Financial Management Performance Criteria and State Law: Implications for Reinvestment Zones and TIFs

Finance, Audit & Accounts Committee

March 26, 2007

Purpose of the Briefing

- Review the proposed set of policy initiatives approved by the Joint Economic Development and Housing, and Transportation and Environment Committees 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 costs
- Address the impact of current FMPC policies relating to TIFs
- Recommend modifications to FMPC policy that accommodates these economic development policy initiatives while conforming to State law governing reinvestment zones and TIFs

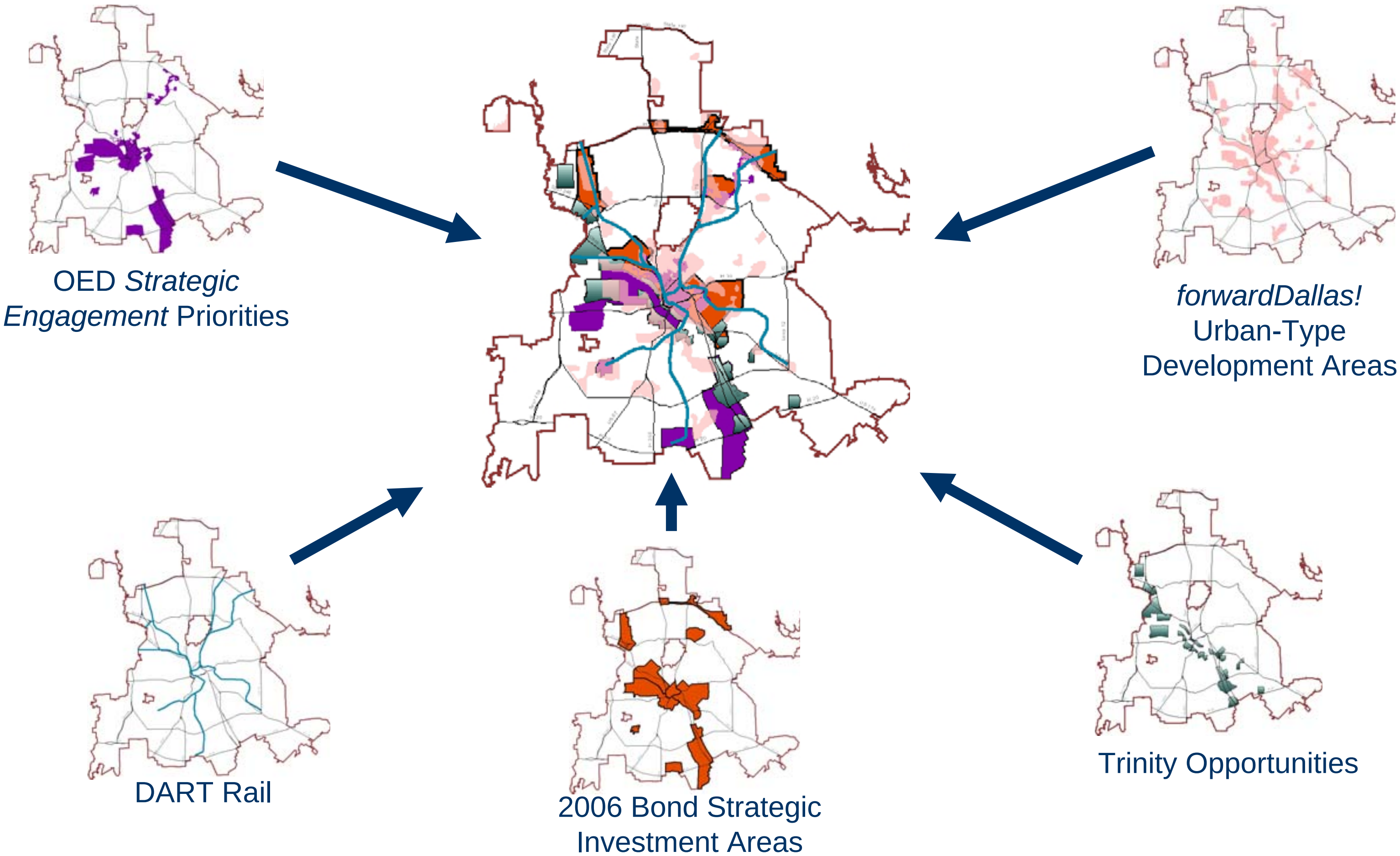
Outline

- Recent development strategies and results
- Challenges and opportunities
- Two program opportunities
  - Transit oriented development (TOD)
  - Deteriorated multifamily
- Tax increment finance districts: the primary finance tool
- Existing State law and Dallas FMPC policy
- Limitations of current FMPC policy
- Evolving TIF policy and "New Era" TIFs
- Recommendations
- 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

- 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 over $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

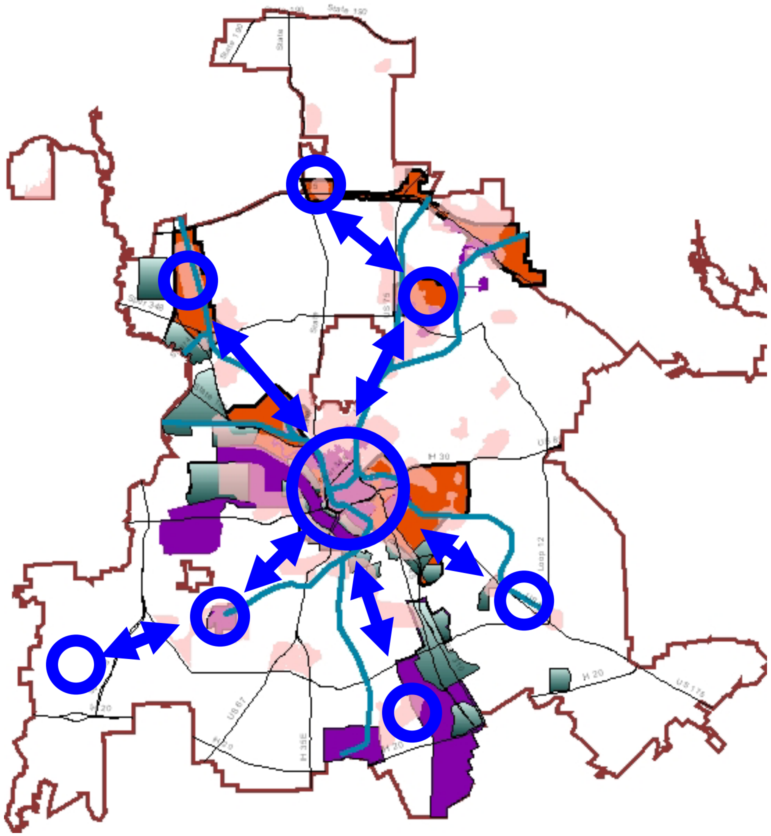
Development Gaps

- 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



Building on Strengths

- 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?

- Accommodate growth as demonstrated by the following demographic trends: 400,000 jobs and 200,000 new households by 2030
- Generate more tax revenue from more intense, higher quality development than from traditional development patterns
- Increase investment and close the retail gap in the southern sector
- Address continued competitive pressures from suburban markets for investment and development activities
- Confront a citywide legacy of aging multifamily complexes that are substandard for human habitation and a net negative on City finances

Tax Increment Financing Districts:

Primary Financing Tool

- Establish revenue streams for public improvement from increased tax base
- Assist projects that otherwise would not occur or not occur with the desired densities / quality

BUT FOR

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

Existing State Law

- Reinvestment zones must be created to form a TIF
- No reinvestment zone can be created if its total appraised real property tax value plus the total appraised value of existing reinvestment zones exceeds 15% of the City’s taxable real property tax base
- No reinvestment zone can be created if more than 10% of the property (land mass), excluding publicly owned property, is used for residential purposes (five or fewer living units)

Existing Dallas FMPC Policy

- Maximum of 5% of City's tax base in TIF's total tax base (include both real and business personal property)
- Maximum of 10% of the taxable property (land mass) in a TIF zone used for residential purposes (5 or fewer living units)

Tax Base Cap Comparison:

State Law and Dallas FMPC

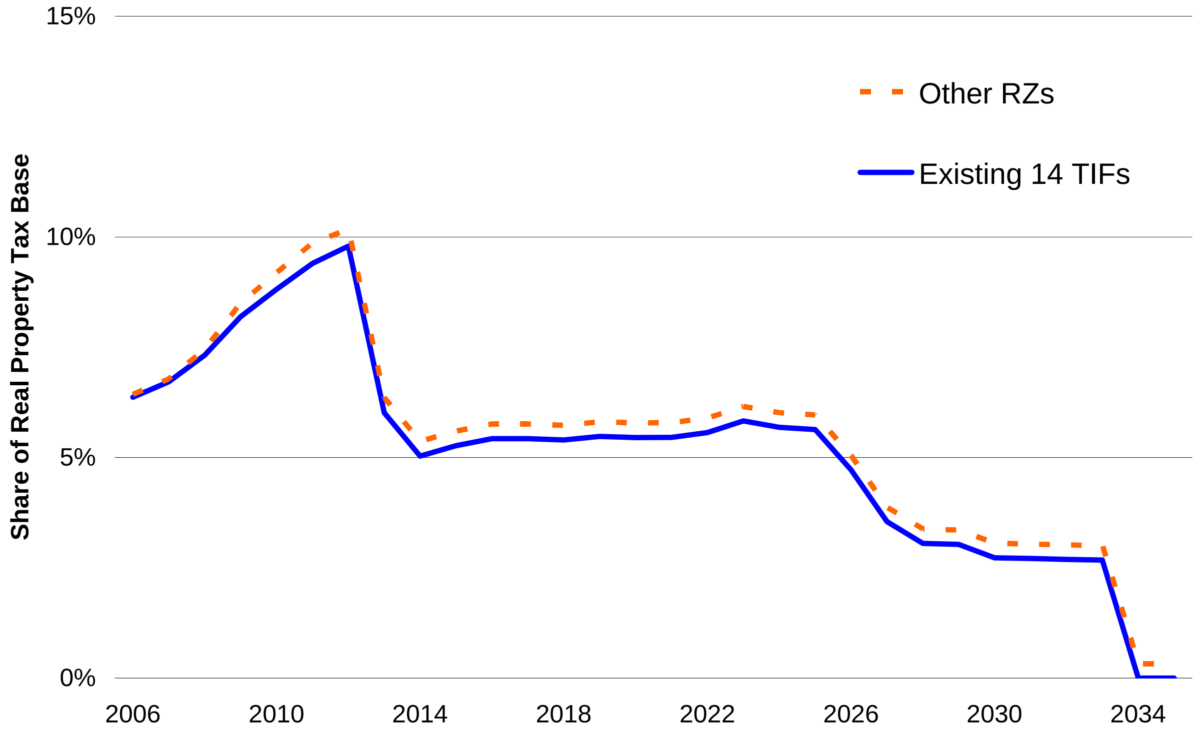
	State Law	Current Dallas FMPC
Tax Base Definition	Real Property	Real and BPP
Reinvestment Zones Included	TIFs and other reinvestment zones	TIFs
Cap Level	15%	5%

Substantial Unused Capacity Under State Law

- Total 2006 City real property appraised value = $64.8B
- 14 existing TIFs and other reinvestment zones real property = $4.168B (6.4%)
- Existing TIFs and other reinvestment zones values peak at 10.2% of projected total real property value in 2012
- Percentage declines rapidly thereafter with the expiration of first generation TIF districts

Substantial Unused Capacity Under State Law (continued)

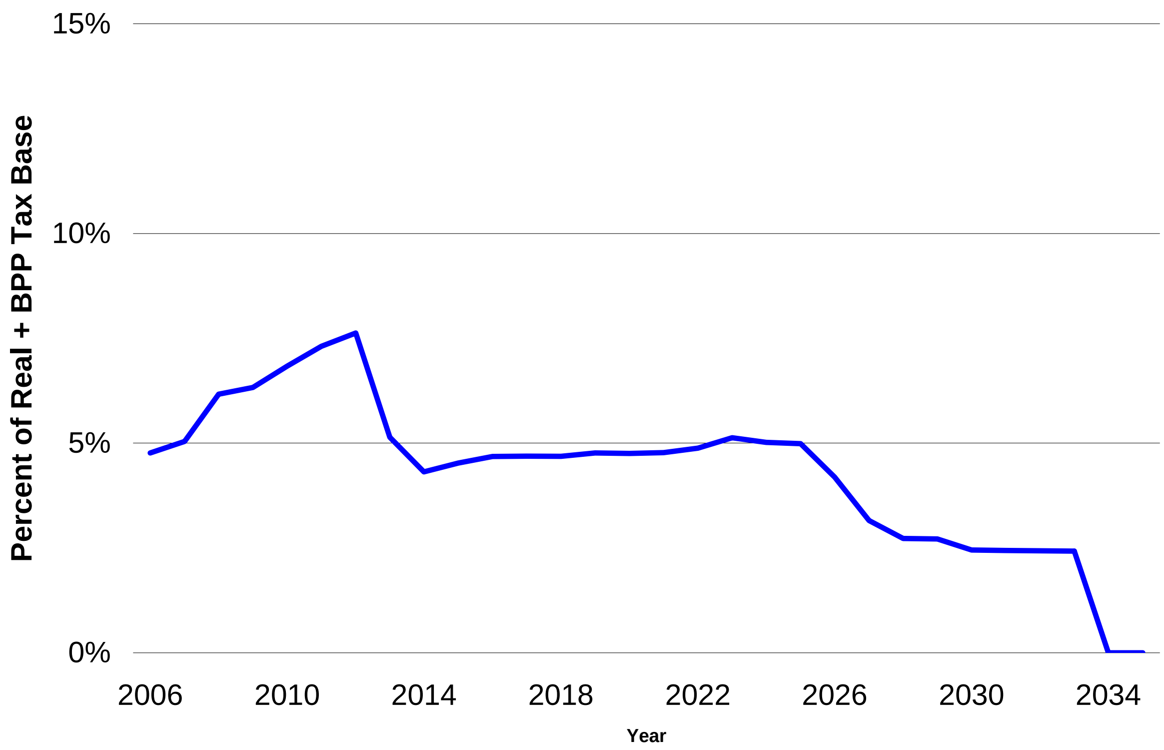
State Maximum = 15%



At or Above Capacity Under Current FMPC Policy

- Total real and business personal property tax base = $77.4B
- Current FMPC calculation is 4.8%
- Calculation peaks at 7.6% of the base in 2012

New TIF Creation Capped Under Current FMPC Policy



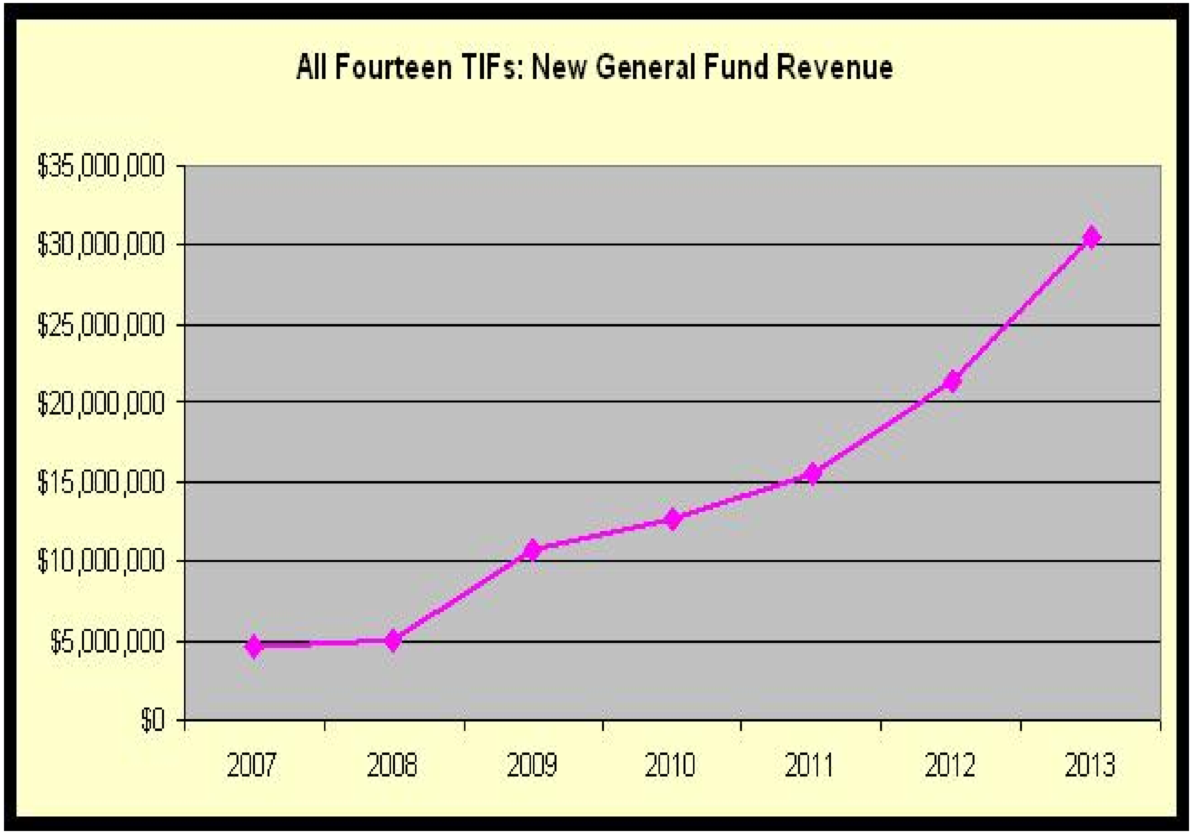
Let’s Think About It

- TIFs stimulate new development that otherwise would not occur
  - But For
- TIFs generate a ratio of private to public investment of about 16 to 1
  - This is the DIRECT investment
  - More tax revenue is generated by retail sales and property tax increments contributed to General Fund
  - Jobs are created
  - City expenses are reduced for public safety and code enforcement
  - Adjacent neighborhoods are stabilized / enhanced
- **<u>But</u>**, the more successful the TIF, the more capacity it absorbs (under the FMPC cap) **<u>regardless</u>** of how much increment it generates for the general fund
- By restricting ourselves to the current FMPC cap we are constraining one of our most powerful development tools

TIF Policy Has Evolved

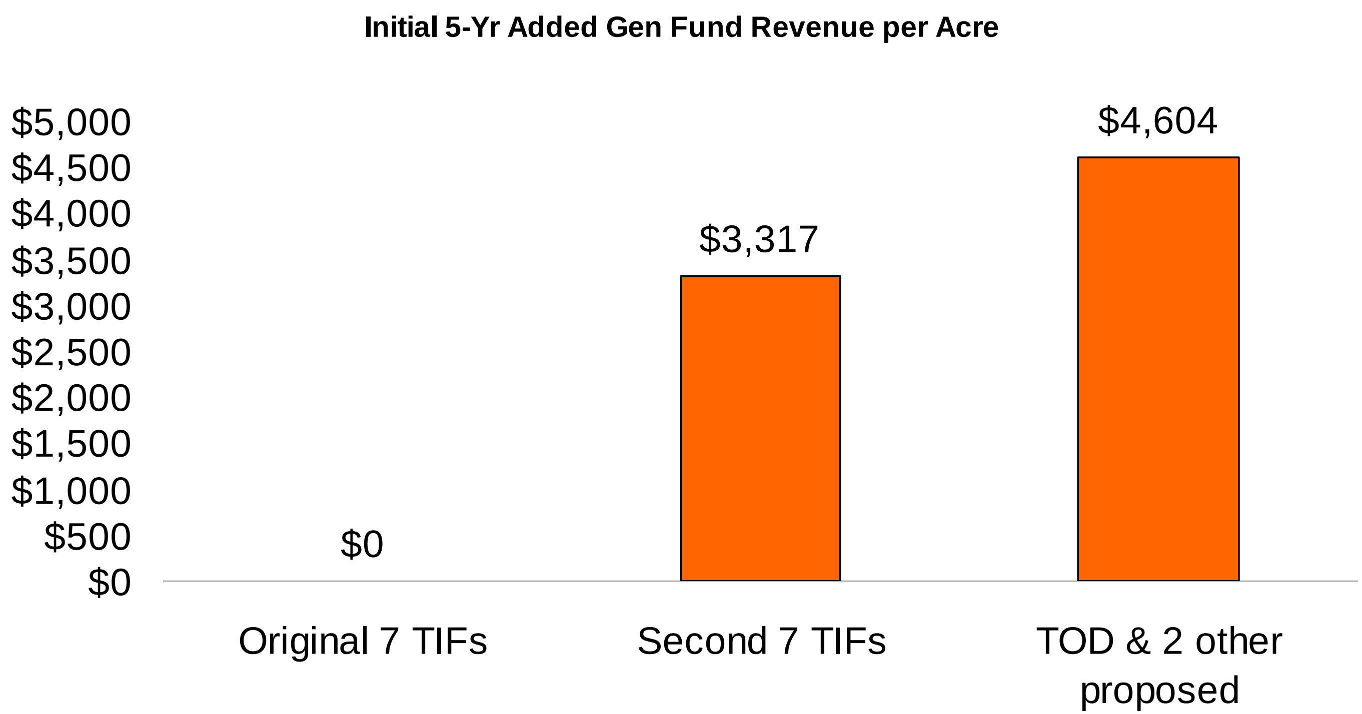
- Initial seven TIF districts were viewed as long term investments in downtown and surrounding neighborhoods
  - Retained 100% of their incremental growth for reinvestment
  - State Thomas now pays 100% to the GF
  - Total of $27 million will be paid to the GF by 2013
- Recently created districts provide revenue to the General Fund earlier because City's participation is reduced
- Future TIF districts can be designed to close development gaps and/or jumpstart catalyst projects
  - Revenue neutrality early, with increasing General Fund contributions in later years

Existing TIFS Provide $30M in New GF Revenue By 2013



Improving TIF Efficiency Over Time

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

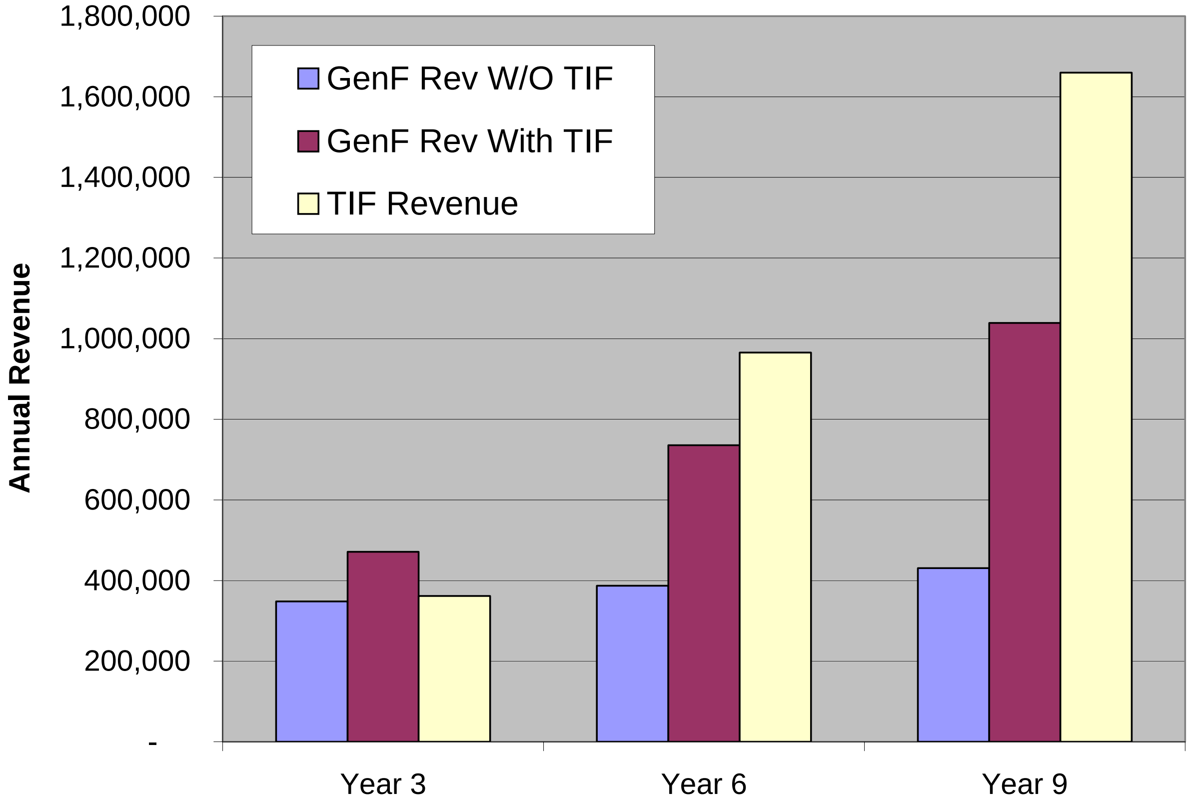


"New Era" TIF Enhancements

- Accelerated delivery of property tax revenue to the General Fund by adjusting the City's participation as development progresses
- Significant (over $200 million) minimum project commitment required
- Early termination if negotiated private investment requirements are not met in five years
- TIF incentives cease when targeted return on investment is achieved based on project pro forma (12% target, but varies according to risk)
- Increased mix-use densities for sustainability
- Target redevelopment opportunities with continued focus on mixed-income affordability and relocation priorities
- Implementation of *forwardDallas!*

Proposed Neighborhood Center:

A TIF vs. No-TIF General Fund Property Tax Revenue Comparison

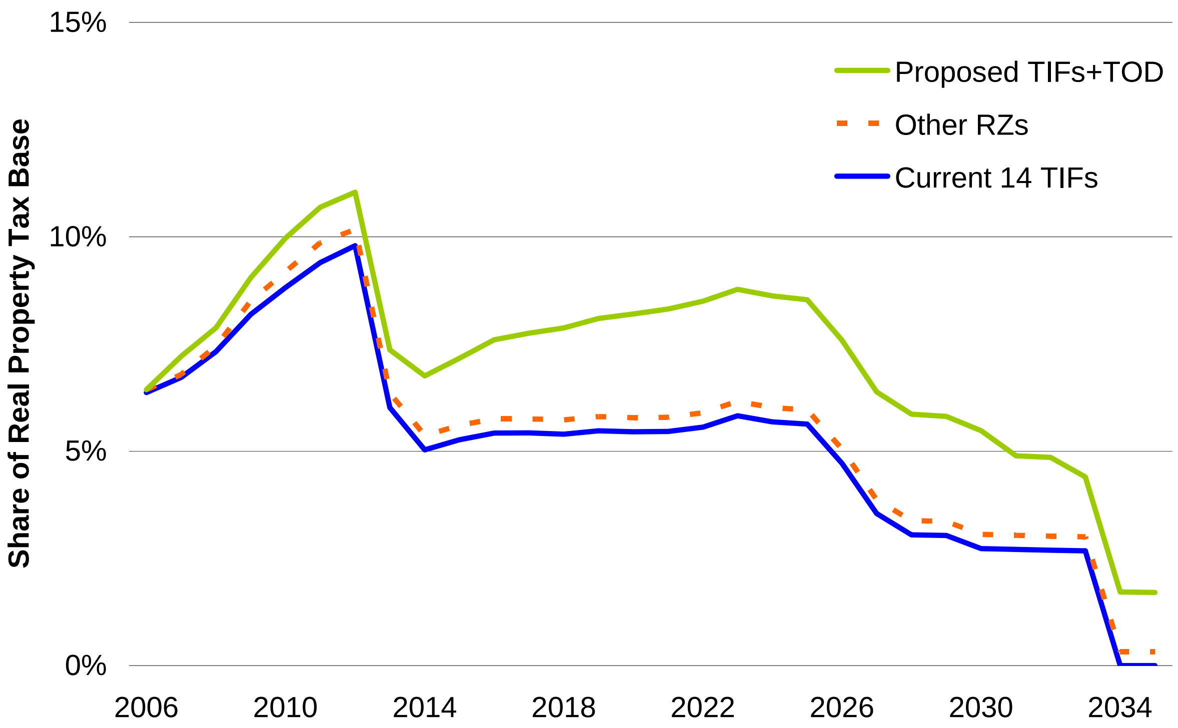


Proposed “New Era” TIFs Impact

- State law
  - Estimated peak investment in 2012 would increase from 10.2% to 11.0% of the total real property tax base, decline to 7.4% in 2013 with expiration of initial seven TIFs
- FMPC Policy
  - Estimated peak investment in 2012 would increase from 7.6% to 8.7% of the total real + BBP tax base, decline to 6.3% in 2013 with expiration of initial seven TIFs

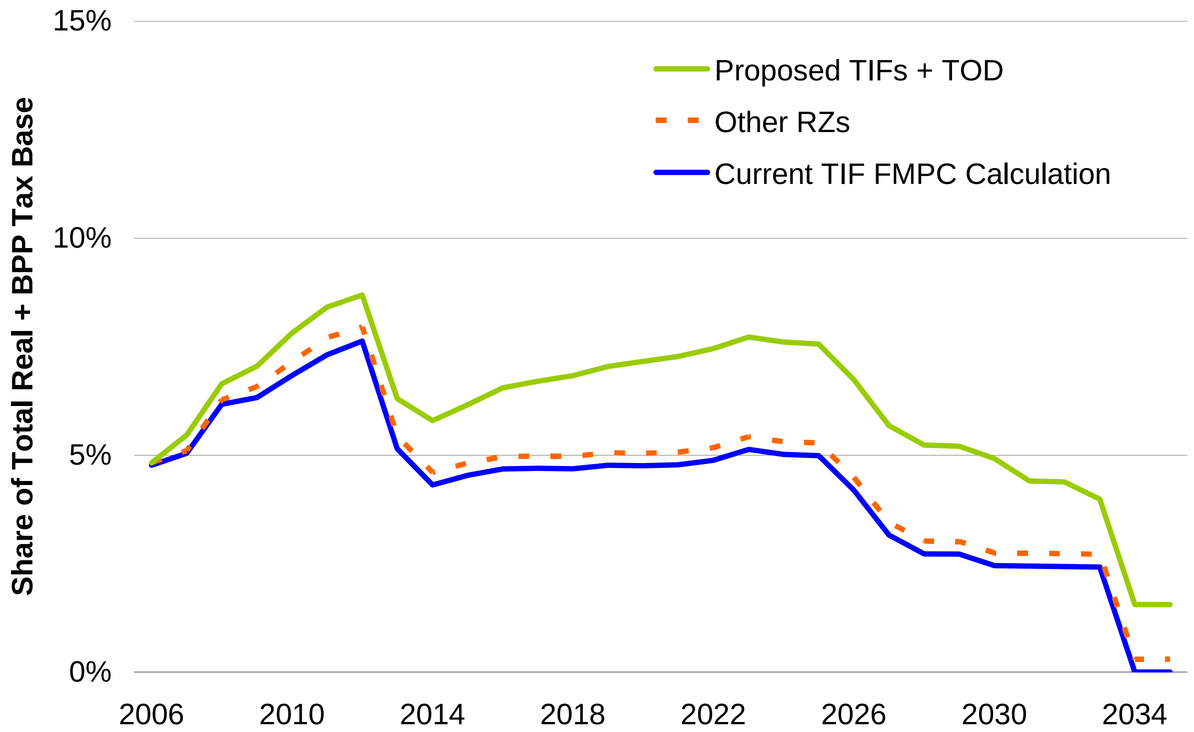
Reinvestment Zone/TIF Exposure:

Under State Law Peaks at 11.0% in 2012



Reinvestment Zone/TIF Exposure:

Under Proposed FMPC Policy Peaks at 8.7% in 2012



Recommendations

- Clarify that FMPC Cap calculation excludes reinvestment zones contributing 100% to the City
- Increase FMPC policy Cap for tax base in reinvestment zones (TIF and tax abatement zones) to 10% of total property tax base (real and business personal property)
- Clarify that no TIF reinvestment zone can be created if its total property tax base plus the total property tax base of existing TIF reinvestment zones exceeds 10%.

Tax Base Cap Comparison:

State Law, Current Dallas FMPC, and Proposed FMPC

	State Law	Current Dallas FMPC	**Proposed FMPC**
Tax Base Definition	Real Property	Real and BPP	**Real and BPP**
Reinvestment Zones Included	TIFs and other reinvestment zones	TIFs	**TIFs and other reinvestment zones**
Cap Level	15%	5%	**10%**

Next Step

- Council considers increase in FMPC policy cap for tax base in reinvestment zones (TIF and tax abatement zones) to 10% of total property tax base (real and BPP) on April 11, 2007 addendum