

Memorandum



DATE April 1, 2016

TO Members of the Economic Development Committee:
Rickey D. Callahan (Chair), Casey Thomas, II, (Vice Chair), Adam Medrano,
Lee M. Kleinman, Carolyn King Arnold, B. Adam McGough

SUBJECT **Public/Private Partnership Program Review**

On Monday April 4, 2016, the Economic Development Committee will be briefed on the Public/Private Partnership Program Review.

Briefing material is attached.

Should you have any questions, please contact me at (214) 670-3296.

Ryan S. Evans
First Assistant City Manager

C: The Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager

Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Karl Zavitkovsky, Director, Office of Economic Development
J. Hammond Perot, Assistant Director, Office of Economic Development
Elsa Cantu, Assistant to the City Manager – Mayor & Council

Public/Private Partnership Program Review

Economic Development Committee
April 4, 2016



Purpose

1. Review of Council approved commercial Public/Private Partnership (P/PP) Program
2. Provide historical context
3. Give examples of projects/initiatives supported
4. Propose creating a residentially-oriented companion program
5. Provide issues for discussion/recommended next steps and receive Committee input prior to seeking final Council consideration of P/PP Program “Guidelines & Criteria” in June 2016

Current Program Guidelines

1. Designed to stimulate commercial activity.
2. Emphasis on targeted geographies for the following non-residential* purposes:
 - Increase commercial tax base
 - Create and retain quality job opportunities for Dallas residents
 - Target investment and job growth in Southern Dallas
 - Foster growth and expansion of new and existing businesses
 - Maintain a competitive position relative to non-city of Dallas sites
 - Encourage redevelopment of sites and areas experiencing disinvestment
3. Program Guidelines & Criteria provide a framework for negotiations with businesses/developers on potential projects (See Appendix A).

*Residential and mixed use projects considered with healthy mix of affordable and market units contributing to economic vitality.

Primary Program Tools

- Tax Abatement – an agreement to forego future real property or business property tax revenue from new investment*
- Business Development Chapter 380 Grants – for the public purpose of economic development, e.g., jobs & investment
- Designated Council-Approved Initiatives – State law allows for the creation of programs for grants and/or loans to stimulate economic development (i.e. Southern Dallas Small Business Adaptive Re-use Grants, façade improvement program, and other companion programs Council may approve – recommendations on slide 24)

*Property Redevelopment and Tax Abatement Act (Chapter 312 of Tax Code) requires Guidelines & Criteria be approved every two years for the city to provide tax abatements.

Program Funding

- Annual City Council approved PILOT (Payment-In-Lieu Of Taxes) allocation from DWU (FY16 PILOT was \$10.5m)
- Proceeds from GO Bond propositions specifically designated for economic development (2012 Proposition allocated \$20m to Eco and \$20m to Housing)*

*\$15m additionally earmarked for UNT and the “Canyon”

Other Available Tools

- Tax Increment Finance
- Public/Business Improvement Districts
- CDBG
- State and County Programs
- EB-5 Regional Center
- New Market Tax Credits
- South Dallas Fair Park Trust Fund
- Private debt and equity

Overarching Acceptance Criteria

- “But For” Criteria: the project would not otherwise occur or, without incentive, would be modified in a way that substantially reduces benefits to City.
- Primary consideration factors include job creation/retention and private investment
- Secondary factors include competition, financial gaps, location, zoning, wages, industry type, etc.
- Conformance with City’s Voluntary Compliance Agreement (VCA) and HUD rules.

Project Eligibility Criteria

- City Council established minimum eligibility criteria:
 - Southern Dallas: 25 jobs or \$1 million invested
 - Northern Dallas & CBD: 100 jobs or \$5 million invested
 - Exceptions may be considered by City Council for non-conforming projects on case-by-case basis when warranted
- Specially designated Council approved 380 program initiatives such as Film, Small Business Adaptive Re-Use and new initiatives related to Job Skills or Retail may have special criteria

Commercial Project Sourcing

- Proactive Recruitment
- Companies
- Developers
- Brokers
- Site selectors
- Office of the Governor
- Chambers of Commerce

Impact Analysis

- OED completes economic and fiscal impact analyses for majority of projects (See Appendix B for summary of example results)
 - Economic impact – changes in the number of jobs, income levels and value of goods and services produced within Dallas city limits
 - Fiscal impact – changes in Dallas' general fund spending and revenue caused by a development project
- Staff evaluation of project's viability and merit is based in part on results of fiscal impact analysis

Fiscal Impact Process

- Fiscal impact calculation, based on:
 - Jobs created
 - Number of new residents
 - Number of visitors
 - Income level
 - Property investment
 - Retail sales
 - City investment or incentives
- Projects typically create new jobs, new residents and visitors (represents revenue/costs to City in addition to facility itself)
- Project evaluation includes:
 - Total City general fund spending
 - Total City general fund revenue
 - Qualitative issues (traffic, adequacy of infrastructure, code compliance, etc.) assessed outside impact model

Recent Program History

- 56 City Council approved projects since January 2013 anticipated to result in creation or retention of 9,884 jobs and \$900m in new investment (See Appendix C)
 - Estimated public investment for the projects (assuming all move forward) is \$66 million (\$33.25m tax abatements and \$32.6 million cash grants)
 - 44 projects in Southern Dallas (78.6%), 7 in North Dallas (12.5%), and 6 in Downtown (10.7%)
- Additional direct taxable benefits associated with these projects include:
 - unabated tax revenue on real and business personal property;
 - inventory taxes; sales taxes;
 - revenue to other taxing jurisdictions (DISD and Dallas County);
 - direct and indirect revenues from company and employee purchases;
 - hotel taxes; and,
 - future taxes after abatements expire.
- Staff conducts compliance certification annually for each tax abatement agreement and any multi-year grants.

Historical Context

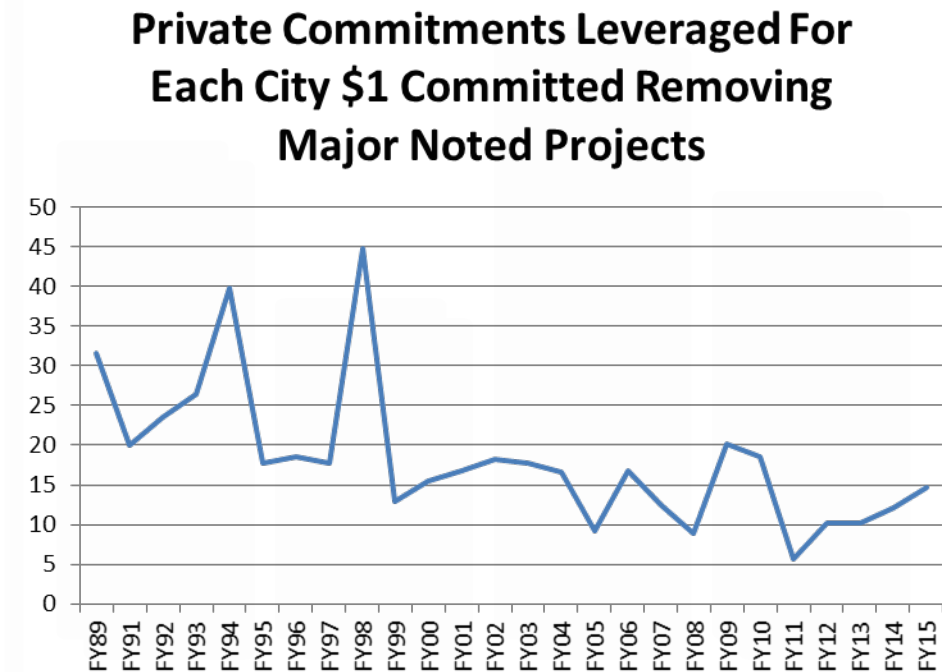
- Since 1989, staff identified approximately 360 City Council approved projects with an associated creation or retention of 68,600 jobs and \$6.7 billion in new investment.

Area	Projects	Anticipated Jobs	Anticipated Private Investment (\$B)	Anticipated Public Investment (\$M)
Northern	111	29,542	\$1.1	\$42.2
Texas Instruments	3	1,950	\$2.62	\$50.8
CBD	49	15,231	\$0.92	\$68.2
Southern	197	21,881	\$2.12	\$176.2
Total	360	68,604	\$6.76	\$337.4

Historical Context

- On average, City leverages \$14.4 of private investment for each public dollar committed (after removing projects like Texas Instruments' that distort data).
- Chart 1 depicts an overall trend of reduced return on City's investments but City's leverage has been increasing since FY11.

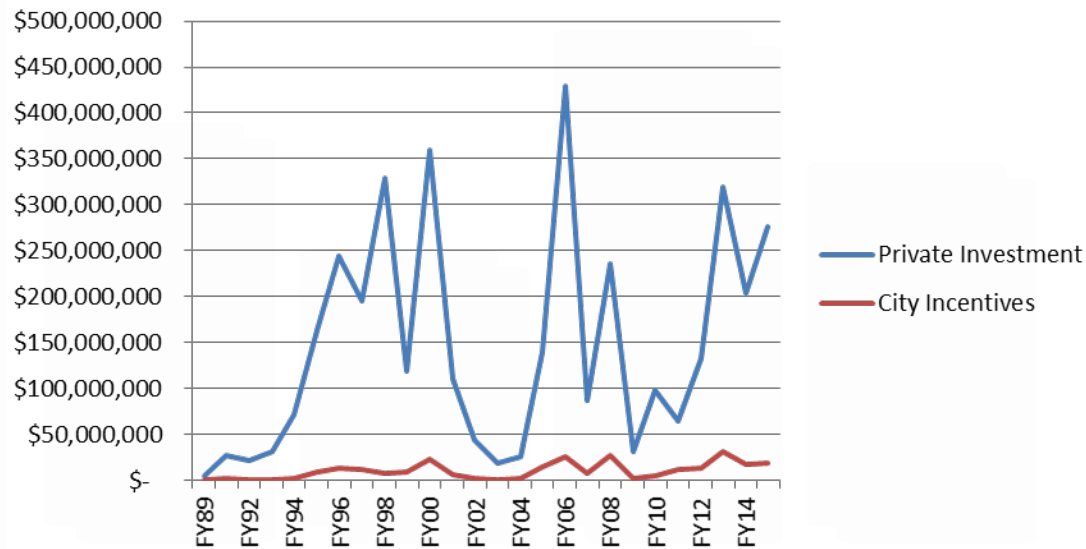
Chart 1



Historical Context

- Chart 2 below is a time series of private investment commitments relative to approved City incentives for projects.
- Observe the impact of national market conditions like dotcom crash and subprime mortgage crisis on Dallas.

Chart 2



Note: Projects that distort the data like Texas Instruments are removed from model so data is not skewed and otherwise more representative of typical investment leverage.

Neighborhood Redevelopment Examples

- Sav-a-Lot – 3540 Simpson Stuart

- 15,000 sf full service grocery
- 6,000 sf for three retail spaces
- Total Project Cost: \$4m
 - City P/PPF \$2.8m; Debt \$1.1m; Owner Equity \$150k



- Lancaster Urban Village

- 14,000 sf retail
- 395 structure/unstructured parking
- 193 residential units
- Total Project Cost: \$27.8m
 - City P/PPF \$3.9m; HUD 108 \$8.4m; HUD 221d-4 \$12.5m; NMTC \$3.2m



Competition in the Headlines

Home > News

Council approves economic development incentives for American Airlines

Posted Nov. 13, 2015

It looks like American Airlines will be grounded in Fort Worth for a long time.

The city council approved a 15-year, \$21.25 million tax incentive that will ensure the world's largest airline remains in Fort Worth, where a new headquarters complex

Frisco

Frisco OKs \$122 million in incentives for Wade Park

Facebook Twitter Email Comments Print

By VALERIE WIGGLESWORTH
Staff Writer

Published: 19 January 2015 10:33 PM
Updated: 19 January 2015 10:33 PM

The Frisco City Council approved more than \$122 million in incentives on Monday for the Wade Park mixed-use development planned along the Dallas North Tollway.

Kubota Tractor and Credit Corp. moving to Grapevine

Biz Beat Blog

Irving spends incentive dollars to lure two corporate headquarters, almost 2,000 jobs



Steve Brown/Real Estate Editor

CBS 11 NEWS @ 5:30 PM | Watch Live | Senator R-FL Marco Rubio Makes Campaign Stop in Dallas | Watch Live |

Arlington Welcomes Williams-Sonoma With Incentive Package

2014 6:15 PM By Ken Molestina

Tags: Arlington, distribution center, Employment, Hiring, incentive package, incentives, Jobs, regional distribution center, Williams-Sonoma

Irving City Council approves \$10 million in incentives for new Toyota plant



Deborah F

Business > Biz Beat Blog

Biz Beat Blog

Plano approves millions of dollars in incentives for new Liberty Mutual campus



Steve Brown/Real Estate Editor

Richardson Blog

Richardson approves Raytheon agreement



Wendy Hundley

BEST STATES FOR SUBSIDIES

Here are the top 10 states in terms of subsidies given to incentivize corporate relocations or expansions:

	SUBSIDIES	AMOUNT
1. New York	74,741	\$23.6B
2. Washington	16,756	\$13.2B
3. Michigan	15,208	\$13.1B
4. Louisiana	6,996	\$13B
5. Kentucky	4,522	\$7.7B
6. New Jersey	14,586	\$7.4B
7. Indiana	7,748	\$7.2B
8. Oregon	11,623	\$6.6B
		\$6.5B

Plano approves \$6.75 million grant and other incentives for Toyota

By WENDY HUNDLEY

Staff Writer

Nebraska Furniture Mart is state's top incentive recipient

SUBSCRIBER CONTENT: Aug 7, 2015, 5:00am CDT

With Toyota receiving a projected \$55 million in incentive money and tax abatements for relocating its North American headquarters to Plano, and Facebook receiving up to \$147 million in similar subsidies over the next 20 years

Excerpts From A Recent Incentive Solicitation

This request for participation is being submitted to all of the communities with sites under evaluation for the proposed investment. The request for participation includes the

1. Local Government Code Chapter 380 (“Chapter 380” or “Chapter 381”) Agreement to **refund the entire portion of the City of Dallas local sales and use tax** which is properly due and owing by the company or its affiliates **for a period of 20 years** commencing with initial construction at the project location. This agreement shall extend to all sales, purchases, goods or services with taxable situs in the City of Dallas including but not limited to

2. Chapter 380 Agreement to **refund the entire portion of the City of Dallas ad valorem (property tax)** which is properly due and owing by the company or its affiliates **for a period of 20 years** commencing on January 1, 2017. This agreement shall extend to all property permitted by law with taxable situs in the City of Dallas including but not limited to, real property improvements, business personal property, inventory or other classes of property

4. Chapter 380 Agreement or other equivalent agreement from the City of Dallas to **provide a cash grant of \$10,000 for each direct full-time equivalent employee** of the company or

6. **Waiver of all municipal fees for permits, licenses or other local government costs** that is due for the period commencing on the date of commencement of the development of the proposed investment through the end of the first year of commercial operations of the

7. Nomination from the City of Dallas for **designation as a Texas Enterprise Zone Project**

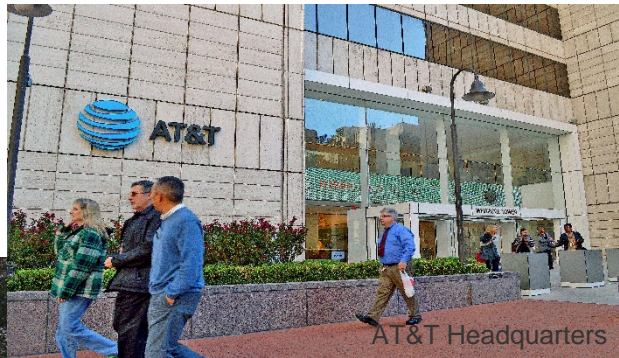
9. Agreement by the **City of Dallas to bear sole financial responsibility for road, easement and other transportation related improvements for a period of 10 years** commencing with commercial operations

Plano & Frisco Economic Development

- The City of Plano's FY16 dedicated property tax allocation to economic development generated \$7.2m for cash incentives
- The City of Frisco's Economic Development Corporation received FY16 funding of \$19.4m from local sales tax receipts for economic development increasing Funds Available to \$105m

History of Success

- Over the years, the Program has supported a number of significant projects and developments such as Texas Instrument's new manufacturing facilities, the relocation of AT&T's headquarters to Dallas, and the development of southern Dallas business parks such as Pinnacle Park, Mountain Creek and IIPOD.



History of Community Impact

- Likewise, a number of neighborhood and community redevelopment projects have been supported by the program including developments by Minyard's, Fiesta, Albertsons, Kroger, Wal-Mart, Target, Lowe's and Home Depot among others.



Historical Tax Base Impact:

Pinnacle Park & Mountain Creek Business Parks

- Combined initial Dallas Central Appraisal District (DCAD) valuation of \$9.5m prior to development, increased to \$873.3m in 2015 for both parks
 - Approaching full development but an additional \$50m+ of new facilities currently under construction or nearing completion

Issues for Discussion

1. HUD imposes a duty to affirmatively further fair housing in all programs related to housing and urban development

- Includes bond funds, TIF development agreements, tax abatements and economic development incentives, in addition to federal funds
- HUD will review City's prioritization of advancing Fair Housing goals

2. Residential and mixed-use projects are eligible for grants and programs

- Current P/PP focus is on commercial projects, but it and other programs can be used for housing and mixed-use
- Healthy mix of affordable and market units contribute to economic vitality
- Additional HUD scrutiny likely in areas of opportunity

Issues for Discussion

3. Residential Incentives (tax abatement & housing trust fund)

- Consider 380 program to provide incentives for single family for-sale housing and mixed-income multi-family rental
- Program focus: affordable/mixed-income housing in Areas of Opportunity, and strengthening the market in depressed areas

4. Retail redevelopment/adaptive reuse

- Program addressing aging and functionally obsolete retail centers citywide

5. Job skills gap outreach

- City role coordinated with existing stakeholder initiatives (workforce solutions, DCCCD, DISD, United Way, DRC & JP Morgan Chase)

Next Steps

- Integrate Committee input relative to existing Guidelines & Criteria
- Subsequent Committee briefing(s) if required
- Prepare for adoption of Guidelines & Criteria in June 2016.

Appendix A

Guidelines & Criteria

Public/Private Partnership Program Guidelines and Criteria

City of Dallas Public/Private Programs

It is the purpose of the following programs to provide assistance only for projects where such assistance is necessary to stimulate private investment. Accordingly, these programs are available when agreements between City and private parties that are not tax-exempt are approved by City Council prior to private investment occurring. Projects seeking economic incentives must provide written assurance that 'but for' the incentives sought, the proposed project would be substantially altered such that the project would not otherwise occur in the city or the economic returns to the city would be reduced. Projects occurring Southern Dallas are provided special consideration.

The information contained herein shall not be construed as implying or suggesting that the City of Dallas is offering or is under any obligation to provide tax abatement or other incentives to any applicant, and all applicants shall be considered on a case-by-case basis. Pawnshops, sexually oriented businesses, bars, truck dealerships are excluded from consideration for incentives provided under this program.

Eligibility Requirements

Each geographic area of the City has a minimum requirement in order to be considered for incentives:

- **Southern Dallas:** Projects must create/retain 25 jobs or provide \$1 million of investment;
- **Northern Dallas and Central Business District:** Projects must create/retain 100 jobs or provide \$5 million of investment; and
- **Non-Conforming Projects:** projects will be considered on a case-by-case basis.

Tax Abatement

Temporary abatement of either real estate or personal property taxes. Recipient firms must meet primary considerations of capital improvements and job creation/retention. City staff may consider secondary considerations such as Dallas resident employment, efforts to exceed minimum environmental regulations, wage rates, community activities, target industry projects, and M/WBE participation when negotiating this incentive. A firm's tax abatement percentage will be reduced by 25

Public/Private Partnership Program Guidelines and Criteria Cont.

percent for any single year of tax abatement term in which secondary considerations included in the agreement are not met unless an alternative method is prescribed by City Council in a project specific resolution. Real property tax abatement is not available in TIF Districts. In limited cases, projects may be considered for a combination of both real and personal property tax abatement when the combined amount does not exceed 90 percent of the City taxes on total new improvement value. All tax abatements must begin by January 1 of the second calendar year following City Council authorization.

Abatement Benefits

- **Southern Dallas:** Real property tax abatement up to 90 percent for 10 years and/or a business personal property/tax abatement of up to 50 percent for five years;
- **North Dallas:** Real property tax abatement up to 50 percent for 10 years and/or a business personal property tax abatement of up to 50 percent for five years;
- **Central Business District:** Business personal property tax abatement of up to 75 percent for five years and/or for non-TIF District sites real property tax abatement of up to 90 percent for 10 years; and
- **Non-Conforming Projects:** Projects will be considered on a case-by-case basis.

Business Development Chapter 380 Grant/Loan Program

Companies considering a relocation/expansion or new commercial development may be eligible for a grant in lieu of tax abatement or to defray project costs such as: land purchase, building costs, public infrastructure costs, property and sales taxes, etc. Grants will be considered on a case-by-case basis and are subject to funding limitations and investment/job eligibility requirements. Companies operating e-commerce facilities may be considered for grants equal to a portion of sales tax revenue the company's e-commerce operation generates for the City. Companies will be required to meet eligibility requirements of the Public/Private Partnership Program. Pursuant to this program the City may administer and accept resources from other political subdivision of the state to support this program, and may administer and accept resources from the Federal government to support developments.

Public/Private Partnership Program Guidelines and Criteria Cont.

Economic Development GO Bond Program for Southern Dallas

General Obligation Bond funding may be used as described in this paragraph for private commercial, industrial, retail, residential, and mixed-use development in the Southern area of the city for City that promotes economic development. Funding may be provided as a catalyst to promote private economic development and may be used for planning, designing, extending, constructing and acquiring land for public streets, utilities and other related infrastructure facilities or uses consistent with this purpose.

Private developments may be eligible for economic development grants and loans pursuant to Chapter 380 of the Texas Local Government Code. Grants and loans will be considered for infrastructure improvements and/or land acquisition consistent with the scope of funding and other uses described above. Grants or loans will be considered on a case-by-case basis subject to funding limitations and development agreements approved by City Council, which agreements will contain appropriate conditions, safeguards and benchmarks to ensure that the public purpose of economic development will be carried out.

Funding in support of mixed-use or residential development, including the acquisition of improved and unimproved properties and for the demolition of existing structures for such projects, is considered a non-conforming project and will require that a minimum of 20% of the residential units in the development meet affordable housing or mixed-income housing requirements for the location.

Local Government Corporation (LGC) Chapter 380 Grant Program

The City of Dallas will consider making grants from its general fund to a LGC, subject to annual appropriation of funds and the approval of the Dallas City Council. These funds will be restricted to the payment of project costs, including the payment of debt service on any bonds issued by the LGC to finance project costs, and the funding of any necessary reserve funding or capitalized interest accounts and the payment of the cost issuance of bonds.

Public/Private Partnership Program Guidelines and Criteria Cont.

City of Dallas Regional Center EB-5

The City of Dallas Regional Center (CDRC) is dedicated to assisting individuals and their families through the EB-5 immigration process via investment into businesses and development projects located within the Dallas city limits. The CDRC offers a variety of investments to foreign investors that meet or exceed requirements and offer investors features unique to the EB-5 community. Minimum foreign investment is \$500,000 in Targeted Employment Areas or \$1M in other areas. All opportunities supported by the CDRC must provide 10 full-time jobs (directly or indirectly) per investor.

New Markets Tax Credits

The City of Dallas participates in the New Market Tax Credit Program (NMTC), a federal program operated by the Department of Treasury that provides opportunities for new development in traditionally underserved areas. The program provides NMTC investors with 39% federal tax credit payable over seven years. These investments are partnered with additional funds for businesses and real estate development in Low Income Neighborhoods.

Target Industry Projects

Target Industry projects are provided special consideration for economic incentives and are generally defined as follows: Brownfields or recycling, information technology, building materials and furnishings, company headquarters, logistics, telecommunications, transportation manufacturing and assembly, film/television/media, advanced instruments and food processing/distribution. Due to the temporary nature of film/television production, projects in this industry are not required to meet minimum job or investment eligibility established for the Public/Private Partnership Program. Rather, these projects are considered on a case-by-case basis with consideration given to the positive economic returns projects bring to the City. Target Industry projects must be confirmed in advance by the City in order to receive consideration under this designation.

Non-Conforming Projects

Non-Conforming projects are considered on a case-by case basis for high impact projects, unique development,

Public/Private Partnership Program Guidelines and Criteria Cont.

and competitive situations where projects may receive competing offers of incentives. These projects require a simple majority vote of City Council in Southern Dallas and a 3/4 vote of City Council in the CBD and in Northern Dallas High Impact Project – Projects creating/retaining a minimum of 500 jobs with substantial capital investment. In addition, this status may be granted to major projects by Fortune 500, Manufacturers 400, or Global 500 listed firms. A mixed-use or residential development considered for support as a non-conforming project requires special circumstances and must ensure that a minimum of 20% of the residential units in the development meet affordable housing or mixed-income housing requirements for the location.

Competitive and Retention Projects

In special cases, companies receiving competing offers of incentives or those currently located in the city of Dallas considering a relocation/expansion are eligible to apply for financial incentives with negotiable terms. Existing firms must expand jobs based by 25 percent to be eligible for consideration. Incentives may be offered in specific cases to ‘match other offers.’ Companies may be required to demonstrate competing cities, offers, land/lease costs, taxes at current rates, utility rates, relocation costs, other significant costs and ‘gap’ to be filled, etc.

Other Sources of Financial Assistance

Tax Increment Districts

Special districts funding public improvements (not services) with increased tax revenues resulting from new private development Tax rates are the same as elsewhere in the City and no added cost to private parties is incurred.

Public Improvement Districts

Special districts created by petition to privately fund public improvements or special supplemental services over and above those provided by City, when such services are supportive of related City investments in capital improvements.

Public/Private Partnership Program Guidelines and Criteria Cont.

Foreign Trades Zone

Allows duty-free importing of foreign-made components into the Zone, where they may be assembled, manufactured, processed or packaged. Duties are charged only when products are subsequently distributed into the U.S. market-if they are shipped to international markets, no duty is levied.

State Incentives

The City of Dallas will facilitate applications for assistance from State programs including Enterprise Zone Projects, Texas Enterprise Fund, and the Texas Emerging Technology Fund.

Contact Us

To obtain more detail on these programs, or to inquire regarding other assistance contact Office of Economic Development, Dallas City Hall, Room 5CS, Dallas, Texas 75201, Phone: (214) 670-1685, Fax: (214) 670-0158, www.dallas-ecodev.com

Approved on 12.10.14 pursuant to Res. No. 14-2205

Appendix B

Impact Analysis

Appendix B Impact Analysis Example

Exhibit B Proposed Project Information Worksheet Economic Development Committee

A. Project Summary

City Council District	N/A	
Project/Company Name	Lone Star Foods	
Project Location	100 Lone Star Drive	
Project Type	New Facility	
Facilities (Square Feet)	200,000	
Construction Schedule	Begin	Oct-10
	Complete	Oct-11
Private Improvement Investment	Real Property	\$8,750,000
	Business Property	\$4,000,000
Jobs	Created	200
	Retained	0
Average Wage Rate	Salary	\$44,000
	Hourly	\$21
City Incentive Summary	Tax Abatement	\$327,205
	Infrastructure	\$200,000
	Other - Grant	\$0

A
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B. Economic Impact Estimates (Dallas City Economy Only, \$ Million)

	10-Year		20-Year	
	Jobs	Economic Output	Jobs	Economic Output
Direct Impact	200	\$161,700,000	200	\$365,100,000
Indirect and Induced Impact*	220	\$114,100,000	220	\$256,400,000
Total Impact	420	\$275,800,000	420	\$621,500,000

B
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C. City of Dallas General Fund Fiscal Impact (\$ Million)

(From direct, indirect and induced economic impacts)

	10-Year	20-Year
Total City GF Revenue Generated	\$2,729,000	\$6,599,000
Total City GF Service Costs	\$2,003,000	\$4,209,000
Net Impact Before Incentives	\$726,000	\$2,390,000
City Incentives	\$494,000	\$527,000
Net City Fiscal Impact	\$232,000	\$1,863,000

C
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* Indirect impacts represent supplier effects, induced impacts represent spin-off household effects.

- Economic and fiscal impacts are summarized for Council presentation
- A – Project description
- B – City economic impact
- C – City general fund fiscal impact
- Project year one is for construction so ten-year impact results include first nine years of incentives. 20-year impacts include all ten years of incentives

Appendix C

List of Projects Since January 2013

