

TAX INCREMENT FINANCING PROGRAM

REINVESTMENT ZONE IX



CENTRAL CITY BEACH PROJECT PLAN

NOVEMBER 2, 1983

Prepared by: Grants Department

GALVESTON CITY COUNCIL

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Councilmember	Eugene Letsos
Councilmember	Phil Lohec
Councilmember	Don Hubbell
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SECTION A - INTRODUCTION

I. PURPOSE AND SCOPE

The Grants and Management Department has prepared a project plan for the Central City Beach Area Reinvestment Zone in accordance with the Texas Tax Increment Financing Act of 1981, as amended August 29, 1983. The City Council designated by ordinance this 62nd to 69th beachfront area to aid in the provision of public improvements to serve major development projects on the Old Municipal Golf Course or Central City Project.

The most important implication of the tax increment legislation is that it provides a potential mechanism for financing public improvements and other public costs that previously did not exist. The traditional methods of financing capital improvements are constrained by budget limitations.

Under the tax increment mechanism, property owners within a reinvestment zone continue to pay taxes on the basis of the total assessed value of their property. A tax increment project does not relieve them from the obligation of paying their full share. Likewise, taxpayers outside the reinvestment zone continue to pay taxes on the total assessed value of their property.

The project plan must be approved by the Board of Directors or Reinvestment Zone IX prior to submittal to City Council. The plan must also be reviewed (modified, if necessary) and approved in ordinance form by City Council prior to the construction of any public improvements.

II. TAX INCREMENT FINANCING

The Texas Tax Increment Financing Act of 1981 allows incorporated cities or towns to issue bonds or notes to finance public works or public improvements in a reinvestment zone. At the time an area is designated a reinvestment zone for tax increment financing the total appraised value of real property in the zone is designated as the tax increment base, and the taxing units levying taxes in the zone during its life are limited to the revenues from this base. Any increase in the appraised value of property in the zone is the captured appraised value and revenues generated by taxes on the captured appraised value are the tax increment. The public improvements constructed or provided are payable only out of the tax increment fund. The act does not restrict taxing entities from raising their tax rate during the life of a zone.

Under the act, each taxing jurisdiction has the authority to collect their taxes in the tax increment reinvestment zone. Those amounts attributable to the base are allocated to the taxing units, prior contractual obligations of the units are honored, and the remaining amount attributable to the captured, appraised value are allocated to the tax increment fund.

Project costs, interest, and payments to the developer for construction of public improvements are payable out of the tax increment fund. Project costs may include capital cost, financing costs, real property assembly costs, professional service costs, imputed administrative costs, relocation costs, organizational costs, and discretionary payments deemed necessary by the city or town. Money in the tax increment fund may be temporarily invested in the same manner as other funds of the city or town.

III. REINVESTMENT ZONE PLAN REQUIREMENTS

The Board of Directors Must:

- Prepare and adopt a project plan for the zone
 1. Statement listing the kind, number and location of all proposed public works or public improvements in the zone.
 2. Economic Feasibility Study
 3. Detailed list of estimated project costs
 4. Map showing existing uses and conditions of real property
 5. Map showing proposed improvements and uses
 6. Proposed changes of zoning, master plan, building, codes or city ordinances
 7. List of non-project costs
 8. Statement of method of relocation
- Prepare and adopt Reinvestment Zone Financing Plan
 1. Detailed description of project costs (including administrative).
 2. Estimated amount of bonded indebtedness
 3. Expected sources of revenue, including % of tax increment of each tax unit's taxes.
 4. Current total appraised value of taxable real property in the zone
 5. Estimated captured appraised value of the zone - each year.
 6. Duration of the zone.

IV. DESCRIPTION OF THE PROJECT

Tax Zone IX encompasses 68 acres of land located between 62nd to 69th and Seawall Boulevard within Central City Development property. Private improvements to take place on 28 acres are:

Condominiums	131	\$ 7,160,000
Apartments	241	7,230,000
Hotel - Phase II	240	14,400,000
Condominium - Phase II	240	<u>13,200,000</u>
TOTAL		\$41,990,000

SECTION B - PUBLIC IMPROVEMENTS

The listing of public improvements necessary to facilitate the private development was prepared by Bernard Johnson, Incorporated, Consulting Engineers and Planners. Please note these improvements on the next page.

PUBLIC IMPROVEMENTS

TOTAL COST SUMMARY
CENTRAL CITY BEACH AREA

<u>IMPROVEMENTS</u>	<u>1984 PHASE I</u>	<u>1985 PHASE II</u>	<u>1986 PHASE III</u>	<u>TOTAL</u>
A. 69th Street Widening	\$202,741	\$	\$	\$ 202,741
B. 69th Street Intersection Colony Park	150,000			150,000
C. Traffic Signalization	25,000			25,000
D. Beach Replenishment				
Construction		1,200,000		1,200,000
Engineering	10,000*			10,000
E. Walkover Bridge				
Construction			320,000	320,000
Engineering			30,000	30,000
	<u>\$387,741</u>	<u>\$1,290,000</u>	<u>\$350,000</u>	<u>\$2,027,741</u>

*This expense would be incurred, beginning in November 1983.

SECTION C - TAX INCREMENT FINANCING ANALYSIS

- I. Summary and Findings
- II. Financing Plan
- III. Economic Feasibility
- IV. Market Analysis
- V. Conclusions

I. SUMMARY AND FINDINGS

The Grants and Management Department has analyzed the economic feasibility of Tax Increment Financing for the proposed public improvements in the Central City Reinvestment Zone Number IX. Our findings are summarized below. Please note that the City's analysis is directed only to the economic feasibility of Tax Increment Financing based upon data and assumptions provided by Willis Thames, Managing Partner of Central City Development.

City Staff has only analyzed the feasibility of Phase I and II public improvements because the private improvements to be completed by year end 1985 are not predicated on the pedestrian walkover. Staff will analyze Phase III if and when new private development is presented, or the developer can substantiate the need. At that time, the Board of Directors and City Council can modify the project plan to fund the pedestrian walkover.

II. FINANCING PLAN

- A. Absorption - Total private improvements in the zone consist of 371 condominium units, 241 apartment units and 240 hotel rooms, constructed on 28 acres. Appraised value will be \$41,990,002 for the entire project. Construction of the public improvements will be completed by December 31, 1986.
- B. Public Improvements - The tax increment base frozen at zone designation (December 31, 1983) is \$4,200,000. Tax revenues on the captured appraised value will accrue to the TIF fund at a rate of \$2.45 per \$100 of assessed valuation, contributed by the following entities: (1) City of Galveston (\$0.66); (2) County of Galveston (\$0.41); (3) Galveston Independent School District (\$1.25); (4) Junior College District (\$0.08); and Navigation District (\$0.05). Assessed valuation is assumed at 100% of market value.
- C. Financing - All public improvement costs will be paid by the developer for subsequent reimbursement from the tax increment fund. Interest accrual is assumed to begin December 1, 1983 at a rate of 13% per annum on the outstanding balance, payable annually at December 31. Local administrative costs are assumed at 2.5% of TIF revenues for the duration of the zone.

REINVESTMENT ZONE FINANCING PLAN

1. Detailed Description of Project Costs

- Administrative fee of 2.5% of TIF Revenues to cover staff time, material and supplies, project plan preparation, annual report preparation, etc.

- Public Improvements

69th Street Widening	\$ 202,741
69th Street Intersection	150,000
Traffic Signalization	25,000
Beach Replenishment	1,300,000
Pedestrian Walkover Bridge	<u>350,000</u>
	\$2,027,741

- The estimated amount of indebtedness will be \$5,395,438 including administrative cost and interest.
- Expected sources of revenue will come from the following private projects:

	<u>No of Units</u>	<u>Appraised Value</u>
Condominiums	131	\$ 7,160,000
Apartments	241	7,230,000
Hotel (Phase II)	240	14,400,000
Condominiums (Phase II)	240	<u>13,200,000</u>
Total		\$41,990,000

- Percentage Each Taxing Unit Will Contribute to the Increment Over the Life of the Zone

	<u>Tax Rate</u>	<u>Increment Contribution</u>	<u>15% (Option) Retainage</u>
City of Galveston	\$.66	\$ 973,335	\$ 146,000
County of Galveston	.41	604,647	90,697
Galveston School District	1.25	1,843,437	276,516
Navigation District	.05	73,737	11,061
Galveston College	<u>.08</u>	<u>117,980</u>	<u>17,697</u>
TOTAL	\$2.45	\$3,613,138	\$ 541,971

- Estimated Captured Appraised Value of the Zone Each Year

<u>Year</u>	<u>Amount Captured</u>	<u>Cumulative Total</u>
1984	\$ 174,318	\$ 174,318
1985	352,555	526,874
1986	1,028,755	1,555,628
1987	1,028,755	2,584,383
1988	1,028,755	3,613,138

In 1988, the balance will be returned on a proportionate amount to each of the taxing units.

PRIVATE IMPROVEMENT SCHEDULE

<u>Classification</u>	<u>Number of Units</u>	<u>Projected Value of Private Development</u>			<u>Cumulative Totals</u>
		<u>1984</u>	<u>1985</u>	<u>1986</u>	
Condominiums	131	70/3,500,000	61/3,660,000		\$ 7,160,000
Apartments	241	120/3,615,000	121/3,615,000		\$ 7,230,000
Hotel	240			240/14,400,000	\$14,400,000
Condominiums	240			240/13,200,000	\$13,200,000
YEARLY TOTALS		\$7,115,000	\$ 7,275,000	\$27,600,000	
CUMULATIVE TOTALS		\$7,115,000	\$14,390,000	\$41,990,000	

CENTRAL CITY BEACH

REPAYMENT SCHEDULE

<u>Year</u>	<u>Loan Amount at Start of Year</u>	<u>Interest During Year</u>	<u>Principal & Interest Due</u>	<u>TIF Revenues</u>			<u>Loan Balance</u>
				<u>Total</u>	<u>To P</u>	<u>To I</u>	
1984	\$ 387,741	\$ 50,406	\$ 438,147	\$ 174,318	\$ 123,912	\$ 50,406	\$ 263,829
1985	1,553,829(a)	201,998	1,755,827	352,555	150,557	201,998	1,403,272
1986	1,753,272(b)	227,925	1,981,197	1,028,755	800,830	227,925	952,442
1987	952,442	123,817	1,076,259	1,028,755	904,938	123,817	47,504
1988	47,504	6,176	53,680	1,028,755(c)	47,504	6,176	
	TOTALS	\$ 610,322	\$5,305,110	\$3,613,138	\$2,072,741	\$610,322	

(a) Phase II debt of \$1.290 million

(b) Phase III debt of \$.350 million

(c) Balance will be returned on a proportionate amount to taxing units.

III. ECONOMIC FEASIBILITY

Using the assumptions detailed above, the attached table projects the status of the Tax Increment Fund at the end of each year. A zone term of 6 years is required to cover all costs, as follows:

A. Total Costs

Public Improvements	\$2,027,741
Administration (City)	90,328
Interest (Developer)	<u>610,322</u>
Total Costs	\$2,728,391

IV. MARKET ANALYSIS

A market analysis was performed by Central City Development on the proposed Reinvestment Zone IX, primarily the million condominium, apartment, and hotel projects.

City Staff also concludes the project's feasibility because the developer is willing to provide the "up front" money for the \$2.03 million public improvements and allow the City to reimburse them for all costs after the trust fund received money annually. Furthermore, a 70 unit apartment and a 120 unit apartment will be completed by November 1984, thus rendering a minimum of \$7.2 million in new taxable property with an immediate tax revenue of \$176,400 to the trust fund by December 1984.

V. CONCLUSIONS

City Staff concludes that Tax Increment Financing is economically feasible for the proposed public improvements in this zone. The zone term is only six years, however Staff is recommending an eight year zone life to cover unforeseeable problems.

SECTION D - PROJECT IMPACT

I. CITY ORDINANCES, CODES, AND PLANS

A master plan for Central City Area was approved several years ago. All building construction will comply with local laws and regulations.

II. RELOCATION

There are currently no residents within the zone to be relocated. Therefore, no plan is necessary.

III. NON-PROJECT COST

The only direct non-project cost identified will be incurred by the City of Galveston. It consists of approximately \$90,328 for administrative services to the zone.

SECTION E - SUMMARY AND RECOMMENDATION

I. SUMMARY

City staff has conducted a financial analysis of the economic feasibility of Tax Increment Financing for the Central City Beach Reinvestment Zone. Based upon input assumptions provided the developer, TIF is a feasible mechanism for defraying the public improvement costs associated with the zone as summarized in Section C. Staff sees no economic constraints on project plan approval for Phase I and Phase II.

Staff has intuitive concerns regarding the market feasibility of Phase III public improvement of \$350,000.

However, in the event that the developer is able to convince the Board of Directors and City Staff as to the necessity of the pedestrian walkover, then City Staff sees no economic constraints on this public improvement.

This project is possible only under the assumed financial structure whereby the developer is paying for the public improvements "up front" and is reimbursed from the TIF fund directly. Such an arrangement would not be possible under traditional bonding schemes, although we parentetically note that the conditions which would be placed upon TIF bonds by an underwriter would most certainly be more onerous than any placed upon the developer by the City.

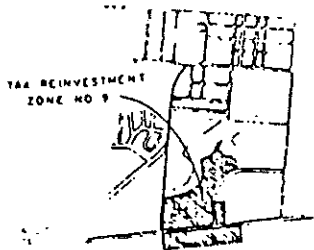
II. RECOMMENDATION

Based upon the November 1984 completion of the \$7.2 million Phase I private improvement and the developer's willingness to provide the "up front" money to perform the public improvements, the following is the Grants & Management Department's recommendation:

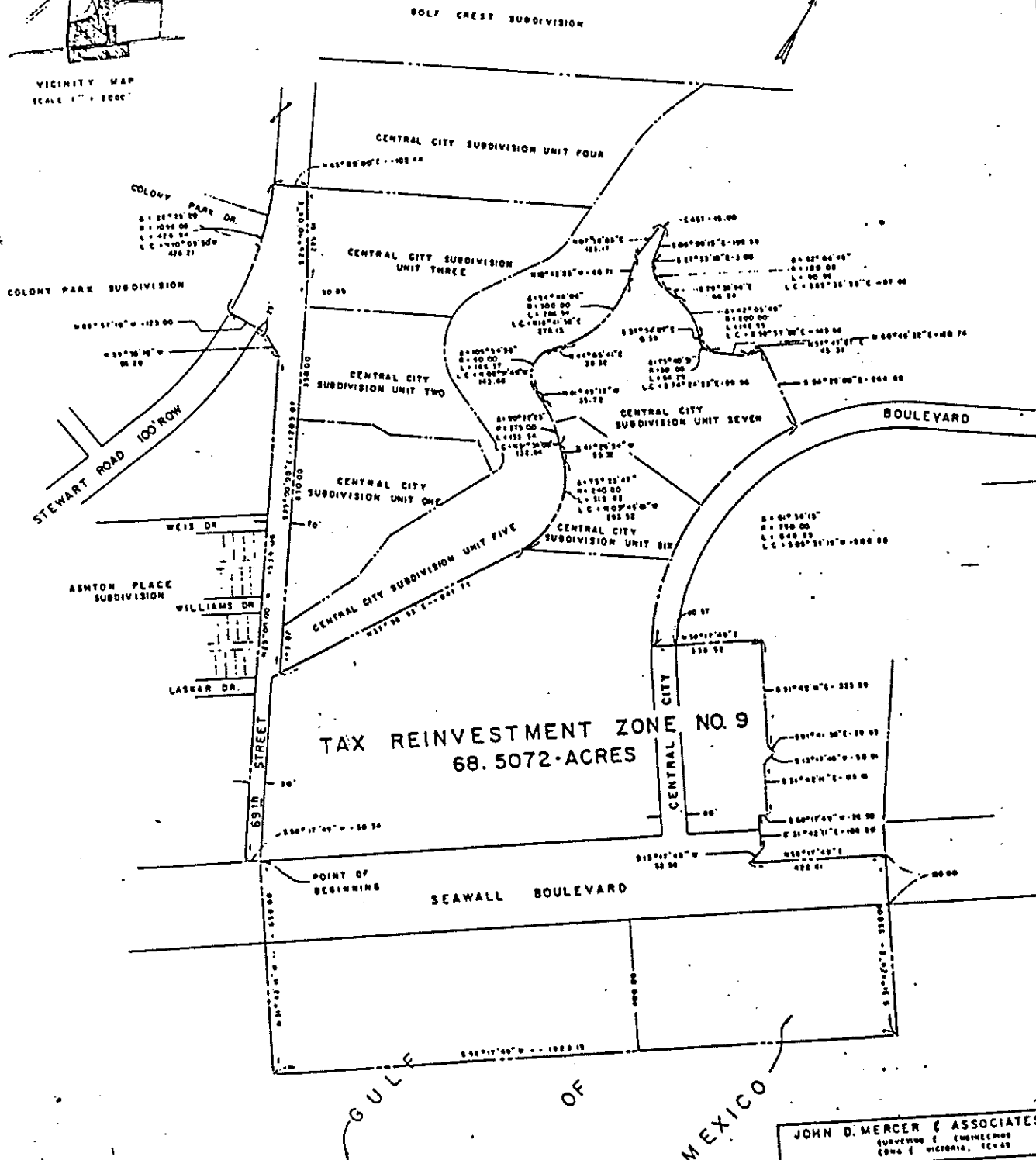
1. The project plan, as prepared by staff, be approved by the Reinvestment Zone IX Board of Directors and City Council with a maximum zone life of 8 years, with a stipulation that a 10 year zone life be considered if for no fault of the developer he is delayed in causing the private improvements to be in place.
2. The Board of Directors and City Council permit the developer to provide the "up front" money for the construction of the public improvements with the understanding that as the trust fund accumulates money, the developer will be reimbursed for the actual construction cost, engineering design cost, and interest cost associated with the advancement of said money; and
3. The public improvements be advertised for bids;
4. The eligible reimbursable items are:
 - a) City administrative cost associated with Reinvestment Zone IX;
 - b) Engineering design cost;

- c) Actual Cost of Phase I, II and III public improvements construction; and
 - d) A maximum 13% interest rate on the "up front" money advanced by the developer; and
5. A contract be executed between the City and Developer approving the feasibility of Phases I through III public improvements, subject to the individual approval of each phase by the Board of Directors and City Council.

TAX REINVESTMENT ZONE #9

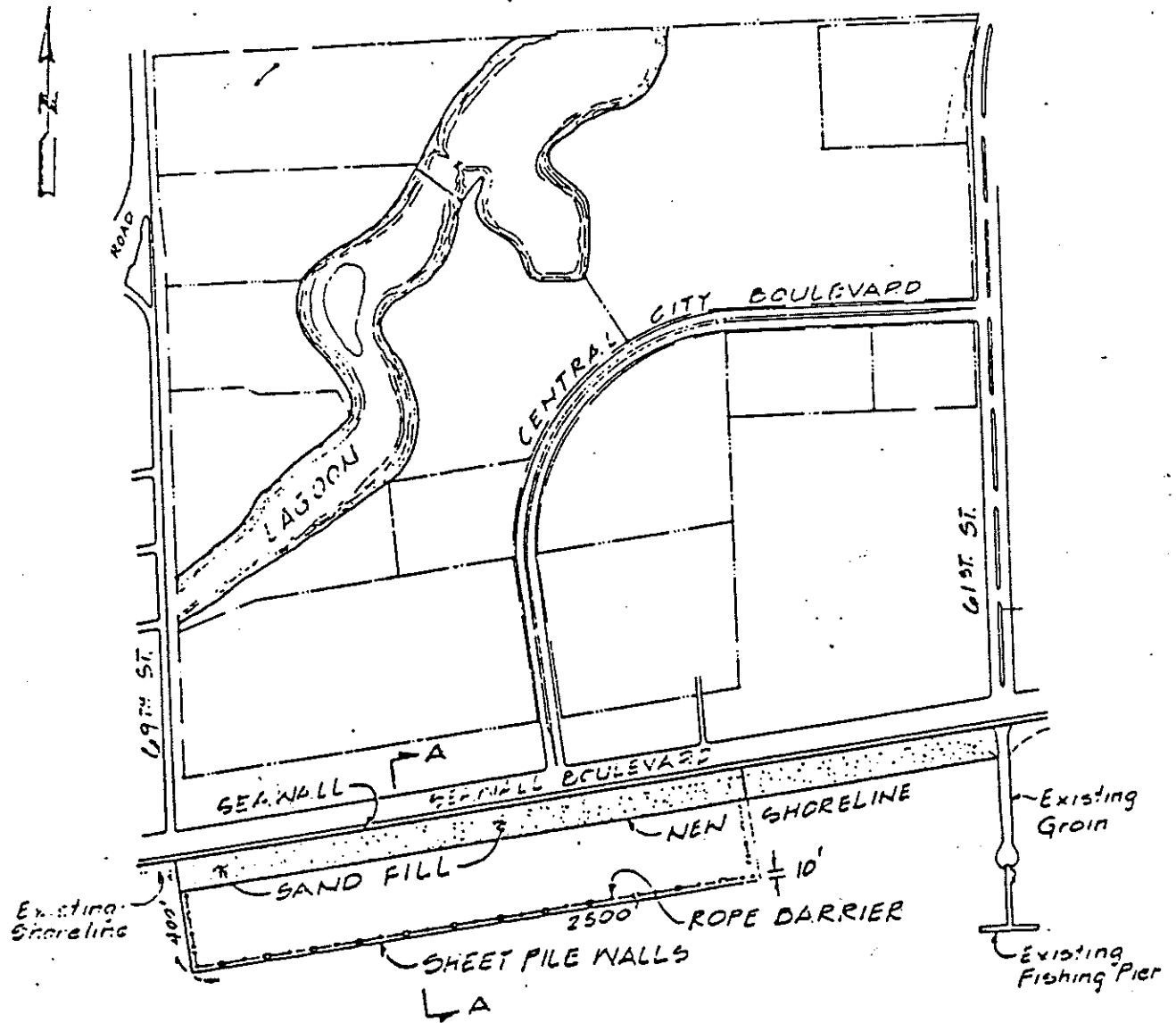


VICINITY MAP
SCALE 1" = 200'



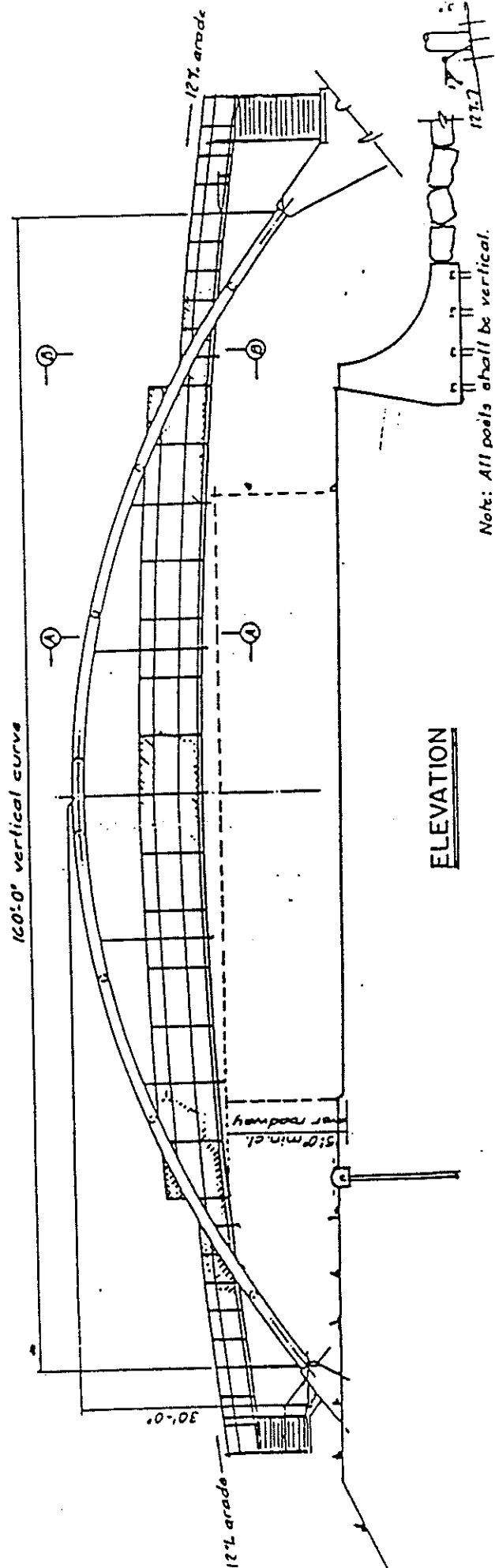
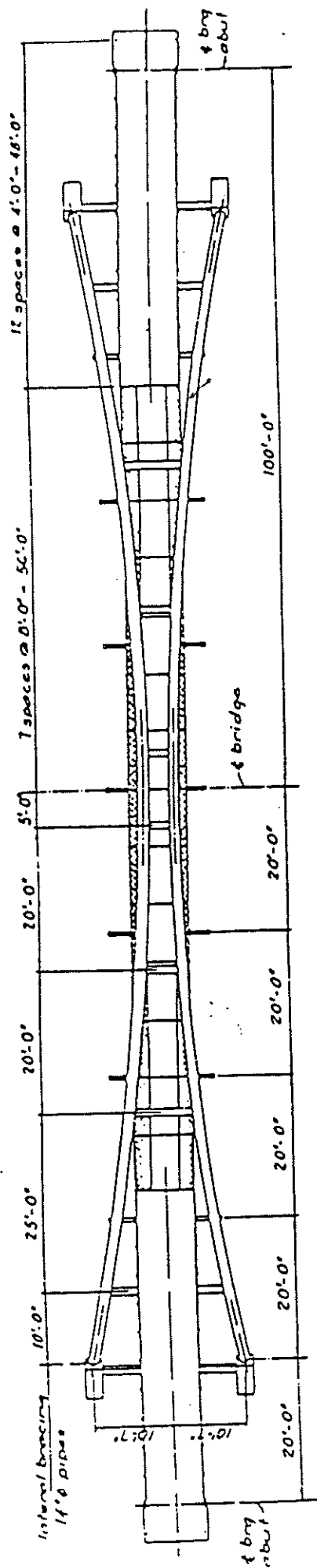
TAX REINVESTMENT ZONE NO. 9
68.5072-ACRES

JOHN D. MERCER & ASSOCIATES, INC. SURVEYING & ENGINEERING 1040 E. VICTORIA, TEXAS			
TAX REINVESTMENT ZONE NO. 9, 68.5072-AC CENTRAL CITY DEVELOPMENT COMPANY BALVESTON TEXAS.			
DRAWN BY J.D.M.	SCALE 1" = 200'	DRAWING NO.	
FILED BY J.A.S.	DATE 7-8-83		
APPROVED BY J.D.M.			



PLAN

PLATE 2



Note: All posts shall be vertical.

CENTRAL CITY DEVELOPMENT COMPANY
OF GALVESTON
P. O. BOX 545
GALVESTON, TEXAS 77550

November 2, 1983

Mr. Doug Matthews
Assistant City Manager
City of Galveston
P. O. Box 779
Galveston, Texas 77553

Dear Doug:

Enclosed is the information requested as per our conversation last week:

Of the land in the Tax Reinvestment Zone 9, per the preliminary conceptual plan attached, approximately 28 acres will be utilized for Condominium, Apartment, and Hotel sites.

A survey of the acreage in Tax Reinvestment Zone 9 has been completed, but our estimates indicate that there is approximately 68 acres of land area in the zone. All 68 acres of the property is vacant.

Attached is a preliminary engineering cost estimate. The improvements listed on this cost estimate would constitute the public improvements for the project.

If more information is needed, please do not hesitate to call.

Sincerely,


Willis Thames

