

MEMORANDUM

TO: Donna Barron, City Manager

FROM: Brenda Martin, Director of Finance

DATE: November 16, 2018

SUBJECT: **Public Hearing: Consideration of Designating a Non-Contiguous Geographic Area of Approximately 708 Acres of Land That is Part of the City's Extraterritorial Jurisdiction (ETJ) Known as the Castle Hills Development, District 1-G & 1-H, as Tax Increment Reinvestment Zone, Number Three, for Tax Increment Financing Purposes, Pursuant to Chapter 311 of the Texas Tax Code.**

BACKGROUND

For over two years, the City has been in discussions with the developer of Castle Hills, the City's planned residential and commercial development located in the City's ETJ. Future annexation will end the current method of issuing Combination Contract Revenue and Assessment Bonds to pay for public improvements constructed by the developer. As of this date, the developer has \$104.5M remaining in voted bond authority to issue for future public improvements in PID 6. The developer approached the City with creating a Tax Increment Reinvestment Zone (TIRZ) as a mechanism for financing most of these remaining improvements of roads, drainage and utilities after annexation. The developer would front the costs to build the public infrastructure and receive reimbursement when tax increment revenue is generated by the project.

ANALYSIS

The City of Lewisville entered into a development agreement with Bright Farm Partnership, Denton County Freshwater Supply District 1-A (DCFWSA) and Denton County Fresh Water Supply District 1-B in 1996. This agreement laid out the methodology for annexation of the DCFWSAs that make up what is known as Castle Hills as well as various other operational issues. This agreement also allowed the DCFWSAs to contract with the City of Lewisville to create Public Improvement Districts (PIDs) for issuing bonds secured by an annual ad valorem tax and assessments. As such, the City provides a financing conduit for public infrastructure for the districts.

Since the approval of the 1996 agreement, DCFWSA 1-A divided into additional districts—1-C, 1-D, 1-E, 1-F, 1-G and 1-H. PIDs have been approved by the City Council as follows:

PID No. 1 DCFWSA 1-B

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| PID No. 2 | DCFWSO 1-D |
| PID No. 3 | DCFWSO 1-E |
| PID No. 4 | DCFWSO 1-F |
| PID No. 5 | DCFWSO 1-G |
| PID No. 6 | DCFWSO 1-H |
| PID No. 7 | DCFWSO 1-C |

The bonds that have been issued for the districts are paid via property tax collections in the respective district (an assessment on property owners in the districts would only occur if tax collections were insufficient to cover debt payments). Total outstanding debt for these PIDs as of date of this meeting is \$142.87M. This debt has strictly been liability of the districts and not the City of Lewisville.

Upon annexation, all obligations of the districts must be assumed by the City. The City would have the benefit of the added taxable assessed value from the districts, but these revenues would be needed for debt service on the assumed obligations, for additional service costs to these new residents and commercial properties, and to maintain and replace public infrastructure.

Most of the districts above are developed. Districts 1-G and 1-H are the least developed. Per the developer, \$107M of public improvements are still to be added within these two districts.

TIRZ is a tool that local governments can use to publicly finance needed improvements and enhance infrastructure within a defined area. These improvements usually are undertaken to promote the viability of existing businesses, attract new commercial enterprises to the area and assist as a catalyst for residential and commercial development within the zone. The statutes governing tax increment financing are located in Chapter 311 of the Texas Tax Code. The cost of improvements to the area is repaid by the contribution of future tax revenues by each participating taxing unit that levies taxes against the property. Specifically, each taxing unit can choose to dedicate tax revenue that is attributable to the increase in property values due to the improvements within the zone. The additional tax revenue that is received from the affected properties each year is referred to as the tax increment. The City may designate a contiguous or non-contiguous geographic area within the City and its ETJ as a reinvestment zone if the area satisfies the requirements of certain sections of Chapter 311 of the Texas Tax Code.

Prior to creation of a TIRZ, the statute requires preparation of a Preliminary Project Plan and Reinvestment Zone Financing Plan and for the City to hold a public hearing and receive comments on the creation of the Zone. The Plan details the projects proposed to address existing conditions in the area as well as the method and means to finance them.

Effect to Landowners

Tax increment financing is a method of capturing revenue that is generated due to increased property values within the zone. The increment is determined by the difference between the value in the year the zone was created (base year) and the value of any given year thereafter, until the expiration of the zone. It is not an additional property tax. Property owners that are located within a TIRZ continue to pay taxes to the Denton County Tax Assessor/Collector in accordance with the adopted rates based upon the appraised value. The calculated increase in revenue due to increased property values (the increment) is then placed in a special fund to finance project costs within the zone.

The Financing Plan and Taxing District Participation

The TIRZ will consist of approximately 708 acres of land that is identified currently as DCFWSD 1-G & 1-H. Public infrastructure improvement costs (“project costs”) to be financed by the Plan is \$88,685,915. The Plan is also financing the outstanding portion of PID5 and PID6 bonds at time of annexation. These prior issued bonds provided funding for public improvements on the land within the boundaries of the Zone. Currently, \$65.31M is outstanding for these bonds and a final additional bond issuance is planned for next month to provide \$13M of bond proceeds for public improvements slated to be expended prior to annexation.

The City will create the Zone and designate 100% of the increment property tax from properties located within the boundaries of the Zone. Additionally, the City will contribute 100% of the base property tax from the base value of same properties until the infrastructure improvements are reimbursed fully to the developer. This provided a projected payback to the developer of 15 years.

Denton County has indicated willingness to participate in the zone at 80% of the property tax from the incremental taxes beginning their next budget year. These taxes will be held within the TIRZ fund to begin reimbursements to the developer after annexation.

Duration

The duration of the zone is 30 years. The TIRZ will take effect on the date it is created. It is anticipated that January 1, 2018 would be established as the base year and that the TIRZ would terminate on December 31, 2048, or on the date when all project cost and debt service has been funded.

RECOMMENDATION

It is City staff’s recommendation that the City Council conduct the hearing and receive input on the creation of Tax Increment Reinvestment Zone, Number Three, for the City of Lewisville.