Memorandum

CITY OF DALLAS

DATE January 20, 2023

TO Honorable Mayor and Members of the City Council

SUBJECT **Questions Regarding the City of Dallas Economic Development Policy and Economic Development Incentive Policy**

On December 14, 2022 the City Council voted to defer Public Hearing 3 regarding the adoption of the City of Dallas Economic Development Policy and Economic Development Incentive Policy. The item was deferred to January 25, 2023, to allow additional time for City Council Members to submit questions regarding these policy documents.

This memo is to respond to the questions submitted by Council Members regarding the policy documents.

Question #1: Are any benefits included in the Incentive Policy tied to specific geographic areas?

Yes. The City acknowledges the historic disinvestment that has shaped Dallas, and therefore seeks to prioritize equitable economic development in underserved areas. The Economic Development Incentive policy directs certain programs and incentives toward designated Target Areas with the goal of increasing investment in Southern Dallas and other distressed areas and as a signal to the market where the City wants to prioritize investment.

Target Areas align with the State of Texas designated Enterprise Zones, which are census block groups designated as distressed areas in alignment with the most recent federal decennial census, and are generally areas with a poverty rate of at least 20%.

Incentives and streamlined process that are promoted within the Target Areas include:

- **As-of-Right Tax Abatements.** Projects located in Target Areas that meet the criteria described in Section III(1) of the Incentive Policy will be eligible to apply for an as-of-right tax abatement. The as-of-right tax abatement is intended to catalyze real estate development and job creation in historically underserved areas, as well as reduce barriers to the participation of small and minority owned businesses, by offering a simplified and streamlined process.

- **Administrative Approval.** Incentive offers valued at or below $1 million for projects in Target Areas will be approved by administrative action, in order to shorten the City review and approval timeframe and lessen the burden on small developers.

- **Infrastructure Investment Fund.** The Infrastructure Investment Fund (IIF) assists in closing the infrastructure gap between Dallas' richest and poorest neighborhoods by directing infrastructure funding to areas most in need. The goal of the IIF is to use funds to make targeted investments in infrastructure that further a specific area plan and/or to work with private partners to realize private investment and drive new economic activity in historically underserved areas. Funds can be used for (1) loans or grants to support third-party projects that grow the tax base and/or create Living Wage jobs in a Target Area, and (2) City-led projects that implement a City or community plan in a Target Area or otherwise prepare neighborhoods and properties in Target Areas for anticipated future economic development. Funds may be spent outside of Target Areas only with a ¾ vote of the City Council.

- **Neighborhood Preservation Funding.** Included in the TIF policy is a new requirement to address preservation of existing residential neighborhoods in historically disadvantaged areas. When evaluating a proposed TIF district creation, expansion, or extension, staff will determine if the TIF district contains or abuts single-family residential neighborhoods in Target Areas. If so, the TIF district's project plan and financing plan must contain a budget line item to address the needs of existing homeowners, such as homeowner stabilization programming, home repair funding, or programs to mitigate residential displacement.

- **Community Development Loans and Grants**. The new Community Development Plan proposed under Chapter 373 of the Texas Local Government Code is intended to improve living and economic conditions of persons of low and moderate income through the provision of loans and grants to nonprofit and community developers for qualified projects that inhibit the deterioration of property; expand and improve the quantity and quality of community services important to the community welfare; improve arrangement of residential, commercial, industrial, recreational, and other necessary activity centers; restore and preserve properties of special value for historic, architectural, or aesthetic reasons; and/or alleviate physical or economic distress through the stimulation of private investment and community revitalization in slum or blighted areas. These loans and grants may only be made in Target Areas.

Additionally, certain tools such as PIDs and TIFs require the establishment of a geographic boundary as a statutory requirement of formation. Maps showing the TIF and PID boundaries are available on the Office of Economic Development website.

Finally, under federal law the New Markets Tax Credit program can only be deployed in certain low-income census tracts. A map showing the NMTC eligible census tracts is available on the Office of Economic Development website.

Question #2: How will the Economic Development Policy help us establish entrepreneurial/start-up businesses in our city?

The City of Dallas Economic Development Policy contains specific goals to stimulate entrepreneurship and startup growth in Dallas. Implementation of these goals will be led by the City's Small Business Center:

INNOVATION & ENTREPRENEURSHIP

Goal: Dallas will stimulate entrepreneurship and startup growth through focused investment and capacity building targeted towards underserved communities.
Supporting Plans: Racial Equity Plan, Mayor's Task Force on Innovation & Entrepreneurship Report

Outcome	Action	Lead Department	Supporting Department(s)
Focus resources and access to capital to grow small businesses and support entrepreneurs in high-opportunity and underserved areas.	44. Review land use, occupational licensing rules, and incentives policies to assess whether or not there are regulatory barriers to innovation and research.	SBC	PUD
Focus resources and access to capital to grow small businesses and support entrepreneurs in high-opportunity and underserved areas.	45. Develop a resource guide to route startup companies toward information and resources available	SBC	DSD
	46. Sponsor annual citywide business plan competition to spur creativity and innovation in startup entrepreneurship to align with focus on incubation creation to grow small businesses and jobs.	SBC	N/A
Create a network of incubators to support Dallas-based entrepreneur incubation, innovation, research & design, and growth.	47. Develop profile of incubator needs, funding strategy, aging commercial corridor acquisition targets and inclusion as a part of city sponsored redevelopment projects.	SBC	N/A
Promote entrepreneurship through business incubation, foster the creation of homegrown businesses at the neighborhood level.	48. Identify locations and funding strategy to support the creation of business incubators both as standalone entities and as a part of redevelopment projects.	SBC	PUD

Question #3: The Infrastructure Investment Fund would lock up for at least 10 years (possibly longer if renewed) former TIF revenues, preventing these funds from being used to close budget gaps during recessions, avoid staff layoffs and fund important City imperatives such as police, fire, and critical infrastructure in other areas of the city, as well as the needs of increasing population. Is my understanding correct?

No, that is not correct. The Infrastructure Investment Fund language in the Investment Policy is a directive by the City Council to the City Manager to annually earmark funding during budget development for the Infrastructure Investment Fund as described in the Policy. The Infrastructure Investment Fund earmarks will be subject to annual review by the City Council during the budget process, similar to other operating and capital funds, and the General Fund.

Question #4: As I understand it, the Infrastructure Investment Fund proposal would delegate to staff the City Council's authority and responsibility to appropriate this City tax revenue in accordance with the City's year-to-year needs, subject only to a difficult to achieve ¾ City Council override vote. Is my understanding correct?

No, that is not correct. The proposed Infrastructure Investment Fund would earmark funding within the budget for a program to deploy investments in infrastructure improvements in Target Areas as outlined in the Incentive Policy. Authority to expend these earmarked funds is NOT delegated to the Office of Economic Development.

Proposed expenditures of funds would require approval by administrative action or City Council Resolution, as described below:

- Proposed expenditures exceeding $1 million **inside Target Areas** would require approval by a **majority vote** of the City Council.

- Proposed expenditures exceeding $1 million **outside of Target Areas** would require approval by a **3/4 vote** of the City Council.

- Proposed expenditures of **less than $1 million** would be approved by the City Manager via **administrative action**. Awards of funds by administrative action will be reported to the Economic Development Committee each quarter.

The ¾ vote referenced in the Incentive Policy is a threshold City Council must meet in order to vote to expend Infrastructure Investment Fund dollars in areas of the city that are not Target Areas.

Question #5: Why is the Infrastructure Investment Fund more desirable than the traditional method of the City Manager proposing for City Council consideration funding for the same purposes as part of the annual budget process with flexibility to take into consideration other funding priorities?

As noted above, the creation of this fund today communicates City Council's commitment to address historic inequities in infrastructure, dedicating sustainable funding sources behind its commitments to the Economic Development Policy and Racial Equity Plan.

A multi-year fund provides predictability of funding availability and gives assurance of the City's intention to support infrastructure investment in historically distressed areas of the City. This long-term fund will provide developers reasonable assurance that they can bridge the costs of infrastructure projects with private financing up front and be reimbursed through predictable future contributions to the Infrastructure Investment Fund.

If infrastructure funding is simply recommended each year by the City Manager, without a City Council directive to create a long-term multi-year fund to address historic inequities in infrastructure, incentive awards could only be made from funds on hand. One-off funding would impede incentive awards for large infrastructure investments, since developers would not have assurance of the availability of City funds in the future to reimburse the developer's costs.

Question #6: How was the 10-year duration of the Infrastructure Investment Fund program arrived at? Was it driven by time or amount of funds desired? Is there any reason this duration could not be reduced to 1 or 2 years?

The Economic Development Policy has a 10-year implementation period. The 10-year contribution to the Infrastructure Investment Fund was recommended to parallel that timeframe. The timeframe could be shortened, but as described above, that would limit the assurance to developers that they could bridge the cost of large infrastructure investments with reasonable assurance that funds would accrue in the Infrastructure Investment Fund to cover an incentive award.

Question #7: How was the 90% ratio of diverted TIF increment funds for the Infrastructure Investment Fund arrived at? Is there any reason why this proportion could not be reduced to a lower percentage, thereby preserving at least some meaningful City Council control over allocation of these funds?

The Incentive Policy does not specify a 90% contribution rate to the Infrastructure Investment Fund. Rather, the Policy calls for the annual earmark to be equal to the City's contribution in the last year of the TIF district or subdistrict (based on the General Fund portion of the tax rate as detailed below). The percentage of the City's contribution in the final year of each TIF varies by TIF district and subdistrict.

Also, City Council will retain control over the allocation of the Infrastructure Investment Fund, as described above. All awards will be approved by resolution of the City Council, or by administrative action with quarterly reporting to the Economic Development Committee.

Question #8: With respect to the proposal to create an as-of-right tax abatement program, can an annual ceiling on the amount of tax abatement be established to limit the drain on tax revenues, either by dollar amount or percentage of revenues?

City Council can limit these awards by capping the amount of deferred revenue permitted by as-of-right awards in any given year. However, the as-of-right tax abatement is intended to catalyze real estate development and job creation in traditionally underserved areas by offering a simplified and streamlined process. Capping the number of awards may dampen the impact of this program. Rather than cap the as-of-right program, staff recommends that the Economic Development Committee review the program outcomes quarterly, evaluate effectiveness and costs of the program, and make recommendations for renewal or revision when the Incentive Policy is next considered by the City Council.

HR&A Advisors analyzed past project awards in Target Areas between 2016 and 2021 to get a sense of initial scale. For reference, 3 of 6 (50%) project awards that occurred in the proposed Target Areas would have been eligible for as-of-right benefits, representing only 16% ($4.8 million) of award value for Target Area projects.

Question #9: What other scenarios were evaluated to fund the Infrastructure Investment Fund? Were different time periods and/or percentages of earmarked TIF increments considered? Did staff consider staggering or phasing level of contributions, starting with a certain percentage of contributions and adjusting to demand?

HR&A Advisors conducted a review of national best practices, including a recently designed program in Fort Worth to divert revenue from sunsetting TIF districts. These examples influenced the Infrastructure Investment Fund's proposed design. Additionally, the goals and timeline of the City's 10-Year Economic Development Policy and the City's Racial Equity Plan were considered. As noted above, the Economic Development Policy has a 10-year implementation period. The 10-year contribution to the Infrastructure Investment Fund was recommended to parallel that timeframe.

Earmarking the City's final-year TIF district contribution for the Fund ensures build-up of a large enough balance to cover the cost of catalytic infrastructure projects. The timeframe could be shortened, and/or the percentage of contribution could be lowered, but as previously referenced, that would limit the assurance to developers that they could bridge the cost of large infrastructure investments with reasonable assurance that sufficient funds would accrue in the Infrastructure Investment Fund to cover an incentive award.

Question #10: Does the City have a projection of the estimated demand (need and cost) for infrastructure projects in the Target Areas?

The Office of Economic Development has not commissioned a study of the need and cost of infrastructure in Target Areas. For many areas, the need and cost of new or upgraded infrastructure cannot be known until the future use or development are identified.

However, a recent study by Southern Methodist University studied and quantified inequities in infrastructure across the City of Dallas. The SMU study mapped and identified 62 neighborhoods that qualify as infrastructure deserts. Most of the infrastructure deserts are located in the southern part of the city and home to primarily low-income, Black and Hispanic residents. Infrastructure deserts are deficient in neighborhood infrastructure like streets, sidewalks, internet access, access to medical care, and other features that impact quality of life.

The SMU study highlights the depth of the need in Dallas, and the inequities that characterize the City's infrastructure. There is strong overlap between these infrastructure deserts and Target Areas. As previously referenced, the Infrastructure Investment Fund is an important tool for the City to address historic inequities and dedicate a sustainable funding source to uphold commitments articulated in the Economic Development Policy and Racial Equity Plan.

Question #11: Will the Infrastructure Investment Fund replace future funding for infrastructure or supplement it?

The Infrastructure Investment Fund will supplement the Office of Economic Development's existing incentive tools. It will not replace any existing incentive awards.

Question #12: What is the process to modify incentives, such as modifying the allocation amounts, the time periods they are offered, etc., should City Council desire it?

The Incentive Policy is effective for two years from the date of adoption in accordance with the Texas Tax Code. However, the Policy will be reviewed by the Economic Development Committee quarterly during that two-year term as staff reports the outcomes of the Incentive Policy to the Committee.

In accordance with Section 312.002(c) of the Texas Tax Code, the Incentive Policy may be amended by a vote of three-fourths of the members of the City Council, after a public hearing.

Question #13: What is the total equity spend ($) across all resources and City programs?

Per the Office of Equity and Inclusion, the total amount allocated through the Racial Equity Plan for Fiscal Year 2022-2023 was $42.5 million.

Question #14: As only 2 TIFs expire in the next 5 years, can you provide a schedule of how much would be available during each year of such a program?

The chart below shows the amount of revenue anticipated to be available each year for the Infrastructure Investment Fund. The total number of approximately $200 million is lower than the number HR&A Advisors had originally indicated in the City Council briefing on December 8. The chart below corrects the December 8 estimate in two ways.

First, the HR&A Advisors total assumed that the entire amount contributed by the City in the last year of a TIF district or subdistrict's term would be available to be earmarked for the Infrastructure Investment Fund. The City's Chief Financial Officer has clarified that approximately 28% of the windfall revenue must be earmarked for debt service and therefore would not be available for the Infrastructure Investment Fund. The chart below shows the updated estimated amounts, less the debt service earmark.

Additionally, HR&A assumed that the windfall would be realized in the calendar year immediately following expiration of a TIF district or sub-district. In actuality, Texas property taxes are only charged to property owners at the conclusion of the tax year, so the windfall is realized two years after the TIF district or sub-district expiration. By way of example, the Cedars TIF District expired on December 31, 2022. The property taxes for tax year 2022 will be paid in calendar year 2023, and the City will make its final contribution to the Cedars TIF District in 2023. Therefore, the windfall amount will be available for earmark into the Infrastructure Investment Fund in calendar year 2024.

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POTENTIAL REVENUE TO INFRASTRUCTURE INVESTMENT FUND											
TIF DISTRICT	**TERMINATION YEAR**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Cedars	2022	$1,500,342	$1,500,342	$1,500,342	$1,500,342	$1,500,342	$1,500,342	$1,500,342	$1,500,342	$1,500,342	$1,500,342
City Center - City Center Subdistrict (Zones A & B)	2022	$4,790,179	$4,790,179	$4,790,179	$4,790,179	$4,790,179	$4,790,179	$4,790,179	$4,790,179	$4,790,179	$4,790,179
Deep Ellum	2027						$5,625,830	$5,625,830	$5,625,830	$5,625,830	$5,625,830
Design District	2027						$7,097,278	$7,097,278	$7,097,278	$7,097,278	$7,097,278
Southwestern Medical - Southwestern Medical Sub-District (Zones A, B)	2027						$836,213	$836,213	$836,213	$836,213	$836,213
Farmers Market (Zones A, B, C)	2028							$3,215,404	$3,215,404	$3,215,404	$3,215,404
Vickery Meadow	2028							$1,789,890	$1,789,890	$1,789,890	$1,789,890
Fort Worth Avenue	2029								$1,952,317	$1,952,317	$1,952,317
Sports Arena - Victory Sub-District	2028							$10,722,523	$10,722,523	$10,722,523	$10,722,523
POTENTIAL ANNUAL REVENUE TO INFRASTRUCTURE INVESTMENT FUND		**$6,290,522**	**$6,290,522**	**$6,290,522**	**$6,290,522**	**$6,290,522**	**$19,849,843**	**$35,577,660**	**$37,529,978**	**$37,529,978**	**$37,529,978**
CUMULATIVE TOTAL		**$6,290,522**	**$12,581,044**	**$18,871,566**	**$25,162,088**	**$31,452,610**	**$51,302,452**	**$86,880,113**	**$124,410,090**	**$161,940,068**	**$199,470,046**

The City of Dallas Economic Development Policy and Economic Development Incentive Policy will be considered by the Council on January 25.

If you need additional information, please contact Robin Bentley, Director of the Office of Economic Development, at 214-671-9942 or robin.bentley@dallas.gov.

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