

# City Center TIF District Funding Reimbursements and the Interurban Building

Briefing to Economic Development and  
Housing Committee

June 19, 2006

# Purpose

- This briefing has been prepared to address the following issues:
  - What is the purpose of the City Center TIF funding reimbursement queue?
  - What options are available for reimbursement and how do developers know what the expectations are?
  - What happens if there are changes to a project's required completion date?
  - How does reimbursement queue mechanism impact the Interurban Building?
  - What is the current status of the Urban Market?
  - What public/private solutions are available to support the urban market until residential critical mass is achieved?

## Why a TIF queue?

- From the inception of the City Center TIF District through 2004, \$55.8 million of increment was collected.
- Prior to there being any cash on hand, a policy was established allowing the first four City Center TIF District projects completed to equally share available TIF funds, when available, until projects were fully reimbursed.
- This distribution policy best served the District's needs at the time because it generated interest from several developers to "jump start" revitalization efforts.

## Why a TIF queue?

- As cash surplus accrued, developers' interest increased in developing downtown with the available TIF incentives.
- The amount of TIF assistance allocated to these projects exceeded the amount of cash on hand.
- A reimbursement queue mechanism was created.

## Why a TIF queue?

- The queue, or sequence of reimbursement obligations, coupled with annual TIF increment projections, are used to assist in guiding developers regarding reimbursement timing for TIF eligible expenditures.
- City Center TIF District projections have been less than expected.
- City Center TIF District values are significantly affected by continued vacancies of Class A office towers.

## Why a TIF queue?

- All TIF Districts operate under the assumption that funds may or may not be available and the timing of payments is unknown.
- Annual projections and the reimbursement queue was an attempt to mitigate uncertainty to the extent possible.

## Why a TIF queue?

- Developers typically use the queue, incorporated within the development agreement, to assist in securing loans for their projects.
- Developers and banks have an estimate from the development agreement when TIF funds might be available.
- Prioritizing projects to receive potential future increment can be done in several ways although no one way is ideal.

# Queue Options

- The City Center TIF District queue has been refined over the years.
- Projects such as Gulf States, Interurban, Republic Center, Joule Hotel and 1608 Main Street were prioritized based on the date on which the development agreement was authorized by City Council.
- More recent projects such as Mosaic and Metropolitan (1200 Main Street) were placed in the queue once they showed evidence of financing.

# Queue Options

- Each development agreement describes how the project will be placed in the reimbursement queue.
- All development agreements contain language stating that TIF funds are not a sum-certain obligation of the City, but are a contingent liability.
- There is no developer expectation to receive payment from sources other than TIF increment.

# Existing Agreements

- All of the projects currently under construction that precede Interurban in the queue have received time extensions for their completions.
- Developers requesting deadline extensions came before the TIF Board to explain their need for more time and, if requested, the consequences that being re-ordered within the queue would have on the project (i.e., loans made with understanding that cash is available for reimbursement upon project completion).

# Existing Agreements

- Neither staff nor the TIF Board recommended re-ordering any projects in the queue.
- The reasons for delay were legitimate and in some cases increased the City's benefit (increases in project scope /private investment).

# Existing Agreements

- Projects currently in the queue are:
  - Gulf States (\$4.67 million)
  - Joule Hotel (\$4.3 million)
  - Dallas Rooftop Gardens (\$.98 million)
  - 1608 Main Street (\$1.55 million)
  - Republic Center (\$4.61 million)
  - Interurban (\$5.0 million)
  - Joule Hotel (\$4.2 million)
  - Mosaic (\$9.0 million)
  - 1200 Main Street (\$4.75 million)

# Existing Agreements

- When completed, projects currently under construction are expected to generate 1,118 residential and hotel units, 83,000 square feet of retail, and add approximately \$858,000 of increment following the first year after completion.
- Five projects before Interurban in the reimbursement queue all received deadline extensions.
- The Interurban Building was completed in accordance with the development agreement, with no deadline extensions.



# Interurban

- Barker Nichols, owner/developer of the Interurban Building, has requested priority reimbursement of all TIF funds advanced for the project, based on the fact that the project is complete and others in front of them in the queue have not been completed.
- Barker Nichols executed a development agreement describing the disbursement of all cash increments.
- Immediate payment of TIF funds would take available cash away from other projects ahead of Interurban in the queue and would require the other developer's consent.

# Interurban

- The TIF Board had the option of re-ordering the repayment to projects requesting deadline extensions in the queue but did not do so.
- Deadline extensions do not push the Interurban's payment back in the queue.
- Under current policy, payment will be made to Interurban when cash is generated and deposited into the TIF fund, after other projects in front of them in the queue have been reimbursed.
- The City has legal obligations to developers based on development agreements which establishes the order of repayment (the queue).

## Interurban Assistance to Date

- \$5 million in TIF funds were approved.
- \$1.03 million, plus interest, has been paid using available TIF cash.
- \$967,038 tax abatement (contingent on grocery store remaining in operation).
- \$722,639 in Bond funds for streetscape improvements.
- It is anticipated that over \$1 million will be paid to the Interurban project this year.

# Urban Market Grocery

- Urban Market is a 20,000 square foot grocery store and café, located on the ground floor of the Interurban Building.
- Urban Market is operated by Manuel Zambrano and owned by a partnership of Zambrano and private investors.



# Urban Market Grocery

- Urban Market is experiencing operating losses and has been unable to pay rent since opening.



- Although operating deficits have improved, Urban Market will require additional capital until a residential critical mass is reached to sustain the store.

# Summary and Recommendations

## Reimbursement funding/Interurban:

- TIF funding is based solely on increment collection, may or may not be available and timing is uncertain.
- Annual projections and the reimbursement queue mechanism are attempts to mitigate uncertainty.
- Queue priority is incorporated in development agreements and depended upon by developers and financial institutions.

# Summary and Recommendations

## Reimbursement funding/Interurban, cont.:

- All City Center projects currently under construction that precede Interurban in the queue received deadline extensions.
- TIF Board approved extensions and maintained the original queue.
- Interurban Building was completed with no deadline extension.
- Interurban maintains its original queue position in accordance with the development agreement.

# Summary and Recommendations

## Reimbursement funding/Interurban, cont.:

- City has legal obligations to developers based on development agreements, establishing repayment order.
- City is concerned about consequences that shifting queue might have on other residential projects.

## Staff Recommendation:

- No change in TIF reimbursement queue priority without developer consent.

# Summary and Recommendations

## The Urban Market:

- City staff, City Center TIF Board of Directors and DOWNTOWNDallas understand the importance of supporting the Urban Market.
- Subject to review of operation statements, going forward projections, and a business/marketing plan, public and private stakeholders have expressed willingness to help.
- Urban Market is eligible for assistance under Phase II of the Main Street District Retail Recruitment Initiative (a Chapter 380 program) which has a business retention provision.

# Summary and Recommendations

## The Urban Market, cont.:

- DOWNTOWN Dallas and City Center TIF District Board of Directors have informally talked with downtown stakeholders about raising additional capital support in the form of a private placement.
- City employees appreciation day held on June 13<sup>th</sup> with email announcements and posters advertising Urban Market.

# Summary and Recommendations

## Staff Recommendation:

- Form a task force by DOWNTOWNDallas to work with Urban Market ownership to craft a support plan.
  - Task force should include representation by City staff, City Center TIF District Board of Directors and other downtown stakeholders
  - Full financial disclosure and collaboration by urban market ownership is a prerequisite

# Summary and Recommendations

## Staff Recommendation, cont.:

- Encourage Urban Market to apply to the retail committee for assistance under Phase II of the retail recruitment initiative.
- All public/private support tied to development of a business and financial plan that is acceptable to ownership as well as public and private stakeholders.