund

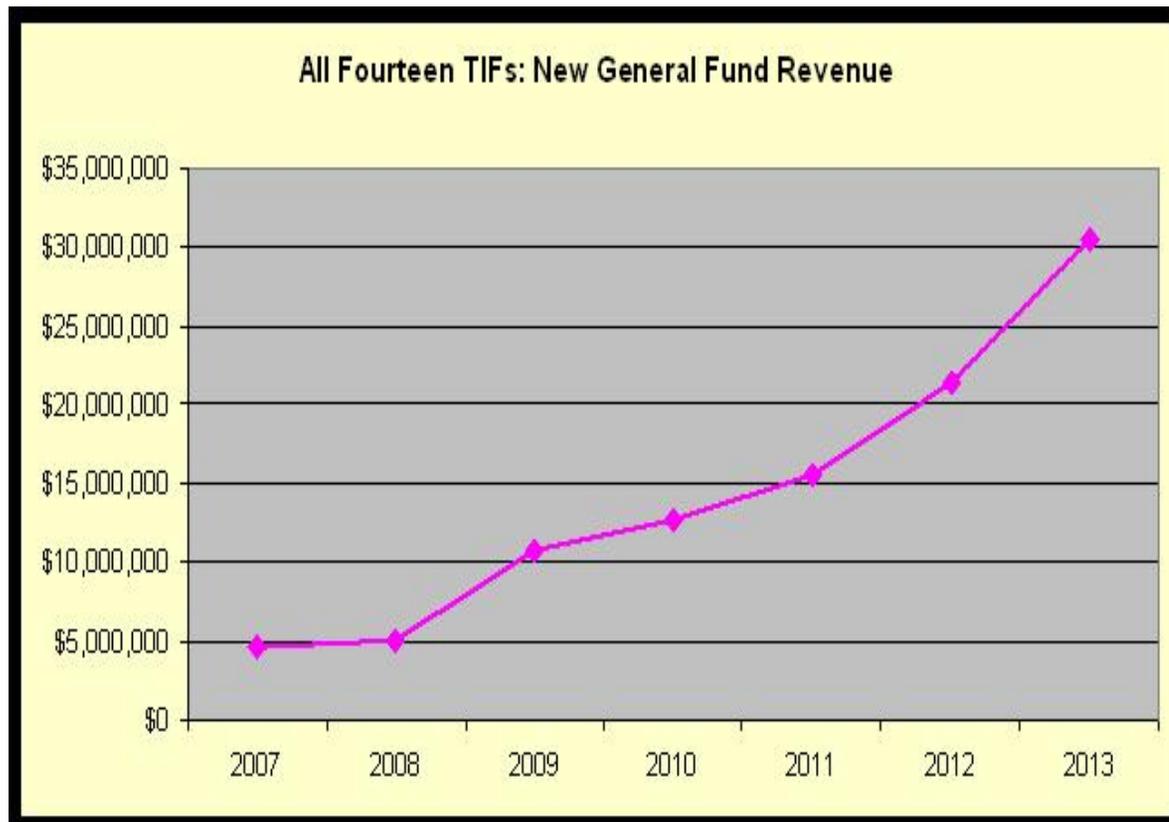
First Generation TIF Districts (continued)



Second Seven TIFs Districts

- Created to provide immediate contributions to the general fund because the City has limited its participation in the TIF
- General fund increment retained for the General Fund by district:
 - Southwestern Medical – 20%
 - Vickery Meadow – 20%
 - Downtown Connection - 10%
 - Design District - 10%
 - Deep Ellum - 15%
 - Grand Park South - 10%
 - Skillman Corridor - 15%
- New development in these districts has a positive impact on the City's General Fund that will increase as development in the TIF District increases (approximately \$3 million annually)
- These TIF Districts will be fully funded between 2028 to 2035.

Second Seven TIFs Districts (continued)

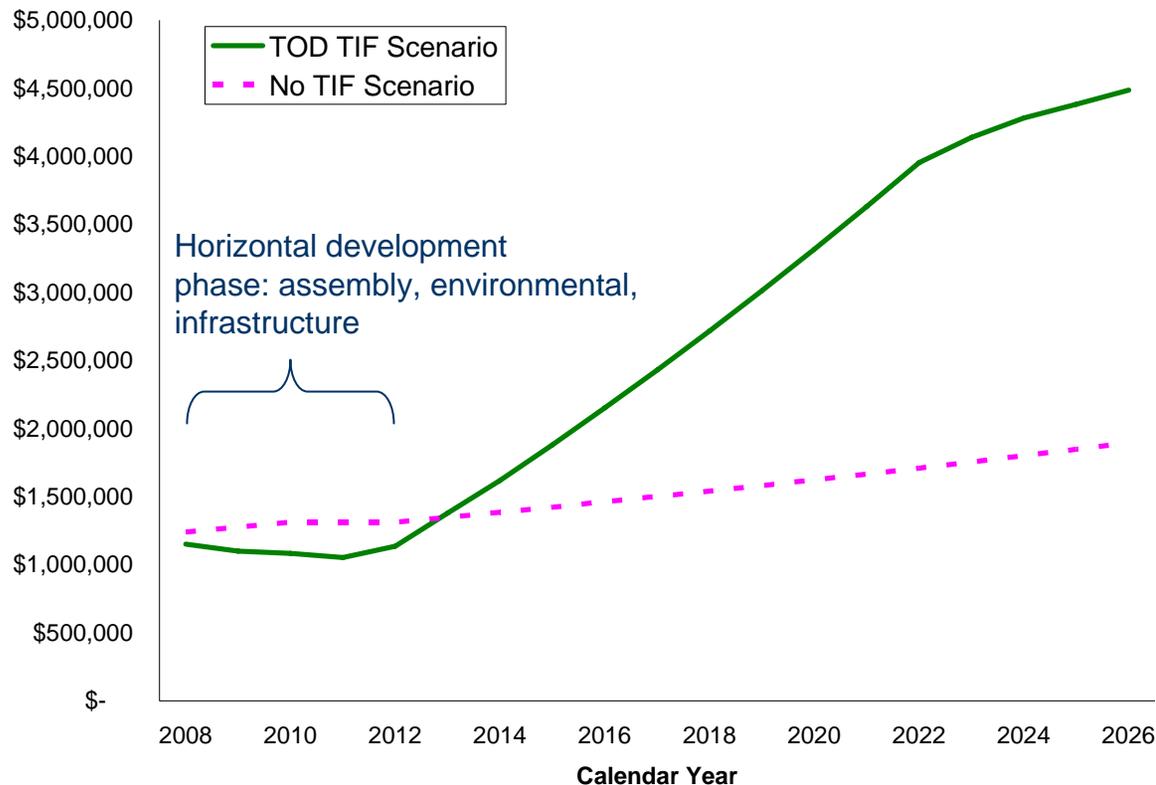


The Case for Additional TIF Districts

- TIF Impact on the General Fund of Initial Seven TIF Districts
 - The initial TIF District budgets will be fully funded in the next 7 years based on current projections:
 - FY 2004 – State-Thomas
 - FY 2008 - Cityplace
 - FY 2012 – Oak Cliff Gateway, Cedars, City Center & Sports Arena
 - FY2013 – Farmers Market
 - These TIF Districts, except for City Center capture 100% of new incremental property tax revenue.
 - When these TIF District budgets are fully funded, the revenues previously dedicated to the individual TIF funds will accrue to the General Fund
 - State-Thomas - \$3 million annually
 - Cityplace - \$5 million annually
 - Oak Cliff Gateway, Cedars, City Center & Sports Arena - \$15 million annually
 - Farmers Market - \$2 million annually

Proposed TOD Sites: A TIF vs. No-TIF Property Tax Revenue Comparison

Annual Property Tax Revenue to General Fund



TIF Scenario assumptions:
 75% City participation rate into TIF
 Revenue derived from a constant \$165 m base value plus 25% of incremental revenue
 5-year lag in delivery of vertical improvements

No-TIF Scenario:
 Revenue derived from \$165m base value with 3% annual compounded growth
 Growth rate exceeds the 2.4% growth rate of underperforming neighborhoods such as Cedars

Improving TIF Efficiency Over Time

Each generation of TIFs is more surgically designed and supports more General Fund revenue.

Initial 5-Yr Added Gen Fund Revenue per Acre

