Memorandum

CITY OF DALLAS

DATE: April 2, 2010

TO: Members of the Economic Development Committee
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Dwaine Caraway Linda Koop
Sheffie Kadane, Ann Margolin, Jerry R. Allen, Steve Salazar

SUBJECT: **Economic Development Corporations**

On Monday, April 5, 2010 the Economic Development Committee will be briefed on the. Economic Development Corporations The briefing is attached.

Should you have any questions, please contact me at (214) 670-3314.

A.C. Gonzalez
Assistant City Manager

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Tom Perkins, Jr., City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge Municipal Court
Ryan S. Evans, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Stevens-Thompson, Assistant to the City Manager

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Economic Development Corporations

Economic Development Committee

April 5, 2010

Key Focus Area
Economic Vibrancy

Introduction

- The notion of creating an Economic Development Corporation (EDC) has been proposed to promote economic development in Southern Dallas.
  - Recent advocates include the Economic Development Committee of the Mayor's Southern Dallas Task Force as well as the Dallas Morning News
- The purpose of this presentation is to introduce basic information related to EDCs for review and discussion.

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Purpose for EDCs

- The role of an EDC is to facilitate land and facility development resulting in:
  - new and diversified tax base;
  - corporate/business expansion; and,
  - the creation/retention of primary jobs.

- EDCs often undertake other related activities such as marketing and promotion to achieve desired goals.

- EDCs are often operationally independent from the sponsor (e.g., state, municipalities, etc.). This results in:
  - Solidified roles, responsibilities and procedures;
  - Limitations on “public” and “political” negotiations;
  - Independence.

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EDCs in Texas

- The Development Corporation Act of 1979 (DCA) permits municipalities to create privately funded nonprofit development corporations to promote industrial and manufacturing development.
  - In November 1987, Texas voters approved an amendment to the Texas Constitution that allowed for the creation of programs and the making of loans and grants of public money for the public purpose of development and diversification of the economy.

- Perhaps the most recognized EDCs in Texas are sales tax funded entities created pursuant to 1989 and 1991 amendments to the DCA. These EDCs are:
  - legal entities with the statutory authority to spend local economic development sales tax dollars;
  - city-chartered and governed by a city-appointed board of directors subject at all times to the control of the governing body of the city that created the corporation; and,
  - typically referred to as either “4A” (or Type A) and “4B” (or Type B) depending on the intended use of sales taxes approved by local voters.

EDCs in Texas

- Both Type A and Type B EDCs can
  - fund (directly or through the issuance of debt, notes and contract) for land, buildings, equipment, facilities, and infrastructure for the creation or retention of primary jobs related to manufacturing and industrial facilities, research and development, distribution centers, etc.
  - Type B EDCs can also fund projects such as facilities for professional/amateur sports, parks, entertainment, tourism and affordable housing.

EDCs in Texas

- Well over 550 Texas cities have adopted either the 4A or 4B economic development sales tax (or both).
- The **City of Dallas is excluded by state law from adopting either the 4A or 4B sales taxs** to support economic development.
  - 4A sales taxes are limited to cities located in counties with populations less than 500,000.
  - Adoption of the 4B tax would make Dallas' new combined local sales tax rate exceed the maximum of 2 percent.

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Additional Types Of Development Corporations

- In addition to Type A and Type B EDCs, other corporations may be created to promote economic development including IDC's and LGC's
  - pursuant to the Development Corporation Act (Industrial Development Corporations "IDCs") and the Texas Transportation Corporation Act (Local Government Corporations "LGCs").
  - While IDCs and LGCs can issue bonds and assume other debt, a **primary** distinguishing **characteristic** is the **lack of a statutorily dedicated revenue source** which is available to the sales tax corporations.

Examples of Dallas Corporations

- The City has a history of creating (or sponsoring) non-sales tax economic development related corporations to achieve its development goals. Examples include:
  - City of Dallas Industrial Development Corporation (to issue industrial revenue bonds for new projects in targeted areas)
  - City of Dallas Business Development Corporation (to facilitate Southern Dallas land and business expansion)
  - Southern Dallas Development Corporation (to provide a capital source for business expansions)
  - Downtown Dallas Development Authority (to issue contract revenue bonds associated with the Downtown Connection TIF District)
  - Love Field Economic Development Corporation (to issue revenue bonds for new facilities at Love Field)

Other Dallas Tools

- In addition, the City continues to evolve its programs to further promote development and job creation in the Southern Sector.
- Recent tools implemented to finance or otherwise offset private development costs include:
  - Increasing FY2010 PILOT funding to $6.8 million for the City's Public/Private Partnership Program;
  - Achieving voter approval of Proposition 8 of the 2006 Bond Program ($41.495 million);
  - Receipt of a $55 million New Markets Tax Credit allocation;
  - Implementing four new tax increment financing districts (TIFs) since 2007 that can support potential funding needs exceeding $400 million in Southern Dallas;
  - Creating the City of Dallas Regional Center with initial year project funding anticipated to reach $40 million and ultimately exceed $100 million annually; and,
  - Supporting the creation of Municipal Management Districts to enhance public infrastructure/services through MMD taxes and assessments.

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Peer City Review

- In addition to reviewing Texas development corporations, City staff reviewed economic development entities in a number of cities including Houston, San Antonio, Fort Worth, Austin, Chicago, Atlanta, Denver, Phoenix, Portland, Nashville, and Kansas City.
- Given the differences in political and legal organization, funding levels, objectives and missions, it’s difficult to compare or benchmark one city to another, but some general observations emerged.

Observations from Peer City Review

- Characteristics of primary economic development entities for non-Texas cities reviewed:
  - Entities other than a city often act as the lead economic development organization;
  - Varying degrees of city oversight for economic development corporations/authorities;
  - They may act as a lead source of financing to commercial and housing projects alike;
  - Heavy use of TIFs and revenue bonds;
  - Focus on urban renewal;
  - Lending programs for small business prominent; and,
  - If municipalities play a strong role, it's generally on development and recruitment programs may be outsourced.

Observations from Peer City Review

- Characteristics of the primary economic development entities for Texas cities reviewed:
  - Cities generally focus on development programs whereas marketing and recruitment is generally led by non-city entities;
  - Strong city oversight for economic development corporations;
  - Act as a supplemental source of financing for commercial development;
  - Substantial use of TIFs; and,
  - Special purpose usage LGCs or IDCs.
- San Antonio and Austin created Urban Renewal Agencies (See Urban Renewal on page 13.) in the 1950's that remain somewhat active.

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Urban Renewal Agencies

- The Texas Urban Renewal Law allows for the creation of agencies to prevent and eliminate slum or blighted areas.
- Created subject to voter referendum, these agencies can:
  - Carry out a broad range of activities which includes the issuance of bonds and the use eminent domain for certain purposes in accordance with an approved urban renewal plan.

Observations

- Finance related IDCs or LGCs do not lead the economic development efforts of Texas cities as sales tax EDCs do.
- Restricted funding options for LGCs and IDCs limit their functionality to specific purpose developments.
- Urban Renewal Agencies are used sparingly in Texas due to negative history and requirement of voter referendum.

Conclusion

- At the moment, Dallas has the finance and development tools in place to facilitate meaningful and targeted developments.
- Unless there is enabling legislation which would provide a new funding source to promote economic development, an EDC will not improve Dallas' current efforts because it will require a reallocation of existing revenues and the City will still need staff to handle associated legal mandates.
- If a new funding source is authorized, the City can implement enhanced efforts through existing programs thereby ensuring appropriate City Council oversight.

Discussion