

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

Finance, Audit & Accounts
Committee

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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

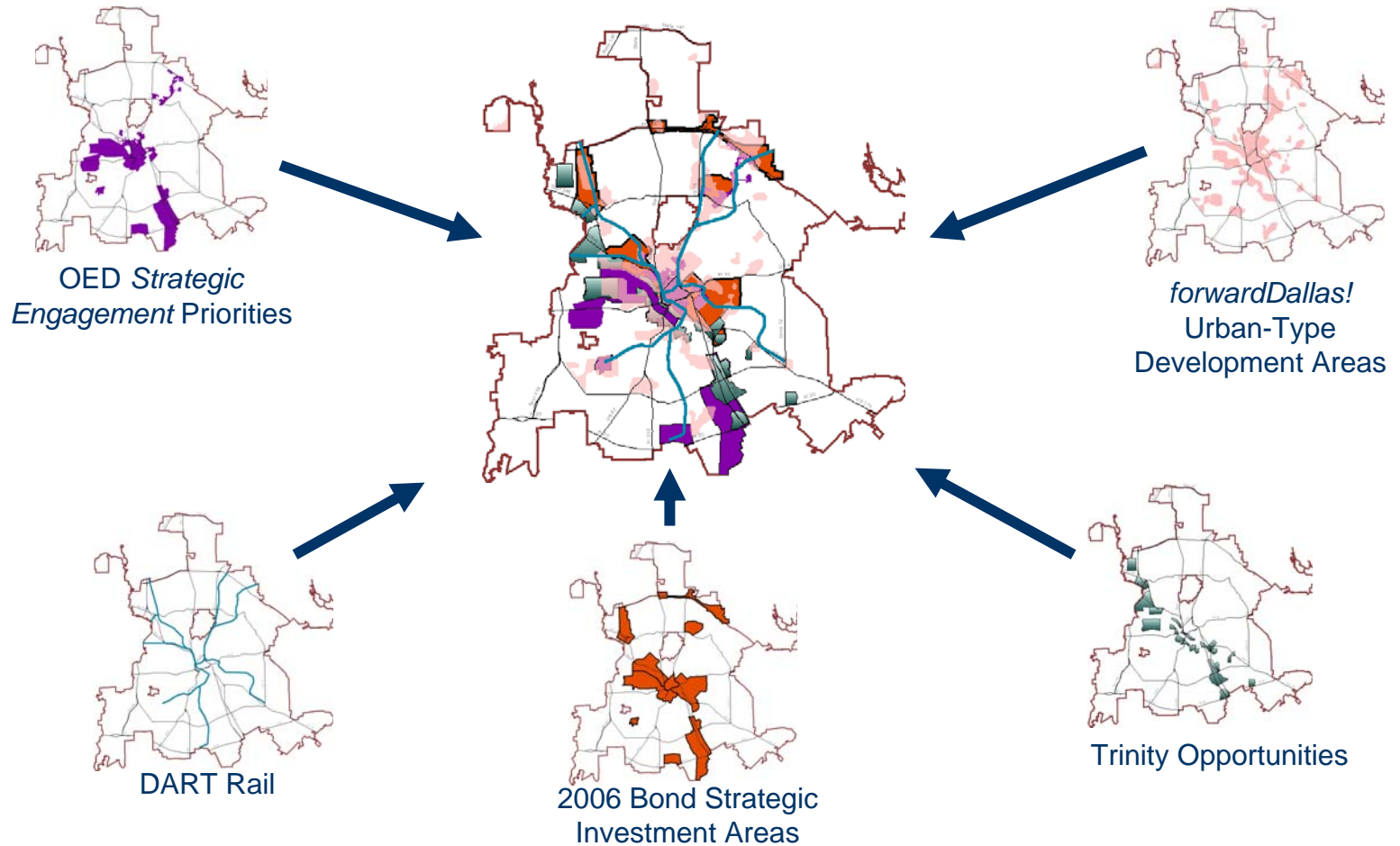
Outline

- 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

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:

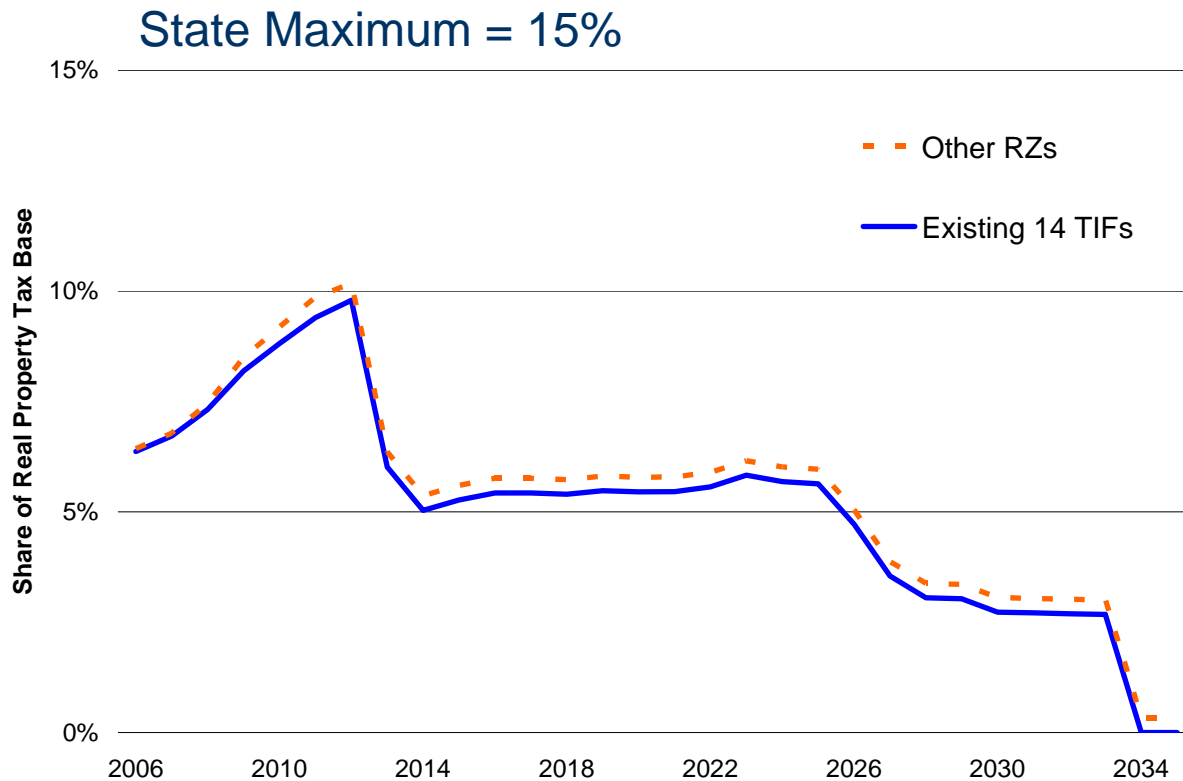
State Law and Dallas FMPC

	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

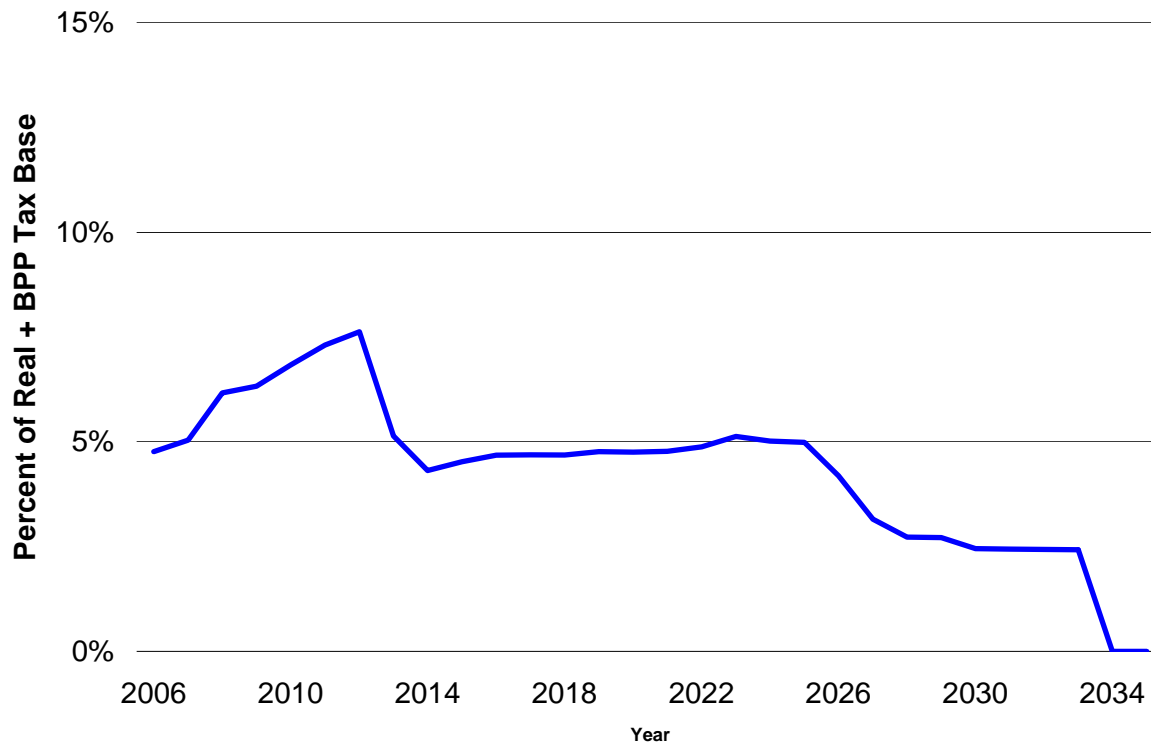
Substantial Unused Capacity Under State Law (continued)



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



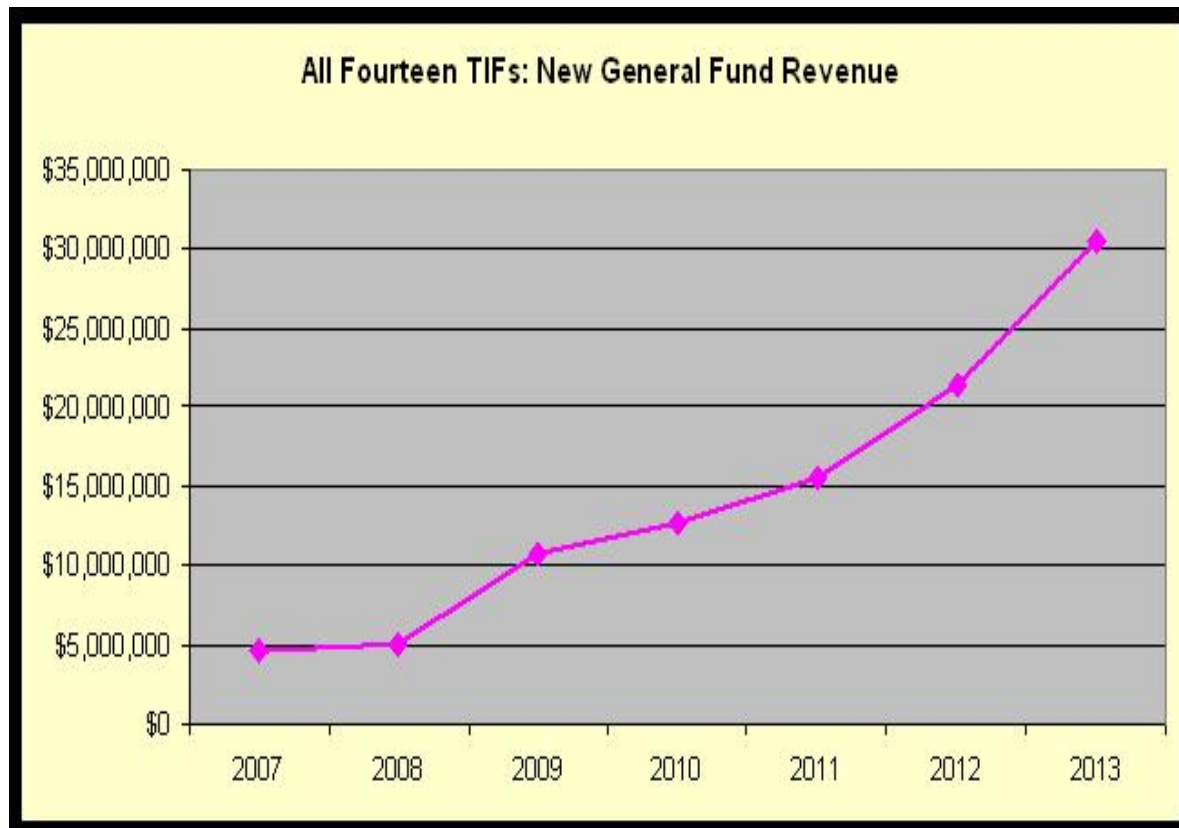
Let's Think About It

- 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
- **But**, the more successful the TIF, the more capacity it absorbs (under the FMPC cap) **regardless** 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

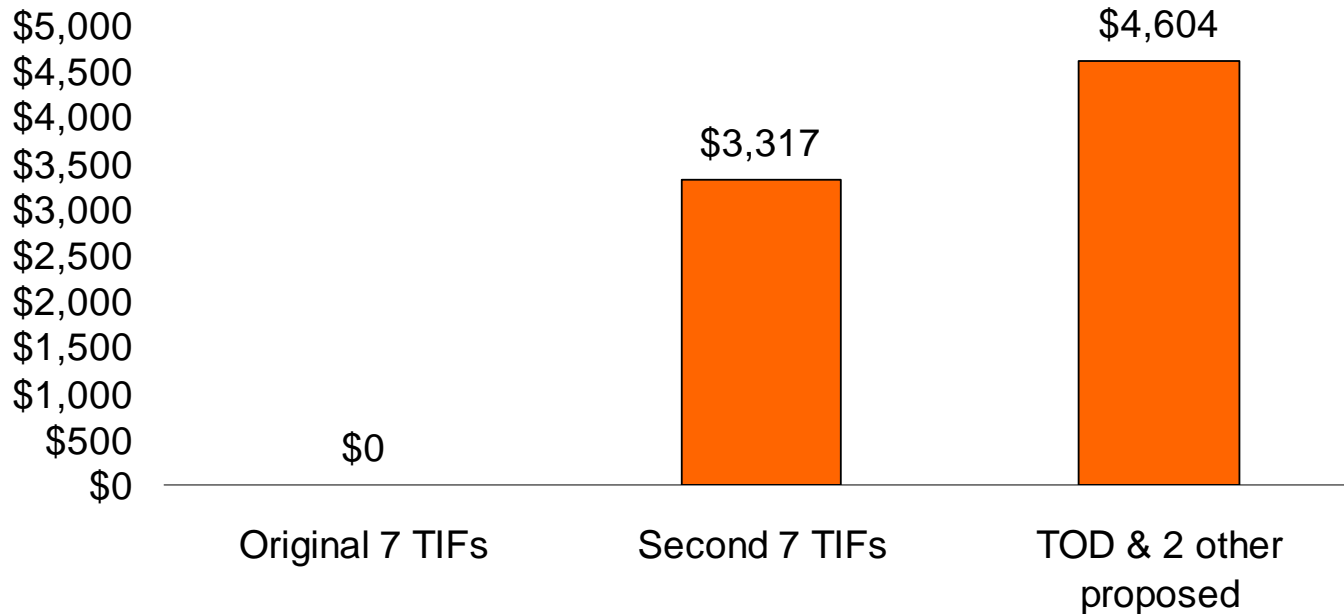
Existing TIFS Provide \$30M in New GF Revenue By 2013



Improving TIF Efficiency Over Time

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

Initial 5-Yr Added Gen Fund Revenue per Acre

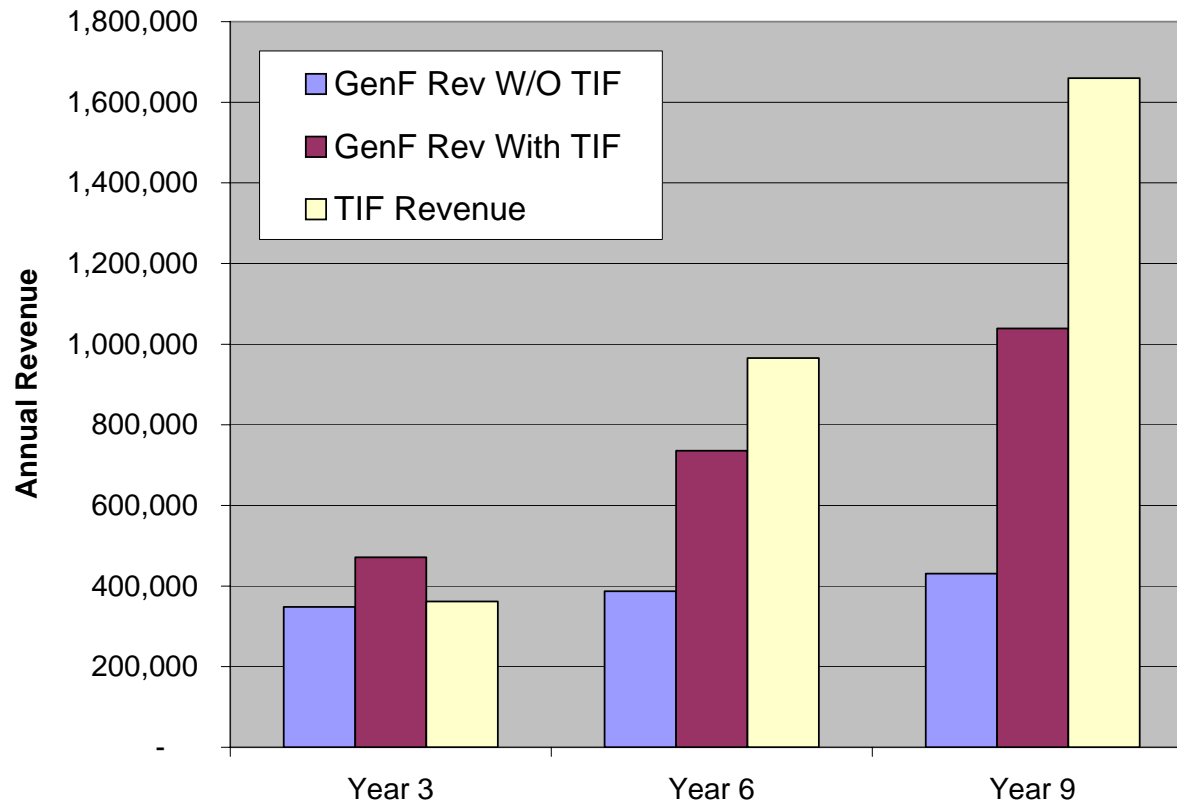


“New Era” TIF Enhancements

- 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

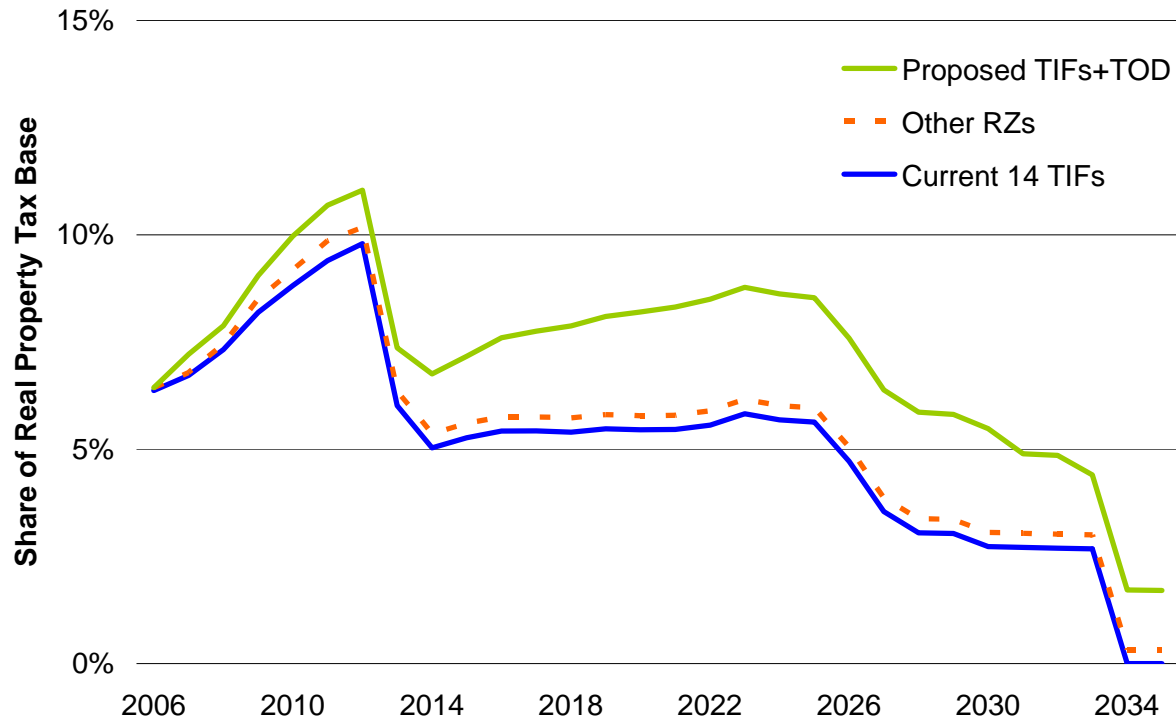


Proposed “New Era” TIFs Impact

- 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

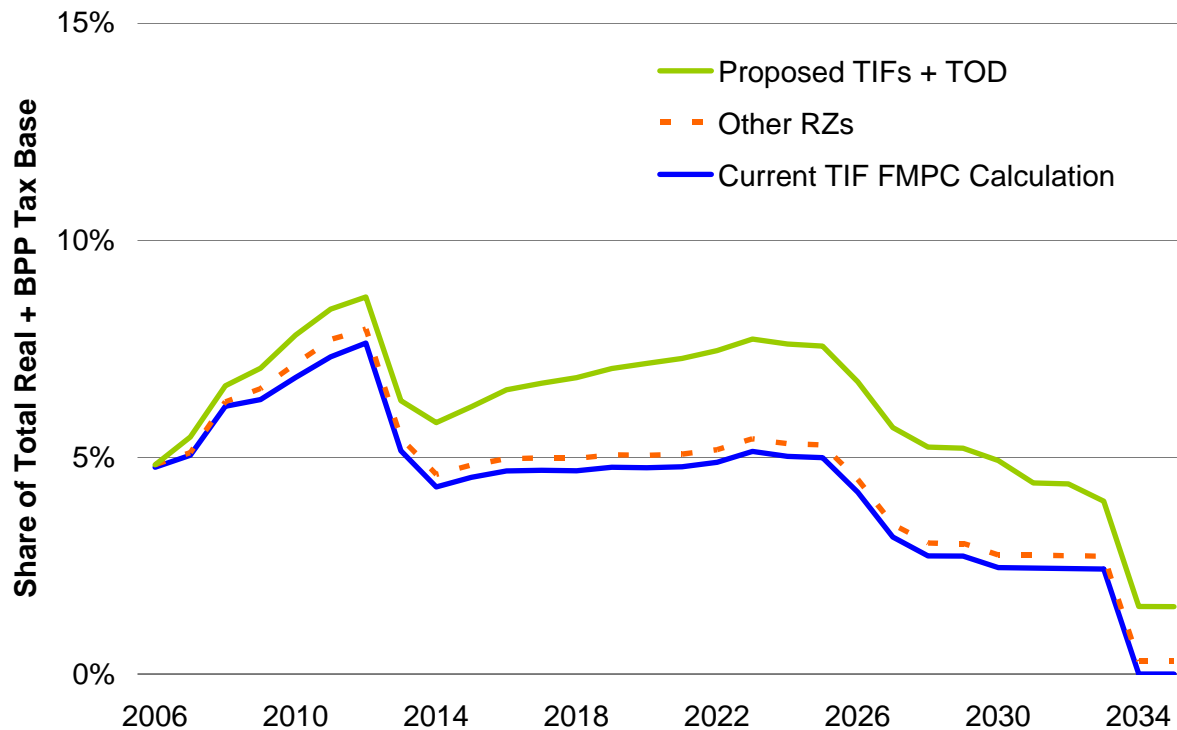
Reinvestment Zone/TIF Exposure:

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