



MEMORANDUM

TO: Jason Locke
FROM: Jeff Tashman
SUBJECT: Revised Analysis of Urban Renewal Plan
DATE: 5 January 2010

I. INTRODUCTION

The City of Dallas adopted the Dallas Downtown Urban Renewal Plan (the “Plan”) in July, 2004. Tax Increment Revenues for the plan were first received in FY 2005/2006. The actual receipts of tax increment revenues have been much lower than those projected in the Report accompanying the Plan and City Staff believe that the likely future revenues from the Plan may be insufficient to accomplish the planned urban renewal projects.

Staff asked our firm to:

- review the actual tax increment revenues and compare them to the projections
- explain the differences
- revised the projections in light of actual data and
- recommend additions to the urban renewal area that might improve its financial feasibility.

This memo is a revised draft of the analysis and is submitted for review by staff.

II. REVIEW INCREMENT REVENUES PROJECTION FOR EXISTING URBAN RENEWAL AREA

The projections in the report accompanying the Plan had the overall purpose of being a basis for the maximum indebtedness of the Plan. Projections of this nature are not meant to be conservative because they anticipate that the Plan would be successful in stimulating development. If the Agency had wished to sell bonds during this timeframe, the projections would have had to be redone and would be more conservative.

Table 1. below shows the projected and actual tax increment revenues for Fiscal Years Ending (FYE) 2006-2010 which include all the years that tax increment revenues have been received for the Plan. The table shows both components of tax increment revenues, i.e. the incremental assessed value and the consolidated tax rate.

FY Ending June 30	2006	2007	2008	2009	2010
PROJECTED					
Incremental Assessed Value	1,750,435	4,542,092	7,937,368	11,491,107	14,587,905
Consolidated Rate	15.2648	15.2185	15.1675	15.1204	14.9870
Tax Increment Revenues	26,720	69,124	120,390	173,750	218,629
ACTUAL					
Incremental Assessed Value	1,588,514	2,337,860	3,000,735	5,429,122	5,740,154
Consolidated Rate	15.1122	14.7806	13.7313	13.2975	13.2259
Tax Increment Revenues	24,006	34,555	41,204	72,194	75,919
PERCENT ACTUAL OF PROJECTED					
Incremental Assessed Value	91%	51%	38%	47%	39%
Consolidated Rate	99%	97%	91%	88%	88%
Tax Increment Revenues	90%	50%	34%	42%	35%

The differences between the projected and actual are substantial, with the actual figures being a lot lower than the projected. Both the incremental assessed value and the consolidated tax rate were projected to be much higher than they are.

For the incremental assessed value, the difference is due in part to the tax-exempt status of the Housing Authority Walnut Avenue housing project, which was originally anticipated to be property taxable. It would have added assessed value of \$2,307,980 this fiscal year. The other part of the difference is because redevelopment in the Area has not occurred as anticipated. The projections in the plan anticipated approximately \$7.5 million in new assessed value over this five year period. This value was not tied to any specific development, but the actual level of development in the area has not been significant.

The consolidated tax rate used in the projections was based on debt service schedules for bonds issued by the City, the School District, the County and the Community College. The GO bond levy rates for the City and the County as they are used for calculate the consolidated rate for tax

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increment revenues both dropped to \$0, from a projected level of \$0.9360 and \$0.3167 respectively.

The result of the incremental assessed value and consolidated tax rate both being much lower than projected is that the tax increment revenues are about one-third the amount projected for FYE 2010.

III. REVISED PROJECTIONS

The revised projections of tax increment revenues for the Plan are shown in Table 2. below. They are based on modest new development or rehabilitation, with real market values ranging from about \$385,000 to \$1,150,000. The values for FYE 2011 are based on logs of recent development activity provided by the City. The values for the future years are not tied to specific projects but intended as a conservative projection of a limited amount of development activity.

With expansion of the Area, as discussed below, additional new development assessed value could be anticipated which would increase the financial viability of the Plan.

<i>Fiscal Year Ending June 30</i>	2011	2012	2013	2014	2015
Actual					
Total	31,849,558	33,145,797	34,724,442	36,342,553	38,001,117
Increment Assessed Value	6,712,094	8,008,333	9,586,978	11,205,089	12,863,653
Base	25,137,464	25,137,464	25,137,464	25,137,464	25,137,464
Annual Change Total AV					
Appreciation %	2.50%	2.50%	2.50%	2.50%	2.50%
Appreciation \$	771,940	796,239	828,645	868,111	908,564
New Development	200,000	500,000	750,000	750,000	750,000
Consolidated Tax Rate	13.0606	12.9119	11.6335	11.6275	11.6220
Tax Increment Revenues	87,664	103,403	111,530	130,287	149,502

The Agency could borrow against this stream of revenues to generate resources for urban renewal projects. This level of revenues would not justify a formal borrowing as with bonds. More likely would be the Agency obtaining a line of credit from a bank. The line of credit would allow the Agency to draw amounts as needed within the overall parameters of the line and repay the loan with its annual tax increment revenues. Because the Agency has no track record of borrowing for this Urban Renewal Plan, most lenders would ask that the City of Dallas pledge its general faith and credit as repayment for the loan. With this additional credit, it would be reasonable for the Agency to borrow about \$1 million. (The total amount of Tax Increment revenue over the life of the district is estimated to be \$2.5-3 million)jl

IV. EXPANSION OF URBAN RENEWAL AREA

The revenues of the Plan could be increased if the boundary of the urban renewal area were to be expanded. If the expansion brings in property taxable property, the increase in assessed value within the 3% limit would result in additional tax increment revenues. If new development occurred on this added property, revenues would increase more. Statutes allow the addition of 20% of the original urban renewal area, which for this Plan would be about 15 acres.

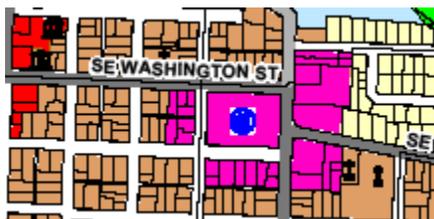
The urban renewal area consists of property designated Central Commercial on the Comprehensive Plan. It is surrounded by property designated for multi-family development, although existing land uses in this area are predominantly single family residential.

We recommend that the development of multifamily housing – both condominium and rental – is key to the revitalization of downtown. As downtown retail uses struggle to compete with the highway commercial development north of the Area and as office development is losing power as an economic engine (because of oversupply and shifting of jobs to alternative locations), multifamily housing becomes a more viable use. In the multifamily zones surrounding the Area, housing could focus on both retirees and younger one- and two-person households. The viability of housing in these locations is relatively high because of the walkability of the downtown and the availability of shops and restaurants for downtown residents.

We discuss one possibility for adding multifamily zoned property to the Area below, but we would recommend that other adjacent blocks be considered for expansion of the Area.

A. Hospital Area/Commercial Node

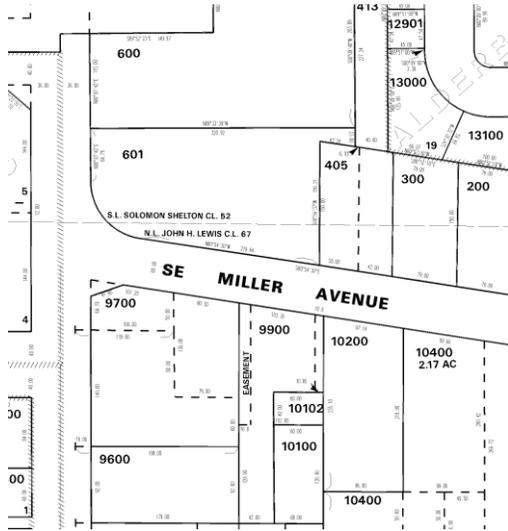
To the southeast of the southeast corner of the Urban Renewal Area is a commercial node containing the West Valley hospital. Directly east of the hospital, at the intersection of Miller and Uglow, is a vacant commercial building with a large surface parking lot. Across Miller is a commercial building, also with a large surface parking lot. East of this lot on Miller is a former church which is now being offered for sale.



This area has redevelopment potential and uses related to the hospital would be logical at this location as well as other commercial uses. The assessed value of the existing improvements in

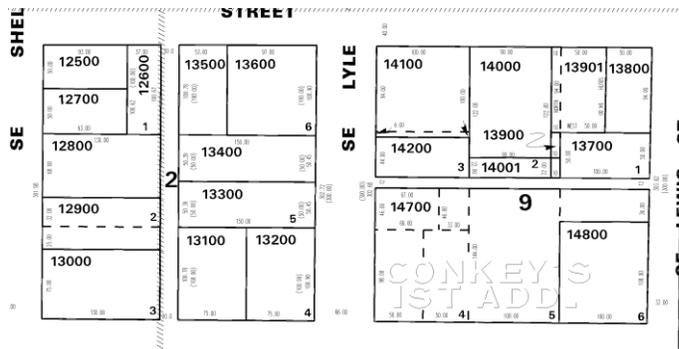
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the area totals about \$500,000 and new development would have much greater value and result in a net increase to the assessed value of the Urban Renewal Area.



B. Multi-Family Housing Expansion Area

In addition the corridor between Washington and Court bounded by the urban renewal area on the west and by Uglow on the east could connect the existing area to the hospital commercial area. This area is currently developed with single family homes but is designated for multi-family uses and the area could transition over time to those uses. This would produce additional assessed value but likely at a later time and in a more gradual fashion.



Both of these areas comprise about 9 acres of property, including rights of way. The addition would therefore be within the 15 acre limit.

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V. PROJECTIONS OF TAX INCREMENT REVENUES WITH EXPANSION AREA

With the addition of the approximately nine acres described in Section IV, and based on a reasonable redevelopment scenario for the parcels near the hospital, the projected tax increment revenues would be considerably higher than those in Section III. These projections are shown in the table below. Note that these projections do not take into account the redevelopment of the multifamily zoned blocks adjacent to the existing Urban Renewal Area. Redevelopment there may take longer than the five year projection period.

<i>Fiscal Year Ending June 30</i>	2010	2011	2012	2013	2014	2015
	Actual					
Total	30,877,618	31,849,558	33,145,797	39,224,442	40,955,053	42,728,930
Increment Assessed Value	5,740,154	6,712,094	8,008,333	14,086,978	15,817,589	17,591,466
Base	25,137,464	25,137,464	25,137,464	25,137,464	25,137,464	25,137,464
Annual Change Total AV						
Appreciation %		2.50%	2.50%	2.50%	2.50%	2.50%
Appreciation \$		771,940	796,239	828,645	980,611	1,023,876
New Development Existing Area		200,000	500,000	750,000	750,000	750,000
New Development Expansion				4,500,000		
Consolidated Tax Rate	13.2259	13.0606	12.9119	11.6335	11.6275	11.6220
Tax Increment Revenues	75,919	87,664	103,403	163,881	183,918	204,449

VI. PROCESS FOR URBAN RENEWAL PLAN AMENDMENT TO INCREASE SIZE OF DISTRICT

Increasing the size of the Urban Renewal Area by more than 1% is by law a substantial amendment, and the process for adopting such an amendment must include all the procedural steps that are necessary to adopt a new Urban Renewal Plan. In addition, the provisions of HB 3056 from the 2009 Legislative Session must be taken into account.

If the City does not propose to increase the maximum indebtedness of the Plan, then the provisions of HB 3056 will not apply. The City could increase the maximum indebtedness of the Plan by 20% without the concurrence of any of the overlapping taxing districts, but it would trigger the requirements to share tax increment revenues with the overlapping taxing districts at the point in the future when tax increment revenues exceed 10% of the maximum indebtedness. At this time, with the tax increment revenues being well below the original projected levels, there may be no wish to increase the maximum indebtedness.

A substantial amendment requires the following procedural steps.

1. Public involvement
2. Consultation with overlapping taxing districts
3. Recommendation of the proposed amendment by the Urban Renewal Agency
4. Presentation to the Dallas Planning Commission for their recommendation.

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5. Sending notice of a public hearing by the City Council on the amendment to individual households within the City of Dallas
6. Public hearing by City Council on the amendment
7. Adoption of non emergency ordinance by Council to approve the amendment