

# Memorandum



DATE October 16, 2009

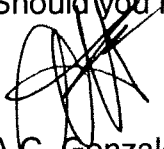
TO Members of the Economic Development Committee: Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwaine Caraway, Sheffie Kadane, Ann Margolin, Linda Koop, and Steve Salazar

SUBJECT **Briefing on Refining TIF Policy – Term Extension**

On Tuesday, October 20, 2009, the Economic Development Committee will be briefed on Refining TIF Policy – Term Extension.

Briefing material is attached.

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



A.C. Gonzalez  
Assistant City Manager

C: The Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Deborah Watkins, City Secretary  
Tom Perkins, City Attorney  
Judge C. Victor Lander, Judiciary  
Ryan S. Evans, First Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest Turner, Assistant City Manager  
Dave Cook, Chief Financial Officer  
Jeanne Chipperfield, Director, Budget & Management Services  
Karl Zavitkovsky, Director, Office of Economic Development  
Hammond Perot, Assistant Director, Office of Economic Development  
Helena Stevens-Thompson, Assistant to the City Manager

# Refining TIF Policy - Term Extension

Economic Development Committee

October 20, 2009



Office of Economic Development  
[WWW.DALLAS-ECODEV.ORG](http://WWW.DALLAS-ECODEV.ORG)



# Overview

- ◆ In June, 2009 the **State Legislature** Amended the Tax Increment Financing Act (Chapter 311 of the Tax Code) to:
  - Allow **extension** of a **reinvestment zone's termination date**
  - Give taxing jurisdictions originally participating in the reinvestment zone the option to continue or discontinue their involvement for an extended term
- ◆ Five of the City's 17 TIF Districts will terminate by 12/13/14
- ◆ It is appropriate to review our TIF Policies, last updated in March, 2007, and establish renewal criteria

# Background: TIFs Defined

- ◆ Tax Increment Financing (TIF):
  - A tool to finance improvements within a **defined geographic area** to stimulate new private investment and generate increased real estate values
  - Any **increase in property tax revenues in excess** of the **base year** value of the District is paid into a special TIF fund to finance improvements within the District
  - **Developer funds** and **completes improvements** and is subsequently **reimbursed** from TIF revenue, as funds are available
  - Limits the financial risk of both the City and taxpayers

# Background: History

- ◆ First implemented in Dallas in 1988 with the creation of State-Thomas TIF District
- ◆ Seven Districts created between 1988 and 1999
  - State-Thomas
  - Cedars
  - Sports Arena
  - Cityplace
  - City Center
  - Oak Cliff Gateway
  - Farmers Market
- ◆ State-Thomas terminated in 2008 and Cityplace met forecasted increment projections in 2008, ceased collections and is working to build out final infrastructure improvements.
- ◆ Five other districts will either reach the termination date or maximum collection amount by 2014. (See Appendix 1)

# Background: Criteria for TIF Formation Updated in 2007

## ◆ “New Era” Financial Performance

- Assists projects that would otherwise not occur with desired densities/quality (“but for”)
- Generate income for the district, but also enhances revenue for the General Fund
- Taxes generated exceed taxes foregone
- Financial participation by other taxing entities
- Catalyst Projects: Minimum \$100 million investment over 5-year period

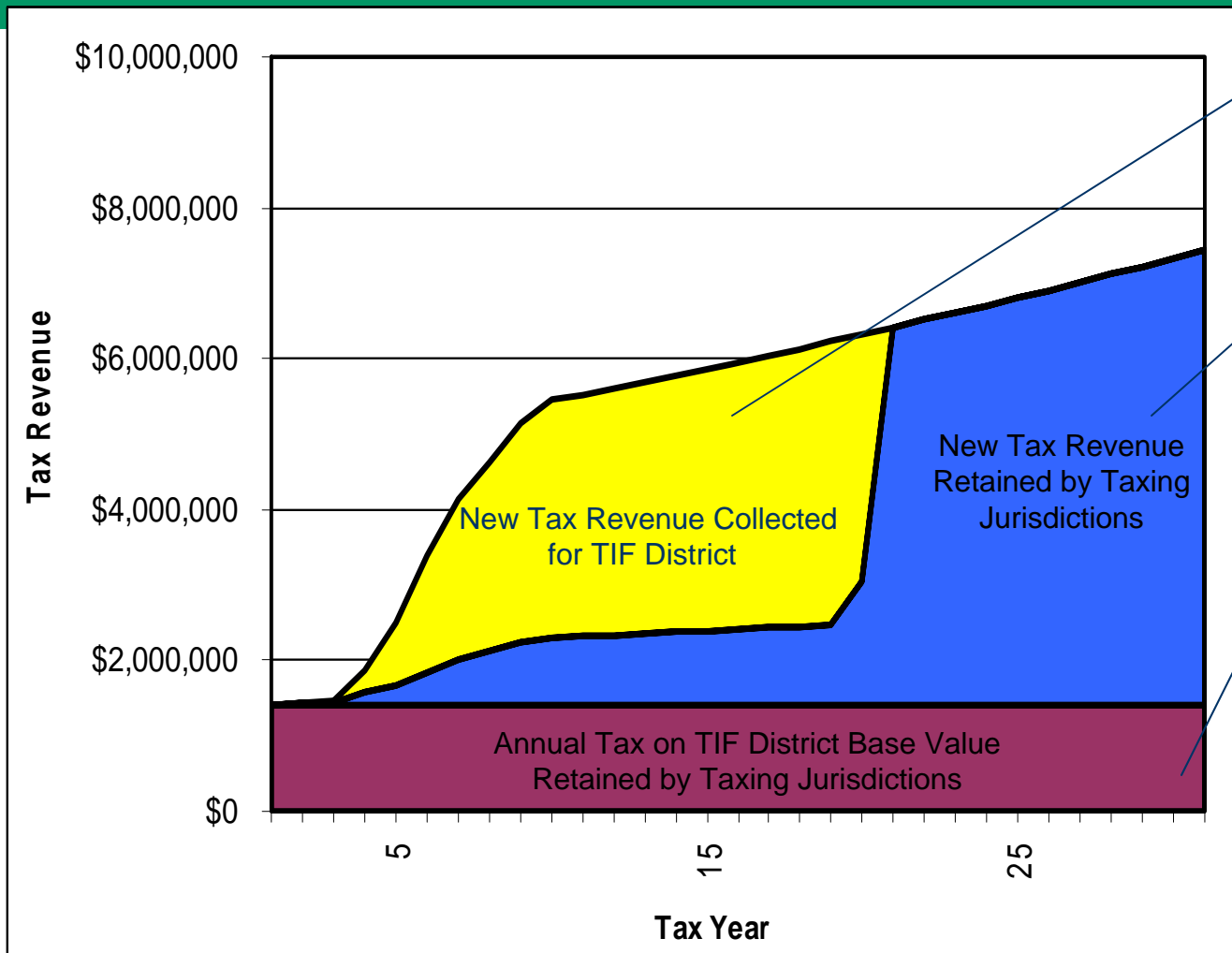
# Background: Criteria for TIF Formation

(continued)

## ◆ Public Policy Initiatives

- Affordable housing
- Strong urban design
- Promote hiring of neighborhood residents
- Enhancement of other public investments and core assets of the City of Dallas
- Benefits statistically low-income areas
- Provides for and enhances park/trail/green space
- M/WBE business hiring

# Background: Property Tax Flow within TIF Districts



Portion of revenue due to new development that flows to the TIF District

Portion of revenue due to new development that flows to the City's General Fund

Amount of Tax Revenue that flows to General Fund, TIF or no TIF

Additional revenue that flows to General Fund as a result of new development within a TIF District include:

- \*Sales Tax
- \*BPP
- \*Water Utilities



# 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 publically owned property, is used for residential purposes (five or fewer living units)
- ◆ Currently the portion of the **City's real property tax value in Reinvestment Zones is 8.55% vs. a 15% cap**

# Dallas Financial Management Performance Criteria (FMPC)

- ◆ No Reinvestment Zone (TIFs and abatement zones) can be created if its total appraised property tax value, plus the total appraised value of existing reinvestment zones (**real and business personal property**) exceeds 10%
- ◆ The **FMPC cap calculation excludes Reinvestment Zones** that are **contributing 100%** of tax revenue generated to the City's **General Fund (i.e. Citypace TIF)**
- ◆ No Reinvestment zone can be created if more than 10% of the property (land mass), excluding publically owned property, is used for residential proposes (five or fewer living units)
- ◆ Currently the portion of **City real property and business personal property value in Reinvestment Zones is 6.87% vs. 10% cap**



# Background: Comparative State and FMPC Chart

	State Law	Dallas FMPC
<b>Tax Base Definition</b>	Real Property	Real Property + BPP
<b>Reinvestment Zones Included</b>	TIFs and Other Reinvestment Zones	TIFs and Other Reinvestment Zones
<b>Exclusions</b>	None	Excludes Reinvestment Zones contributing 100% of Revenue to City's General Fund
<b>Cap Level</b>	15%	10%
<b>Current Ratio</b>	8.55%	6.87%

# What TIFs Have Accomplished

- ◆ TIF Districts saw a 107% increase in taxable value over their base years in 2008
- ◆ In 2008, citywide property value increased by 1.05% vs. TIF Districts increase of 21.7%
- ◆ As of 2008, total TIF expenditures and allocations of \$547 million have leveraged approximately \$7.66 billion in property value
  - Each public dollar has leveraged \$14 in private investment
  - These investments will continue to:
    - Generate tax revenue, produce employment and improve quality of life
    - Enhance values in areas adjacent to targeted investment and protect surrounding neighborhoods from decline and disinvestment
    - Change the perception of investment potential of the area

# What TIFs Have Accomplished (continued)

- ◆ Cityplace and State-Thomas are examples of fully successful TIF implementation – property value increases by approximately 9 times; reconstruction of aging public infrastructure, higher development density, pedestrian amenities and ties to light-rail
- ◆ New Districts like TOD, Fort Worth Avenue, Davis Garden and Grand Park South create opportunities in Southern Sector

# Challenges Going Forward

- ◆ World has changed
- ◆ Financial institutions face regulatory constraints, real estate capital markets are frozen, and little liquidity is available for new loans
  - HUD is only game in town for residential finance
- ◆ Industrial, office, and retail markets are overbuilt nationally and locally, constraining new development opportunities
- ◆ More requirements for public support, but limited resources
  - Falling commercial property values reduce TIF increment growth
  - Bond issuances delayed
  - Public-Private Partnership and HUD 108 funds available, but demand exceeds supply

# Combining TIFs with Other Public and Private Sources

- ◆ Traditional TIF, Public-Private Partnership and Bond Investments will generate less private leverage because of more conservative lending standards
- ◆ TOD TIF promotes sharing of northern increments with southern neighborhoods
- ◆ TIF reimbursements must be effectively used to support capital repayment/debt service for new financial tools that include
  - HUD Section 108 Program
  - EB-5 City of Dallas Regional Center
  - Municipal Management Districts (MMD)

# Change in State Law Permits TIF Termination Date Extension

- ◆ In June, 2009, Chapter 311 of the Tax Code (Tax Increment Financing Act) was amended by the State Legislature to allow the extension of a reinvestment zone's termination date
  - Taxing jurisdictions originally participating in the reinvestment zone have the option to continue or discontinue their participation for the extended term



# TIF Policy Consideration: Term Extension Criteria

- ◆ With the changes in legislation, City policy needs to be updated to set parameters for term extensions of existing TIF Districts
- ◆ Below are recommended criteria for term extension:
  - **Meets same basic guidelines as “New Era” TIF formation and falls within FMPC cap requirement**
  - **Changing market conditions** (not present when the zone was established) **within the District will:**
    - Allow pending development to occur immediately, or
    - Support the expansion of a major employer, or
    - Support significant public investment and publically funded initiatives

# TIF Policy Consideration

## Term Extension Criteria (continued)

- **Extension of the District's term will:**
  - **Attract substantial redevelopment** projects with a private investment of \$100 million or more over the first 5 years of the extension period
  - **Generate satisfactory TIF increment to meet specific infrastructure and development needs** necessary to change the real estate market for the area
  - **Reduce the City's TIF contribution to allow greater general fund cash flow** and meet District 'pay back' goals (time after TIF closes for new revenue generated within the District to reimburse the General Fund for total City TIF contributions)
  - **Participation by other taxing entities**

# TIF Policy Consideration

## Term Extension Criteria (continued)

- **Term Extension Limit**
  - **10 years** – to allow enough time to fund infrastructure improvements for the targeted area
  - Can be extended if similar criteria are met
- ◆ **Continued existence of the following pre-conditions:**
  - Low housing values
  - Low income population
  - High vacancy rates for commercial buildings
  - An abundance of undeveloped or underdeveloped land
  - Substandard Infrastructure

# Recommendation

- ◆ Committee recommendation for approval of proposed TIF Policy amendment
- ◆ City Council consideration of TIF policy amendment on November 9, 2009

# ◆ Appendices

# Appendix 1: TIF Districts that have Expired or near Expiration

- ◆ State-Thomas TIF District officially terminated in 2008
- ◆ Cityplace TIF District ceased TIF increment collection in 2008, but the District does not officially expire until 2012
- ◆ Oak Cliff Gateway, Cedars and City Center TIF Districts expire in 2012
- ◆ Farmers Market TIF District expires in 2014

TIF District	Termination Date	2009 District Value	2009 Captured Value	Current City Contribution to TIF District (%)	Current City Contribution to TIF District
Oak Cliff TIF District	2012	\$110,576,980	\$72,006,852	100%	\$538,539
Cedars Area TIF District	2012	\$88,310,318	\$53,009,558	100%	\$396,458
City Center TIF District	2012	\$1,361,888,486	\$485,698,421	90%	\$3,269,285
Farmers Market TIF District	2014	\$107,740,320	\$80,033,469	100%	\$598,570
Sports Arena TIF District*	2019	\$502,927,411	\$486,503,638	100%	\$3,638,561

\*Sports Arena TIF District is anticipated to complete TIF collections in 2012

# Appendix 2: General Fund Revenue

- Existing TIFs will provide \$31.7 million in new General Fund revenue by 2011
  - \$7.8M in 2009
  - \$9.7M in 2010
  - \$14.2M in 2011

**General Fund Revenue from TIFs**

