Livable Centers Incentives Strategy Study

Houston-Galveston Region, Texas

Source: H-GAC

PREPARED FOR

Houston-Galveston Area Council

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1.0 Introduction

1.1 Purpose

The Houston-Galveston Area Council (H-GAC)'s Livable Centers Program seeks to accommodate growth in the eight county Houston-Galveston region through the implementation of walkable, mixed-use places termed Livable Centers. These places provide multimodal transportation options, improve environmental quality, and promote economic development. They are compact, cluster different types of uses together (either through vertical or horizontal mixed-use development), and offer a pedestrian friendly environment that allows people to reduce their reliance on automobiles.

Livable Centers face obstacles to implementation. These include those related to financing and cost factors, sites issues, regulations, and market conditions. In recognition of such challenges, H-GAC engaged Basile Baumann Prost Cole & Associates, Inc. (BBPC) to prepare a Livable Centers Incentives Strategy Study. Key elements of the study include:

- Delineation of challenges and opportunities to financing Livable Center investments in the region
- Documentation of best practices of Metropolitan Planning Organizations (MPOs) in supporting Livable Center-type investments
- Identification of strategies key stakeholders, local governments, MPOs and others may take to encourage the implementation of Livable Centers
- Development of a fiscal impact analysis tool allowing local governments to estimate potential revenues associated with future Livable Center and other private development

This incentives study is one of many action steps H-GAC is taking to address mobility challenges and quality of life in the eight county region that includes Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery and Waller Counties.

1.2 Work Completed

To prepare the ***Livable Centers Incentives Strategy Study,*** BBPC completed the following:

- Performed an assessment of the major impediments facing Livable Center development in the Houston region, as well as how similar impediments have been overcome in best practice communities in other regions.
- Developed funding strategy options and recommendations based on the assessment of impediments and best practices.
- Developed a fiscal impact analysis tool to allow local governments to evaluate the potential economic impact of Livable Centers investments.

The results of these evaluations are summarized in the following sections.

2.0 Assessment

2.1 Definition of a Livable Center

Livable Centers are described as walkable, compact, mixed-used places offering multimodal transportation access that improve environmental quality and promote economic development. While the core elements of walkability, compactness, and mixing of uses pertain to all Livable Centers, H-GAC recognizes that different densities and identities are required for different centers given the diversity of urban, suburban and rural contexts in the eight county region.

H-GAC has identified four types of model centers. These include:

1. **Neighborhood Center**: featuring the lowest density levels of the four types, neighborhood centers are envisioned to feature densities of 9 dwelling units per acre and 5 jobs per acre. The total typical daytime and nighttime population for such a center is 3,000. Examples of such centers in Houston include the Museum District, Bellaire and Chinatown. A total of 100 additional Neighborhood Centers are desired in the region.

2. **Town Center**: these centers are envisioned to hold a daytime and nighttime population of roughly 10,000 with densities higher than a neighborhood center, yet lower than those of a regional center or urban core. Densities suggested for a Town Center are 10 dwelling units per acre and 7 jobs per acre. Examples in Houston include Greenspoint, Galveston, and the Energy Corridor. A total of 34 additional Town Centers are desired in the region.

3. **Regional Center**: with daytime and nighttime population several times larger (at 50,000) than that of the Town Center (at 10,000), the density levels envisioned for a Regional Center are higher, at 20 dwelling units per acre and 25 jobs per acre. With more jobs per acre than dwelling units, Regional Centers also function more as employment centers than Town Centers or Neighborhood Centers. Examples in Houston include Medical Center, Uptown and Greenway Plaza. A total of 3 additional such centers are desired in the region.

4. **Urban Core**: the highest densities, and highest concentration of employment, are found in the Urban Core. This type of center features a daytime and nighttime population of 100,000 and densities of 30 dwelling units per acre and 58 jobs per acre. Downtown Houston is the region's Urban Core, and is envisioned to remain the only such center in the region.

New livable centers have been built in the region. **Sugar Land Town Square** is a 32-acre center featuring retail and restaurants, office uses, a hotel and conference center, and a community gathering place (the Town Square). **Woodlands Town Center** features a wide range of uses as well as open spaces for recreation. The center features townhomes and condominiums, retail and restaurants, office spaces, and hotels.

2.2 Impediments to Livable Center Development

Livable centers are a departure from more traditional suburban forms of development, which tend to favor the development of single uses linked via automobile networks, but not necessarily offering access to alternative modes of transportation. Livable Centers face unique challenges to implementation compared to their traditional suburban counterparts. The identification and description of these challenges was informed by a non-scientific survey of developers in the Houston-Galveston region as well as review of nationwide, industry literature regarding such barriers.

Major impediments to achieving Livable Centers include:

1. Obtaining financing for mixed-use development
2. Land assembly/presence of multiple property owners
3. Cost of infrastructure improvements
4. Regulatory process to develop
5. Cost of upgrading utilities
6. Development costs of higher density development
7. Cost of structured parking
8. Market support

Description of each of these impediments, as well as description of other challenges raised through individual responses to the survey, is provided below.

Obtaining Financing for Mixed-Use Development

Most frequently ranked as "definitely a challenge" by survey respondents, obtaining financing for mixed-use development is a major barrier to implementation. Generally speaking, mixed-use development requires higher up-front capital resources from developers as well as time and expertise.[1] Indeed, many of the other challenges described in this section relate to the higher costs associated with higher-density, compact and mixed-use development, resulting in a need for financing assistance.

Land Assembly/Presence of Multiple Property Owners

This challenge often presents itself in areas where infill and redevelopment projects are desired. Such areas often feature small vacant parcels (and/or parcels with underused buildings) which require piecemeal purchases to achieve a critical mass of land to attract developers and institutional financing.[2] Complicating this challenge is the issue of land speculation around transit stations, which has reportedly occurred in the Houston-Galveston region. Such speculation raises the cost of land for development, thereby reducing the feasibility of land assembly.

Innovative approaches are available to address the challenge of land assembly, not only in terms of public land acquisition assistance programs but also in terms of a private sector equity investment model. The latter approach is described in the appendix.

[1] Urban Land Institute, *Mixed-Use Development Handbook*, 2005.
[2] Urban Land Institute, *Regenerating Older Suburbs*, 2007.

Cost of Infrastructure Improvements

The introduction of higher-density, compact and mixed-use centers often requires the introduction of supportive infrastructure, including new streets, streetscape improvements (sidewalks, landscaping, street furniture, signage), and green/open spaces. Such amenities are important to the overall livability of these centers, but add cost to the project. When these improvements are in the public realm, they may be funded through federal transportation funds made available through H-GAC. However, private sector improvements would not be eligible for such funding.

Regulatory Process to Develop

In some communities, the regulatory process may be more complex to navigate when developing a mixed-use project than a more traditional single-use development. Survey respondents in the Houston-Galveston region noted in particular the regulatory challenge presented by compact, mixed-use development, which often requires more variances to build. The unique features of such development – reduced building lines, private streets, paving sections, on street parking – were noted as adding to the challenge.

Cost of Upgrading Utilities

Higher-density mixed-use development may require upgrades to local water and sewer utility systems, which in some communities may be at or near capacity. Infill development and redevelopment may also require upgrades to existing service to parcels.

Development Costs of Higher Density Development

Dense, compact development is more expensive to construct than lower-density forms of development. Construction elements responsible for the cost premium for such development include more substantial foundations and footings, steel-frame construction, elevators and common areas such as lobbies that reduce the overall leasable area of the building.[3] This factor is related to the difficulty of obtaining financing for development as higher costs result in higher up-front capital needed for development.

Cost of Structured Parking

To maximize the use of land for higher-density, compact mixed-use development, parking is often located in multi-level structures (including underground garages) rather than in surface lots. Generally speaking, a space in a surface lot generally costs $1,000 to $5,000 to construct (depending on the needs of the site and finishes), compared to $15,000 to $30,000 per space in a structured parking garage. For underground spaces, an additional $5,000 in cost is typically added to the cost of an above-ground structured space, for a total of $20,000 to $35,000 per underground space.[4]

[3] Transportation Research Board, *TCRP Report 102: Transit-Oriented Development in the United States*, 2004.
[4] *RS Means*, 2009.

Market Support

The presence of a supportive market means that households and firms offer demand for new spaces. At times, market issues can serve as a challenge to developing livable centers, though respondents surveyed as part of this study did not rank market support as a top impediment to developing livable centers in the region. However, for large-scale, multi-use projects around the nation, BBPC has often found that certain uses exhibit more market support from potential tenants and users than others, dependent upon local conditions and market cycles.

Other Challenges

Survey respondents suggested that achieving awareness and buy-in for new development projects from community members (in other words, obtaining supportive **community involvement**) is a challenge. Some survey respondents described that in addition to building the physical aspects of a development, there is a challenge of achieving **social aspects** of community. Finally, some survey respondents noted a challenge of **understanding available funding sources** in addition to the challenge of obtaining funding for a project.

2.3 Available Incentives in the Houston-Galveston Region

Within the Houston-Galveston region, there are many types of incentives available at the County rather than regional governance level. These incentives are profiled below, followed by a summary chart identifying relevant tools by barrier to Livable Center development:

- **Land acquisition**: every County in the Houston-Galveston region offers 4A and 4B loans and grants for land acquisition. Sections 4A and 4B of Texas' Development Corporation Act enable local communities to levy a sales tax to promote economic development through the creation of development corporations. Local governments with home rule powers (i.e. cities with a population of over 5,000 that have adopted a city charter) may offer grants or loans to a Section 4A or Section 4B corporation under Section 380 of the Texas Local Government Code.

  Generally speaking, land acquisition through Section 4A and 4B must facilitate the creation of primary jobs in communities (i.e. traditional manufacturing and industrial employment) or community development activities (i.e. sports facilities, public park facilities, entertainment and tourist facilities, and affordable housing). Under the legislation, development corporations are not allowed to use eminent domain for land acquisition except by action of the city council.

  With their emphasis on primary job creation and community development projects, Sections 4A and 4B do not encompass many elements of sustainable, Livable Centers. For example, 4A and 4B funding could not fund land acquisition for a mixed-use development that did not create primary jobs in the community. However, such funds could supplement community development elements, if present, in such a development (such as affordable housing, entertainment and tourist facilities, etc.).

- **Financing for parking structures**: there are a variety of tools available to local governments to fund and/or finance parking structures. While several methods are available, few communities surveyed as part of this study have offered such financing. Only Montgomery and Liberty Counties reported that they had financed parking garages.

  The few examples of communities financing parking may in part relate to the constraints of various tools. In Texas, parking garages may be funded under Sections 4A and 4B to the extent that the facilities support primary job creation or community development activities (see description of Sections 4A and 4B projects under land acquisition above). Cities and counties also may fund parking for sports and community venues through a City/County Venue Project Tax per Chapters 334 and 335 of the Texas Local Government Code. Tax increment financing, as established through cities and counties, may be used to finance parking facilities in designated reinvestment zones (more on tax increment financing is provided in the bullet describing the tool below).

  Federal funds such as the Surface Transportation Program (STP) and Congestion Mitigation and Air Quality (CMAQ) can be used to fund transit related parking facilities, which also can be used to leverage private or local government investment in non-transit related parking. For example, in Kent, Ohio, planning is underway for a parking facility as part of a multimodal center that will include both transit related and non-transit related parking. While the transit related parking may be funded by federal transportation dollars, the non-transit related parking is not eligible for this source of funding. However, the non-transit related parking will be built atop the transit related parking, thereby lowering the overall cost per space of the non-transit related parking because of the efficiencies of building atop the transit related spaces. Local government and private sector funding will likely support these non-transit related spaces.

- **Utilities upgrades**: home rule communities within the eight-county region may fund utilities upgrades (i.e. upgrades to water and sewer, electric, gas, telecommunications and Internet) through loans and grants to development corporations under Sections 4A and 4B of the Development Corporation Act (described above with respect to land acquisition). As previously noted, such funding is limited to projects that create primary jobs in the community or feature community development elements.

  While federal transportation dollars such as CMAQ and STP cannot be used to directly fund utilities upgrades, they may indirectly fund the upgrades to the extent that the funds may be substituted for other activities. For instance, if another funding source (such as local general obligation bonds) has been allocated to an investment activity that is eligible to receive federal transportation dollars (such as sidewalks to a transit facility or another activity with a physical and functional relationship to transportation), the federal transportation dollars may substitute for that funding source, and the funding source then applied to the utilities upgrades.

  To increase the likelihood that a broad range of activities will be eligible for federal transportation dollars, the transportation improvement program (TIP) should be broadly defined to encompass a range of improvements (particularly those within transit areas, typically defined as the quarter mile walkshed surrounding a station) to increase flexibility and avoid the need to amend the TIP to add projects when opportunities for substitution are identified.

- **Tax incentives**: in the region, communities use a variety of tax incentives to support economic development. These include tax abatements, sales tax rebates, and tax increment financing.

  Tax abatement agreements may be created by incorporated cities, counties and special districts in Texas to attract new industry and to expand and retain existing businesses. The taxing unit in the agreement must establish a set of guidelines and criteria, including timeframe of the agreement (which may not exceed 10 years, although many agreements are for only 1 to 5 years) and delineate a "reinvestment zone" within which the tax abatement will apply. Tax abatements are beneficial to private developers in that they lower operating costs, which then increases developers' ability to obtain private debt. All of the eight counties in the H-GAC region have tax abatement available as an economic development incentive, and the number of reinvestment zones by county ranges from 2 to 18 (not surprisingly, the 18 zones are located in Harris County, the region's most populated county).

  Local governments may provide *sales tax rebates* to businesses that collect and remit municipal sales taxes. In the Houston-Galveston region, there are communities in Fort Bend County which offer such an incentive.

  Tax increment financing may be used by a city or county to finance structural improvements and infrastructure within designated tax increment reinvestment zones in city limits. Such financing tools work by applying the value of future tax revenues to the cost of current improvements. TIF can be initiated through petition by at least 50 percent of affected property owners, or, as most typically occurs, TIF may be initiated by a city or county when an area is found to "substantially impair the city or county's growth." In the H-GAC region, over half of counties contained tax increment reinvestment zones. Of those that contained such zones, Harris had by far the most, with 22 tax increment reinvestment zones. The number of zones in other counties ranged from 1 to 6.

  Tax increment financing must fund public infrastructure. However, publicly owned common areas that are part of larger public-private development can leverage private investment. For example, if a public entity owns the first floor of a multi-story building, the investment in that first floor can support development of upper stories and reduce the overall cost to the developer.

- **Public improvement districts**: to fund public improvements to support economic growth, cities and counties may levy and collect special assessments on property. Such districts must be established through petition initiated by the governing body or affected property owners. The following types of improvements may be funded through such districts: water, wastewater, health and sanitation or drainage; street and sidewalk improvements; mass transit improvements; parking improvements; library improvements; park, recreation and cultural improvements; landscaping and other aesthetic improvements; art installation; creation of pedestrian malls; supplemental safety services; and supplemental business-related services (e.g. advertising and business recruitment.

  Because of the broad variety of public improvements which they may fund, public improvement districts may be used to develop public infrastructure in Livable Centers. However, the districts have little precedent in the region; only in Harris County are 3 such districts found.

- **Municipal management districts**: commercial property owners may agree to create a municipal management district to finance infrastructure, facilities and services above and beyond those provided by the local municipality. Property owners may impose special taxes, special assessments and impact fees or other charges to property owners within the district in order to fund: water, wastewater, drainage, road or mass transit improvements, landscaping, lighting, signs, streets and walkways, drainage, solid waste, water, sewer, power facilities, parks, historic areas, works of art, parking facilities, transit systems, and supplemental services (e.g. advertising, economic development, business recruitment, promotion of health and sanitation, public safety, traffic control, recreation and cultural enhancement).

  Municipal management districts are relevant to Livable Centers creation in so far as they can support activities that would enhance infill and redevelopment prospects in already established business centers.

- **Municipal development districts**: cities may establish through election municipal development districts that may levy additional sales tax for economic development projects similar to those levied under Sections 4A and 4B. Municipal development districts fill a void left by Sections 4A and 4B; under those sections, such taxes may not be levied in a city's extraterritorial jurisdiction and they may not be levied when a city has reached its two-percent sales tax cap. Municipal development districts allow cities to levy the tax over certain areas within a city (thereby allowing them to levy it where the two-percent cap has not been reached, and steer clear of areas where it has been reached), and may be levied in a city's extraterritorial jurisdiction.

  As a relatively new tool (the Texas Legislature enabled the use of municipal development districts in 2005), few communities in the Houston-Galveston region have used municipal development districts. However, there is such a district available in Chambers County and 2 in Harris County.

- **Economic development zones**: communities in Montgomery County have created economic development zones (EDZs) supported by sales tax collections (per Sections 4A and 4B) that fund a variety of elements to support Livable Centers. For example, such funding at the Woodlands supports: fire department costs; debt service and annual payments; security; the convention and visitors bureau; community event promotion; and economic development promotion.

- **Bond financing**: in Texas, cities may issue debt to finance certain economic development activities, including sports and civic venues (per Chapters 334 and 335 of the Local Government Code), tax increment projects (per Chapter 311) and certain manufacturing and commercial facilities (under Chapter 1509). In the Houston-Galveston region, bond financing is available in some communities for economic development, including Brazoria, Fort Bend, Harris and Montgomery.

- **Cost sharing arrangements**: some communities in the region have shared costs on projects that range from business incubators and co-operatives (Brazoria, Fort Bend, Harris and Liberty Counties) to parking garages (in Montgomery County).

- **Regulatory relief**: in the region, fast track permitting is available in some communities to enable more efficient review of projects. Communities in Brazoria, Harris, and Liberty offer such programs. The City of Houston is well-known for its lack of zoning regulations (although

development is shaped by other municipal regulations, including, but not limited to, minimum lot size requirements, parking regulations, and street design requirements; development is also shaped by private covenants and deed restrictions).

- **Franchise fee grants**: some communities in Texas offer grants to off-set the cost of the Texas franchise tax imposed on corporations. A few communities in counties in the Houston-Galveston region offer such an incentive, including those in Brazoria, Harris and Montgomery. This grant tool is primarily to target individual businesses rather than support Livable Center developments as a whole, but conceivably could support certain businesses locating in such centers.

- **Skills training grants**: regional workforce boards in Texas provide skills training grants to respond to the needs of Texas employers. This type of incentive is available in all the counties in the Houston-Galveston eight-county region. Like franchise fee grants, skills training grants can support individual businesses and industries, but are not directly relevant to supporting Livable Center developments as a whole.

As indicated in the profiles above, the applicability of these tools to promoting Livable Center development varies by tool. A summary of the tools, identified with respect to development barriers they may potentially address, is provided below, along with notes on the applicability of the tools to Livable Centers development.

Exhibit 2.1: Summary of Available Economic Development Tools by Barriers Addressed and Applicability to Livable Centers

Barrier	Available Tools	Notes on Applicability to Livable Centers
Obtaining Financing/ Costs of Development	Tax Increment Financing; Public Improvement Districts; Municipal Management Districts; Municipal Development Districts; Economic Development Zones; Bond Financing	Applicability varies by tool. Several of the tools are limited in use to supporting business and industry as well as sports and civic venues. Tax increment financing is limited to areas where blight has been found.
Land Assembly	Section 4A/4B Loans and Grants for Land Acquisition	Limited applicability; Section 4A/4B grants and loans target primary job creation and community development elements. Could supplement community development aspects of Livable Centers (affordable housing, entertainment and tourist facilities, etc.)

Infrastructure Improvements	Tax Increment Financing; Public Improvement Districts; Municipal Management Districts; Municipal Development Districts; Economic Development Zones; Bond Financing	Applicability varies by tool; see description related to Obtaining Financing above
Regulatory Process	Fast Track Permitting	Available in some communities but not widely used in region; could be expanded as a tool to promote Livable Centers
Utilities Upgrades	Section 4A/4B Loans and Grants	Limited applicability; see note on Section 4A/4B above related to Land Assembly
Structured Parking	Section 4A/4B Loans and Grants; City/County Venue Project Tax; Tax Increment Financing	Limited applicability; see note on Section 4A/4B above related to Land Assembly; venue tax limited to parking to support sports and civic venues; tax increment financing limited to blighted areas designated as tax increment reinvestment zones
Market Support	Tax Abatements; Sales Tax Rebates; Cost Sharing Arrangements (business incubators, co-operatives); Franchise Fee Grants; and Skills Training Grants	These incentives enhance market support for development in so far as they support business recruitment, retention and expansion; therefore, they may serve as indirect incentives to support Livable Centers.

Another way to evaluate the available toolkit is to compare the applicability of each funding source to various types of potential Livable Centers project types/activities. The toolkit of funding sources (limited to those with at least one eligible project/activity) is provided in Exhibit 2.2.

Exhibit 2.2: Funding Sources by Applicable Project Types										
X	= Directly eligible project per funding source									
*	= Indirectly may be supported by funding source									
					Project Type/Activity					
				Vertical Development			**Infrastructure**		**Parking**		**Land Assembly**
Funding Source	Office	Retail	Market Rate Housing	Affordable Housing	Civic Venue	Public	Private	Public	Private	
4A and 4B Loans and Grants				**X**	**X**	**X**	**X**	**X**	**X**	**X**
Tax Increment Financing	*	*	*	*	**X**	**X**	*	**X**	*	
Federal Transportation Funds						**X**	*	**X**	*	
Public Improvement Districts						**X**				
Municipal Management Districts						**X**	**X**			
Municipal Development Districts				**X**	**X**	**X**	**X**	**X**	**X**	**X**
Economic Development Zones					**X**	**X**				
Bond Financing					**X**					

2.4 Best Practices in Public Sector Incentives

Overview

Since the attributes of Livable Centers – higher densities, mix of uses, compactness – present challenges to development relative to more traditional single-use suburban development, and since the implementation of Livable Centers in the Houston-Galveston region is an important goal to H-GAC, there is a need to better understand how various public sector entities might help alleviate such challenges with public sector activities.

Many different types of public sector agencies may offer incentives (financial or otherwise) to facilitate Livable Center development. Generally speaking, these agencies include: metropolitan planning organizations (MPOs, such as H-GAC), local governments, and others (including non-profit entities, development corporations, and transit agencies).[5]

To better understand such roles and incentives, particularly with respect to the role of the MPO, BBPC undertook a best practices evaluation of regions that have facilitated the implementation of livable centers. The assessment includes two southern regions - Dallas-Fort Worth, Texas and Atlanta, Georgia - with the recognition that the political and market context within these regions will be more similar to that of the Houston-Galveston region than non-southern communities. However, the evaluation also includes the Twin Cities region in Minnesota in order to call attention to a strong MPO-led incentive program available there. The following table offers an overview of the three regions and the role of the MPO in comparison.

[5] Transportation Research Board, *TCRP Report 102: Transit-Oriented Development in the United States*, 2004.

Exhibit 2.3: Summary of Incentives from Best Practice Regions		
Region	**MPO Incentives**	**Relative Level of MPO Involvement**
Dallas-Fort Worth, Texas	Grants to local governments for public infrastructure investments and planning activities (formerly, the program also included land assembly and revolving loans, both of which are no longer used)	Medium
Atlanta, Georgia	Grants to local governments for transportation infrastructure only and planning activities	Low
Twin Cities, Minnesota	Grants to local governments for public infrastructure investments, transportation investments, parking and land assembly	High

Summary profiles of incentives available in these regions are offered below.

Dallas-Fort Worth, Texas

The toolkit for mixed-use, dense, compact development (including transit oriented development) in Dallas includes public incentive programs that have supported private sector development interest. Tools used include:

- **Grants for sustainable development** – to encourage the development of sustainable, livable centers, the North Central Texas Council of Governments (NCTCOG) uses regional toll revenue to make grants to local governments for infrastructure investments (in the public right of way) and planning activities. Types of development supported by the program include transit oriented development within a ½ mile radius of a station or passenger rail line; infill development within a central city with high unemployment, high emitting vehicles, or low income households; and Main Street and historic downtown districts.

  The NCTCOG requires grant recipients to provide a local cash match of 20 percent. NCTCOG uses proceeds from the required upfront 20 percent local cash match to fund administration of the program and to serve as procurement managers on behalf of regional communities (which ultimately saves money for local communities).

  In 2009, the program consisted of $41 million designated for infrastructure and planning, with funds pre-allocated by geographic subregions, and a maximum project allocation limit of $3 million. Recipients may include cities or counties (with counties offering a means for unincorporated areas to obtain funding). The project is required to include a vertical component, whether that component is constructed by the local government sponsor or a secondary private sponsor (i.e. developer).

  Eligible activities include: expanding roadway capacity, intersection improvements, traffic signalization, transit amenities and access projects, sidewalks, shade trees, landscaping,

bicyclist/pedestrian amenities, crosswalks, bicycle paths and trails, right of way or easements for transportation facilities, retrofit projects, and storm water costs, as well as some utility relocations.

Ineligible activities include the construction of private buildings, roadway reconstruction, artwork, foundations, installation and/or rehabilitation of water and sewer lines, burying utilities, parking garages, extensions to transit lines, earthwork, and land purchases.

The program currently awards grants for projects, although in the past both grants and loans were provided. The loan program was specifically linked to a land assembly program that has since been eliminated because of current funding source requirements (the regional toll revenue does not allow for land acquisition as an eligible use of funds). NCTCOG representatives also noted there were relatively few applications submitted for land assembly loans. They noted that while communities in the region were interested in the land banking program, they were not willing to conduct their required due diligence (including property appraisals) needed for the application when they were unsure if they would be awarded loan funds. Communities also expressed reluctance to engage in a loan program wherein they would be required to repay regardless of the outcome of the development process. NCTCOG representatives noted that land assembly is often best suited to the private sector because of the immediacy that is often needed to make a land purchase deal happen.

Funding sources have varied over the course of the program's history. In 2001 and 2005, federal CMAQ and STP funds were used, which were administered through TxDOT. Because cities participating in the program had to contract with TxDOT, projects funded in those years faced relatively more challenges than projects that received grants through other funding sources. Specifically, NCTCOG representatives noted that participants engaged in lengthy contracting processes with TxDOT. The relatively slow process has meant that half of these projects have not been completed (or in some cases started).

In 2006, NCTCOG embarked on a creative "swap-out" of funds that allowed NCTCOG to contract directly with participating communities [rather than require them to contract through the Texas Department of Transportation (TxDOT)]. This swap-out was possible because the City of Dallas had local bond funds available for a large interchange project. Those local funds were "swapped" with TxDOT funds so that the TxDOT funds were applied to the City's interchange project, and the local bond funds made available for Sustainable Development activities, including planning, infrastructure and land banking. The direct contracting arrangement between NCTCOG and local communities has allowed projects to move forward more quickly than those of prior funding rounds that used TxDOT funds. All but one of the projects awarded funding directly from NCTCOG from the "swap-out" have received their notice to proceed, and many have been completed.

The current source of funding for the program, the regional toll revenue, was identified as a result of creative and proactive planning on the part of NCTCOG, which continually seeks alternative sources of funding for the program. As part a competitive bidding process to construct a regional toll road, vendors were required to provide upfront payments to the region as part of the selection process, which resulted in $2.2 billion in upfront funds, $40 million of which were programmed to NCTCOG for sustainable development.

Four staff persons administer the program, including two full time planners, a program manager, and a grant coordinator. The two planners and program manager devote roughly half of their time to the program, while the grant coordinator devotes all of his time to the program. Administrative activities associated with the program include managing the grant application and selection processes as well as reviewing invoices provided by grantees (local governments).

From an administrative perspective, NCTCOG representatives noted the importance of carefully screening invoices to make sure only eligible items are included, since local governments occasionally include items such as burying utilities, fountains, and public art (all activities that are not eligible under the program). This need to carefully screen invoices has prompted NCTCOG to establish a three-person screening process (two staff persons initially review, then the program manager performs a final review) and to create a procedure to track the number of times a grant recipient's invoices are approved or disapproved. This tracking mechanism then can serve as an incentive for recipients to carefully review their invoices prior to sending to NCTCOG to avoid being disapproved. NCTCOG also make site visits to field check project status.

In terms of partnerships, NCTCOG's contracts have in the past been made to both local governments and transit agencies, though for the current funding cycle transit agencies have specifically been removed as eligible grantees. In NCTCOG's experience, transit agencies have not been as well-prepared to manage developers, and two past projects awarded to a transit agency were cancelled. However, local transit agencies have developed partnerships with local governments to address limited transit agency capacity to manage development. For example, DART has partnered with the City of Dallas, which has the economic development expertise to address development.

NCTCOG has adapted its program over the years to address challenges and problems. For example, NCTCOG encountered some developers working with cities that brought unreasonable expectations about the timeframe for completing a project (they expected a faster timeframe than possible given the procurement and invoicing processes). NCTCOG also experienced one project in which the developer did not actually own the land which was to serve as the site for the project, as well as other instances in which the proper zoning was not yet in place to move the project forward. These issues led NCTCOG to host a developers' workshop upon selection of projects after each application process in order to discuss reasonable expectations and other issues.

Another lesson learned relates to reporting on project status. NCTCOG has found that grant recipients are reluctant to report unless an incentive is provided (such as the promise of a check when an invoice is submitted). NCTCOG has since added an interim reporting requirement to address this issue.

Payments to grantees has been another item addressed over time. In the past, NCTCOG offered two payment options to grantees: 1) reimbursement to communities once projects were 80 percent complete; or 2) periodic reimbursements as invoices and receipts provided by grantees. The grantees that selected option 2 tended to avoid taking risks and were more conservative with project funds. As a result, NCTCOG has since made all payments follow a four-part installment plan, with the last payment held until work is completed to ensure project completion. NCTCOG also added a clause to program contracts stating that grantees would not be reimbursed until they could show a vertical development was constructed with a building permit.

NCTCOG is just beginning to look at quantifiable metrics to evaluate the success of the program, but from an anecdotal standpoint, the program has been successful with many projects that have been completed or are nearing completion.

In addition to direct grants for projects, NCTCOG reserved $1 million in the most recently conducted round of the program to fund a transit oriented development technical assistance implementation program. NCTCOG staff selected a series of projects that were not funded but had applied in the last round of funding and conducted model studies to address the themes of those projects. For instance, many local governments had submitted funding requests for similar types of studies, including comprehensive plans, 3-dimensional visual renderings, etc. By conducting model projects, NCTCOG was able to respond to these communities and provide examples for other communities in the entire Dallas-Fort Worth region. Each of those model projects took roughly 6 to 9 months to complete and the equivalent of one (1) full-time NCTCOG staff person's time.

- **Direct public sector investment in infrastructure** – the City of Plano directly funded streetscape improvements to support the Eastside Village project, including brick sidewalks, street furniture and lighting.

- **Tax increment financing for infrastructure** – the City of Dallas has used tax increment financing (TIF) to finance streetscape improvements at such projects as The Cedars; the City of Plano has used TIF for similar activities in Eastside Village, and the Town of Addison used TIF to fund public improvements at Addison Circle (which included brick sidewalks and crosswalks, street trees, bike racks, benches and street furniture).

- **Tax abatements** – the City of Dallas has provided tax abatements for projects including The Cedars, which received a 5-year abatement of 50 percent of the taxes on the increased value of the property.

- **Public land disposition and air rights development** – DART, the regional transit authority, can sell or lease underutilized authority-owned parcels (such as parking lots) to developers. DART also can obtain property for future station infrastructure investment and mixed-use, transit oriented development. The City of Plano has contributed land for mixed-use development in exchange for the development of public parking spaces as part of the Eastside Village project.

- **Neighborhood empowerment zone** – the City of Plano encourages economic development and affordable housing creation with this zone, which provides a waiver of most development fees.

- **Zoning for mixed use development** – the City of Richardson has proactively created new zoning code for mixed use, more urban style development in support of transit oriented development around its DART stations.

Atlanta, Georgia

In the Atlanta region, a variety of public programs encourage livable centers – that is, development of sustainable communities linked to transportation improvements.

- **Grants for planning and transportation** – the Atlanta Regional Commission, the MPO for the Atlanta region, funds planning studies and transportation investments in Livable Centers Initiative (LCI) designated communities. Funding to the tune of $500 million has been set aside for transportation investments under this program through 2030. Another $1 million per year was set aside for planning studies. These funds come from federal transportation dollars (Surface Transportation Program).

  The activities funded by the LCI grants have spurred local governments to act and facilitate livable centers in their communities. Examples include the City of Haperville, which conducted two plans that led the City to adopt architectural design standards, increase residential zoning density, re-zone commercial sites to allow for mixed-use infill development, create a Main Street Organization, create a Development Authority and create a Design Review Committee. The Development Authority has since acquired land and sold the land to developers for mixed-use, livable center development.

- **Tax increment financing for redevelopment** – local governments in the Atlanta region have used tax allocation districts (TAD) which allow future incremental tax revenue increases to be used to finance redevelopment.

- **Community improvement districts for infrastructure** – commercial property owners in individual Atlanta regional communities may impose a self-tax that then may finance improvements in a designated district.

- **Special purpose local option sales tax** – counties in the Atlanta region may levy up to 2 percent in additional sales tax to fund public infrastructure investments.

- **General obligation bonds** – the City of Atlanta uses general obligation funds to fund public infrastructure improvements such as sidewalks, greenspace, and streets through its Quality of Life Bond Program, which was approved by City voters.

Twin Cities, Minnesota

Within the Twin Cities region, several programs are available that fund elements of livable communities. These include programs led by the Metropolitan Council, the MPO for the region that includes Minneapolis and St. Paul.

- **Grants for infrastructure, transportation, parking and land assembly** – the Metropolitan Council's Livable Communities Demonstration Account (LCDA) funds public infrastructure and land assembly activities of cities and towns, metropolitan counties and development authorities. The intent of the program is to fund projects that will ultimately serve as exemplary, demonstrative models of livable communities that meet state agency policies and initiatives.

  A total of $4 million was available in 2009 under the program, which uses proceeds from a regional property tax rather than federal funding (and in the past, awards have ranged from $5 to $9 million per year). The regional property tax levy has been beneficial to the program in that no new appropriation is required each year to sustain the program. Funding is available for all cities within the region, but a maximum cap of up to 40 percent may be awarded in Minneapolis and St. Paul. This cap was established to ensure that smaller suburban cities in the region would be able to participate in the program.

  As such, projects are evaluated with respect to how they demonstrate commitment to affordable housing, green and sustainable development, access management, life-cycle housing, surface water management, and other state policies. They are also evaluated in terms of their inclusion of innovative elements with respect to the efficient use of land, linkage of land uses and transportation investments, connection of housing and commercial centers, provision of a range of housing densities, and conservation of natural resources.

  Eligible activities broadly fall into two categories: public infrastructure projects and land acquisition. More specifically, the listing of eligible activities includes: street construction, realignment and reconstruction; street lighting and signage; public pedestrian features like sidewalks and benches; public-use parking structures or the public portion of a shared public-private garage; extensions/modifications to local public sewer and water lines; transit shelters; bike racks; storm water management improvements; design and engineering of public improvements; land acquisition; demolition and removal of obsolete structures; and site preparation.

  The Livable Communities Demonstration Account is managed by one (1) professional full-time staff person and an administrative assistant. Every year, an advisory panel of experts is formed that includes representatives from the public and private sectors to evaluate applications. The panel generally includes experts with specialties in planning, economic and community development, transportation, finance, design, development and the environment.

  Partnerships have developed with local governments in that most cities in the region participate in the program. Since transit agencies are not eligible grantees, partnerships with transit agencies have not developed through this program.

One challenge noted by program representatives has been the broad-based nature of the program. Since Livable Communities can mean many things to many communities, the program has lacked a true identity, which has made the program difficult to define and to monitor and evaluate for accountability to policymakers.

The broad nature of the program has meant that program representatives have not developed a strong evaluation program to document success. However, program representatives anecdotally noted that projects have emerged as a result of the program that now serve as regional, if not national models. For example, the Excelsior and Grand redevelopment in St. Louis park (a first-ring suburb of Minneapolis) has been nationally recognized as one of the first communities to achieve LEED certification for neighborhood development.

Beyond providing direct funding for projects, in its early years the Livable Communities Demonstration Account also offered technical design assistance through a relationship with University of Minnesota Design Center. This relationship was credited with helping get local staff and citizens excited about the program by visualizing the possibilities for Livable Communities.

- **Grants for land assembly for transit oriented development** – the Metropolitan Council's Hiawatha Light Rail Transit (LRT) Land Assembly Fund offered federal grant dollars to support the purchase of properties to develop transit oriented development within 1,500 feet of a Hiawatha LRT station. A 20 percent match was required of grant recipients. A total of $3.5 million was available for such projects in 2005, when an RFP process was conducted. The program required recipients to demonstrate that the transit oriented development would not occur "but for" the use of the land assembly funds.

- **Grants and loans for transit oriented development** – Hennepin County (which surrounds the City of Minneapolis) offers TOD grants and loans to local public agencies (including cities, towns and development authorities) and private entities for public infrastructure improvements (pedestrian and bicycle facilities), acquisition of blighted land, and clearance and infrastructure investment (i.e. streets, utilities, site improvements) of acquired property, though most awards are made for infrastructure improvements rather than acquisition of property. In 2009, $2 million was available through capital bond funds, and recipients must pay an administrative fee of 4.5 percent of the award received to Hennepin County.

  Eligible projects must be located in County-identified redevelopment areas along transit corridors, have multi-jurisdictional impacts and enhance transit usage. Projects are evaluated based upon proximity to transit and anticipated transit usage impacts, the extent to which projects support livable community development, economic impacts in terms of job creation and retention and tax base expansion, and financial aspects including the leveraging of other public and private resources and market-readiness of the project.

2.5 Conclusion

Compact, mixed-use and walkable Livable Centers face challenges to implementation in the Houston-Galveston region. Major impediments include: obtaining financing for mixed-use development; assembling land for development; overcoming the cost of infrastructure improvements, utility upgrades and vertical development (including parking structures); moving through the regulatory process; and attracting market support for development.

There are many incentives for economic development available at the local city/county level in the Houston-Galveston region. However, many of these tools address more traditional economic development activities, such as manufacturing and industrial-based businesses that create primary jobs in communities, or community development activities such as affordable housing development, civic venue development, etc. The use of these tools is constrained by state law, as summarized in the 2008 Economic Development Handbook prepared by the Attorney General of Texas. One potential step following this study would be a thorough review of applicable laws governing the use of these economic development incentives and identification of how state law could potentially be modified to expand the use of these tools to cover Livable Centers development.

Three regions from across the nation – Dallas-Fort Worth, Texas; Atlanta, Georgia; and Twin Cities, Minnesota – provide models for encouraging Livable Center creation with an incentive program. It appears that the types of grants offered in these communities, which at most include grants for public infrastructure investments, transportation investments (which H-GAC already provides), parking and land assembly, may be used pursuant to Texas law because such grants have been offered in the Dallas-Fort Worth region (the region previously offered grants for land banking like the Twin Cities region, but has since eliminated the program). The 2008 Economic Development Handbook prepared by the Attorney General of Texas further reiterates the role of an MPO may include funding infrastructure needs as well as planning and technical assistance to support economic development.

3.0 Funding Strategy Options

3.1 Funding Program Options

The purpose of an incentive program for Livable Centers led by the Houston-Galveston Area Council is to support the creation of walkable, mixed-use places in communities throughout the region. There are several potential roles H-GAC could take in such a program.

These options include:

- **Investment in public infrastructure improvements:** grants or loans to fund street lighting and signage; shade trees and landscaping; extensions/modifications to local public sewer and water lines; storm water management improvements; and design and engineering of public improvements

- **Investment in parking facilities:** grants or loans to support public-use parking structures or the public portion of a shared public-private garage

- **Investment in land assembly:** grants or loans to fund the purchase of land, demolition and removal of obsolete structures, and site preparation

A funding program that includes some combination of the above options could incentivize projects throughout the region in a variety of settings, from neighborhood center to urban core. Of course, criteria and guidelines would have to be established for the distribution of funds as well as an application and review process, similar to that which is already provided for transportation improvements.

3.2 Funding Approach Recommendations

At this preliminary stage in the evaluation of a potential funding program, all of the above options are possibilities for inclusion in the program and should be further explored. Initial recommendations for the implementation of such a funding program are provided below.

- **Funding Sources:** a variety of funding sources should be explored. These include:
    - **CMAQ and STP:** in the near-term, these federal funding sources may be the most appropriate candidates for early support for the program, given their current use in the region. However, because of their constraints, other sources of funding should also be pursued.
    - **Regional toll revenue:** in the mid-term, if an opportunity for private management of a regional toll road emerges, H-GAC should consider potential partnerships to utilize upfront revenues provided in such a deal (following the example of NCTCOG in the Dallas-Fort Worth region).
    - **"Swap-out" of funds:** also in the mid-term, in addition to considering regional toll revenue opportunities, H-GAC should seek opportunities to partner with local governments to swap

funds similar to the example provided by NCTCOG (wherein the City of Dallas' bond project provided an opportunity).

- **Regional tax levy:** over the long-term, regional sources of self-sustaining funds should be considered (following the example of the Metropolitan Council in the Twin Cities). Such a regional source of funds will require political champions for the program and buy-in from the Texas legislature.

- **Funding Structure:** funding sources may stipulate whether or not grants and/or revolving loans may be used, but initially both types of funding should be explored because each offer unique benefits as well as disadvantages:
  - **Grants:** are less costly to administer and simpler to manage, but require renewed funding every year.
  - **Revolving loans:** if successful, can be self-sufficient, and may be better suited to activities such as land assembly; however, loans require more administrative oversight and management than grants and require participation by local communities for success.

- **Allocation of Funds:** there are many aspects of the allocation of funds to be considered as H-GAC further explores a potential funding program. These include:
  - **Cap on funds to large cities:** following the Metropolitan Council in the Twin Cities' example, H-GAC should consider a cap on the percentage of overall funds that may be allocated to large cities such as Houston to ensure that smaller communities in the region will be able to compete.
  - **Geographic suballocation:** an alternative to a cap on funds to large cities that also should be considered is the suballocation of funds by geography based on a pre-defined formula such as that used by NCTCOG. H-GAC should review any such geographic suballocation requirements that may be required pursuant to the use of various funding sources, such as CMAQ and STP funds.
  - **Cap on funding of individual projects:** H-GAC should set a limit on the amount of funds that may be awarded to any one project. NCTCOG in the Dallas-Forth Worth region has determined that $3 million is a more appropriate cap for their region than previous caps ($7 million), and given the proximity of the Dallas-Fort Worth region to the Houston-Galveston region, the $3 million cap is a recommended starting point. However, the cap should be monitored and adjusted over time to react to changing project needs.
  - **Eligible recipients:** the case study regions profiled have limited recipients to local governments (and some have excluded transit agencies based on past experience). Since transit agencies in the Houston-Galveston region do not have strong experience with development, it is recommended that they be initially excluded as potential recipients, and that local governments only be eligible recipients.
  - **Application advisory panel:** in establishing the program, H-GAC should convene an advisory panel of experts similar in composition to that used in the Twin Cities region for review of Livable Communities Demonstration Account projects. As such, the panel should include experts with specialties in planning, economic and community development, transportation, finance, design, development and the environment.
  - **Local cash match requirement:** H-GAC should evaluate the potential level of a local cash match requirement similar to that used by NCTCOG in its Sustainable Development Program and similar to that used by the Metropolitan Council n its Hiawatha Light Rail

Transit Land Assembly Fund. Both require a 20 percent match of grant recipients, and this level is recommended as an initial starting point for H-GAC's funding program.

- **Administration:** providing adequate personnel to manage the day-to-day activities of the funding program will be important to its success. As such, H-GAC should evaluate staffing requirements and staff activities, including:
    - **Staffing:** of the case study communities profiled, the number of staff assigned to the program ranged from two to four. When determining the number of staff to assign to the program, H-GAC should consider how many grant awards are likely to be made per funding round and adjust staffing expectations accordingly (i.e. two staff persons may be appropriate for a smaller program similar to the Metropolitan Council's Livable Communities Demonstration Account, but four staff persons would be more suitable for a larger program like NCTCOG's Sustainable Development Program).
    - **Invoicing review and monitoring:** H-GAC should plan for procedures to review and track invoices, and be cognizant of the potential for grant recipients to try to include items that are not eligible. NCTCOG provides a model for a three-person screening process, as well as a model for tracking whether individual grant recipients are approved or disapproved (to help identify patterns).
    - **Periodic payments:** to ensure that H-GAC is able to learn about project status periodically, a periodic payment system should be created similar to that provided by NCTCOG that also requires periodic reporting.
    - **Field visits:** staff activities should include field visits to ground-check the status of projects reported by grant recipients.
    - **Building permits for vertical development:** since one of H-GAC's goals for the Livable Centers program is the leveraging of private development, vertical development should be a required outcome for grant projects similar to NCTCOG's requirement. As such, building permits should be required for successful project close-out.

- **Other activities:** there are activities that H-GAC may undertake to complement the direct funding of Livable Centers projects. These include a variety of technical assistance activities, such as:
    - **Fiscal tool demonstration:** H-GAC should provide the fiscal tool created as part of this study to member communities in the region, and teach them how to use the tool for a variety of projects in their communities (including mixed-use projects).
    - **Land assembly forums – with focus on targeted equity investment approach:** since land assembly may be included as part of the funding program (contingent on the acquisition of funds that allow for land assembly as an eligible use of funds), H-GAC should host forums to teach communities in the region about land assembly options. The targeted equity investment approach is one private-sector model that local communities (i.e. planning and economic development specialists) and developers should learn about.
    - **Developer workshops:** H-GAC should plan to host developer workshops to teach the development community about the funding program and discuss reasonable expectations about timeframes for project completion and eligible activities. It may be worthwhile to seek guest speakers from case study regions such as the Dallas-Fort Worth region (including NCTCOG staff and developers that have participated in projects there) to convey lessons learned in their communities.
    - **Model plans and projects**: H-GAC should consider reserving a portion of program funds for conducting model plans and projects that address topics of interest to multiple

communities in the region. NCTCOG provides an example of using a small portion of overall program funds to conduct model projects.

- **Technical design assistance through local institutions of higher education**: H-GAC should seek partnerships with institutions of higher education in the region with design expertise as part of creating model plans and projects for the region, similar to the partnership that the Metropolitan Council in the Twin Cities used in the early years of the Livable Communities Demonstration Account.

- **Monitoring and Evaluation:** H-GAC should plan to monitor and evaluate projects as an integral part of the day-to-day administration of the program. Of the case study regions profiled, several mentioned that monitoring and evaluation was something they were either just beginning or had not been able to devote as much attention to as desired. Therefore, planning for staff time to monitor and evaluate program success from the beginning should be part of H-GAC's exploration of this potential funding program. A monitoring and evaluation process could include requiring grant recipients to report on a number of metrics tied to the goals of the program. These could include:
  - **Metrics related to quality, walkable, mixed-use features:** which potentially could be measured through the inclusion of public spaces, revitalization of historic properties, and types of housing provided to various economic groups (i.e. affordable, workforce and market rate housing)
  - **Multi-modal travel metrics:** improvements to pedestrian/bicyclist/transit user safety, increased access and circulation, travel time savings and induced transit ridership (as appropriate)
  - **Environmental quality metrics:** improvements to air quality and preservation of green space and natural resources
  - **Economic development metrics:** impacts to property values, leveraging of private investments, use of existing infrastructure, and fiscal impacts (the latter of which may be measured through the fiscal tool provided as part of this study)

4.0 Fiscal Impact Tool

4.1 Instructions for Use

Tax Rates – Inputs

Step 1: Enter tax rates into the **Tax Rates – Inputs** worksheet

There can be several taxing units within a taxing jurisdiction. The fiscal impact model allows inputs for the following **property tax rates**: *County, School , City, Municipal Utility, Drainage, Emergency Services*, and two additional *Other Tax Districts*. Revenue falls into two general categories: "maintenance & operations" (M&O) and debt service, or "interest and sinking" (I&S). Property tax rates are expressed as numbers with up to six decimal places, and are entered into the appropriate cells.

The Texas state **sales and use tax rate** is 6.25%, but local taxing jurisdictions may also impose sales and use tax up to 2%. The Texas state **hotel tax rate** is 6.00%, but local taxing jurisdictions may also impose hotel tax up to 2%. Local taxes are expressed as percentages, and are entered into the appropriate cells. Exhibit 4.1 shows t the **Tax Rates – Inputs** worksheet before data is entered.

Exhibit 4.1

HGAC Fiscal Impact Model - Tax Rate Input Sheet

Instructions: Enter applicable tax rate by taxing district into corresponding box.
Property tax rates are available at http://www.window.state.tx.us/taxinfo/proptax/07taxrates/

Property Tax Rates	
Taxing Unit Name:	
County	
M&O Rate:	0.000000
I&S Rate:	0.000000
School District	
M&O Rate:	0.000000
I&S Rate:	0.000000
City	
M&O Rate:	0.000000
I&S Rate:	0.000000
Municipal Utility District	
M&O Rate:	0.000000
I&S Rate:	0.000000
Drainage District	
M&O Rate:	0.000000
I&S Rate:	0.000000
Emergency Services District	
M&O Rate:	0.000000
I&S Rate:	0.000000
Other Tax District 1	
M&O Rate:	0.000000
I&S Rate:	0.000000
Other Tax District 2	
M&O Rate:	0.000000
I&S Rate:	0.000000

Sales and Use Tax Rates	
State Tax	6.25%
Local Tax	0.00%

Hotel Tax Rates	
State Tax	6.00%
Local Tax	0.00%

Tax Rates – Inputs, Cont.

The example below shows how the **Tax Rate Input Sheet** could be filled out for a specific jurisdiction. Note the box for the *Taxing Unit Name*.

Exhibit 4.2

HGAC Fiscal Impact Model - Tax Rate Input Sheet

Instructions: Enter applicable tax rate by taxing district into corresponding box.
Property tax rates are available at http://www.window.state.tx.us/taxinfo/proptax/07taxrates/

Property Tax Rates	
Taxing Unit Name:	Example
County	
M&O Rate:	0.346671
I&S Rate:	0.024725
School District	
M&O Rate:	1.040000
I&S Rate:	0.288200
City	
M&O Rate:	0.644000
I&S Rate:	0.159600
Municipal Utility District	
M&O Rate:	0.030000
I&S Rate:	0.640000
Drainage District	
M&O Rate:	0.190894
I&S Rate:	0.000000
Emergency Services District	
M&O Rate:	0.080000
I&S Rate:	0.000000
Other Tax District 1	
M&O Rate:	0.121000
I&S Rate:	0.000000
Other Tax District 2	
M&O Rate:	0.000000
I&S Rate:	0.000000

Sales and Use Tax Rates	
State Tax	6.25%
Local Tax	1.50%

Hotel Tax Rates	
State Tax	6.00%
Local Tax	1.50%

After completion of Step 1, the Fiscal Impact Model user can go to the **Use Types - Input** Sheet to begin Step 2.

Use Types – Inputs

Step 2: Enter **use type information** into the **Tax Rates – Inputs** worksheet. Exhibit 4.3 shows the **Tax Rates – Inputs** worksheet before data is entered.

Exhibit 4.3

HGAC Fiscal Impact Model - Use Types Input Sheet

Instructions: Enter projected unit prices (for residential), number of units (number of rooms for hotels), and square footages in the corresponding boxes.

Use Type			
Residential, For Sale	**Unit Price**	**# of Units**	**Taxable Value**
Price Point 1	$0	0	$0
Price Point 2	$0	0	$0
Price Point 3	$0	0	$0
Price Point 4	$0	0	$0
Price Point 5	$0	0	$0
Price Point 6	$0	0	$0
Apartments	**Unit Price**	**# of Units**	**Taxable Value**
Economy High Rise (4+ Stories)	$108,000	0	$0
Economy Low-Rise (1-3 Stories)	$88,000	0	$0
Standard High Rise (4+ Stories)	$135,000	0	$0
Standard Low-Rise (1-3 Stories)	$110,000	0	$0
Luxury High Rise (4+ Stories)	$168,000	0	$0
Luxury Low-Rise (1-3 Stories)	$156,000	0	$0
Commercial Office	**Unit Price**	**Square Feet**	**Taxable Value**
1 Story	$130	0	$0
2-4 Story	$131	0	$0
5-10 Story	$126	0	$0
11-20 Story	$111	0	$0
Medical	$151	0	$0
Retail	**Unit Price**	**Square Feet**	**Taxable Value**
Convenience	$83	0	$0
Department	$85	0	$0
Shopping Center	$88	0	$0
Supermarket	$77	0	$0
Restaurant, Full Service	$144	0	$0
Restaurant, Fast Food	$141	0	$0
Hotel	**Unit Price**	**# of Rooms**	**Taxable Value**
Budget	$48,000	0	$0
Mid-Scale	$73,000	0	$0
Full Service	$145,000	0	$0
Luxury	$480,000	0	$0
Warehouse	**Unit Price**	**Square Feet**	**Taxable Value**
1 Story	$68	0	$0
Mini Storage	$90	0	$0
Other			**Taxable Value**
Other 1			$0
Other 2			$0
Parking	**Unit Price**	**Spaces**	**Taxable Value**
Surface	$1,200	0	$0
Structured	$15,000	0	$0
Underground	$30,000	0	$0
Total			$0
Current Assessed Value of Property			$0
Net New Taxable Value			**$0**

Use Types – Inputs, Cont.

The **Use Types – Inputs Sheet** is designed to calculate the assessable base for real property improvements. The following conceptual mixed-use project will be used as an example to demonstrate how to enter information into the **Use Types – Inputs Sheet**:

- 50 for-sale residential units – price $350,000
- 50 for-sale residential units – price $450,000
- 100 standard high-rise apartments
- 100,000-square-foot, 3-story office building
- 5,000-square-foot restaurant
- 100-room midscale hotel
- 300-space parking deck

Exhibit 4.4 shows how the information on for-sale homes is entered into the worksheet. Price points are entered into the boxes under the **Unit Price** column, while the number of corresponding units are entered under the **# of Units** column. Property assessment for for-sale residential is based on market value, which is reflected in the sales price. The model calculates the **Taxable Value** in the far right column.

Exhibit 4.4

Use Type			
Residential, For Sale	**Unit Price**	**# of Units**	**Taxable Value**
Price Point 1	$350,000	50	$17,500,000
Price Point 2	$450,000	50	$22,500,000
Price Point 3	$0	0	$0
Price Point 4	$0	0	$0
Price Point 5	$0	0	$0
Price Point 6	$0	0	$0

For apartments, the number of units (100) is entered into the cell corresponding to **Standard High Rise**, in the # of Units column. The taxable value is calculated using a fixed **Unit Price** of $135,000 per unit. This estimated unit price is derived from the *2009 RS Means Square Foot Costs* manual, and is regionally adjusted for the Houston metropolitan area. RS Means is a nationally recognized construction cost publisher, and their data is widely utilized for construction cost estimating. The $13,500,000 taxable value that the model has calculated represents the replacement value for the apartment building, which is a common assessment practice. In cases where a taxable value is estimated by other means, that value can be entered directly into the **Taxable Value** column. See Exhibit 4.5.

Exhibit 4.5

Apartments	Unit Price	# of Units	Taxable Value
Economy High Rise (4+ Stories)	$108,000	0	$0
Economy Low-Rise (1-3 Stories)	$88,000	0	$0
Standard High Rise (4+ Stories)	$135,000	100	$13,500,000
Standard Low-Rise (1-3 Stories)	$110,000	0	$0
Luxury High Rise (4+ Stories)	$168,000	0	$0
Luxury Low-Rise (1-3 Stories)	$156,000	0	$0

For the commercial office and restaurant components of the mixed-use project, the building square footage is entered into the corresponding cell. *RS Means* data is used to estimate the unit pricing. **Taxable Values** are automatically calculated in the far right column. See Exhibit 4.6.

Exhibit 4.6

Commercial Office	Unit Price	Square Feet	Taxable Value
1 Story	$130	0	$0
2-4 Story	$131	100,000	$13,100,000
5-10 Story	$126	0	$0
11-20 Story	$111	0	$0
Medical	$151	0	$0
Retail	**Unit Price**	**Square Feet**	**Taxable Value**
Convenience	$83	0	$0
Department	$85	0	$0
Shopping Center	$88	0	$0
Supermarket	$77	0	$0
Restaurant, Full Service	$144	5000	$720,000
Restaurant, Fast Food	$141	0	$0

The number of proposed hotel rooms is then entered into the cell corresponding to a **Mid-Scale** product in the # **of Rooms** column. **Unit Price** data is derived from *HVS Consulting and Valuation Services*, a hotel consulting firm, and represents 2008 median cost estimates per room. See Exhibit 4.7.

Exhibit 4.7

Hotel	Unit Price	# of Rooms	Taxable Value
Budget	$48,000	0	$0
Mid-Scale	$73,000	100	$7,300,000
Full Service	$145,000	0	$0
Luxury	$480,000	0	$0

The last entry in the **Use Types – Inputs** sheet for the mixed-use project is for 300 structured parking spaces. Unit pricing for structured and underground parking is highly variable depending on a host of conditions, such as what else the parking structure supports, for example. While the unit pricing for surface parking is derived from RS Means, the unit pricing for structured and underground parking are essentially industry standard rules-of-thumb numbers. However, as it pertains to any use type for any development project, numbers can and should be refined as the project proceeds through the planning stage and valuation estimates become available from the developer.

Exhibit 4.8

Parking	Unit Price	Spaces	Taxable Value
Surface	$1,200	0	$0
Structured	$15,000	300	$4,500,000
Underground	$30,000	0	$0
Total			$79,120,000
Current Assessed Value of Property			$0
Net New Taxable Value			**$79,120,000**

The **Current Assessed Value of Property** cell should be used primarily for all for-sale residential projects or adaptive reuses of existing buildings (or in cases where a conceptual development is pre-appraised), where net new property taxes can be more accurately calculated. This value is subtracted from the total to give a **Net New Taxable Value**. In this example no value is given. The total estimated taxable value of the mixed-use project is $79,120,000, as shown in Exhibit 4.8.

Property Tax Calculations

The Property Tax Calculations worksheet automatically calculates property tax revenues to each taxing unit based on the tax rates applied at $100 of assessed value.

Exhibit 4.9

HGAC Fiscal Impact Model
Calculation of Property Taxes

Property Taxes	
Taxing Unit Name:	**Example**
County	
M&O Rate:	$274,286
I&S Rate:	$19,562
Total	$293,849
School District	
M&O Rate:	$822,848
I&S Rate:	$228,024
Total	$1,050,872
City	
M&O Rate:	$509,533
I&S Rate:	$126,276
Total	$635,808
Municipal Utility District	
M&O Rate:	$23,736
I&S Rate:	$506,368
Total	$530,104
Drainage District	
M&O Rate:	$151,035
I&S Rate:	$0
Total	$151,035
Emergency Services District	
M&O Rate:	$63,296
I&S Rate:	$0
Total	$63,296
Other Tax District 1	
M&O Rate:	$95,735
I&S Rate:	$0
Total	$95,735
Other Tax District 2	
M&O Rate:	$0
I&S Rate:	$0
Total	$0

Calculation of Special Tax Revenues

Sales and hotel taxes can generate significant fiscal revenues to the state and local jurisdictions. The HGAC Fiscal Impact Model estimates sales per square foot using *HdL Companies 2007 Retail Store Taxable Sales Estimates* for the categories of retail treated in the model. **Sales** are a function of building area in square feet multiplied by the **Sales/SF. State Tax** and **Local Tax** are based on the **Local Tax** rate entered into the **Tax Rates – Inputs** sheet.

Hotel taxes are based on 365 room nights with a relatively conservative occupancy rate of 60 percent. **Rack Rates** (room rates), are highly variable even among similar products depending on a variety of factors, including location. **State Tax** and **Local Tax** are based on the **Local Tax** rate entered into the **Tax Rates – Inputs** sheet.

Exhibit 4.10

HGAC Fiscal Impact Model - Calculation of Special Tax Revenues

Retail	Sales/SF	Sales	State Tax	Local Tax
Convenience	$500	$0	$0	$0
Department	$250	$0	$0	$0
Shopping Center	$250	$0	$0	$0
Supermarket	$130	$0	$0	$0
Restaurant, Full Service	$525	$2,625,000	$164,063	$39,375
Restaurant, Fast Food	$550	$0	$0	$0
Total			**$164,063**	**$39,375**
Hotel*	**Rack Rate**	**Room Rev.**	**State Tax**	**Local Tax**
Budget	$60	$0	$0	$0
Mid-Scale	$80	$1,752,000	$105,120	$26,280
Full Service	$100	$0	$0	$0
Luxury	$200	$0	$0	$0
Total			**$105,120**	**$26,280**

*Based on 60% occupancy

Fiscal Revenues

The Fiscal Revenues worksheet automatically calculates and summarizes tax revenues for the various taxing units. See Exhibit 4.11.

Exhibit 4.11

HGAC Fiscal Impact Model - Fiscal Revenues	
Property Tax Revenues	
County	$293,849
School District	$1,050,872
City	$635,808
Municipal Utility District	$530,104
Drainage District	$151,035
Emergency Services District	$63,296
Other Tax District 1	$95,735
Other Tax District 2	$0
Sales & Use Tax Revenues	
State	$164,063
Local	$39,375
Hotel Tax Revenues	
State	$105,120
Local	$26,280

Appendix

Appendix A: Developer Survey Results

Overview

To inform the evaluation of major challenges and opportunities facing the development of Livable Centers in the Houston-Galveston region, the consultant and client team conducted a survey of developers. While not a scientific survey (thirteen completed surveys were collected), the survey results do provide some anecdotal evidence of developer's perceptions regarding barriers to developing Livable Centers and possible options for incentives.

The results indicate that among developers surveyed, the most frequently cited challenges included: 1) obtaining financing for mixed-use development; 2) land assembly/presence of multiple property owners; 3) cost of infrastructure improvements; and 4) regulatory process to develop. The cost of utilities and development costs associated with higher density were also ranked as major challenges, though less frequently so than the four aforementioned challenges above.

Among options for public sector incentives that were presented to developers, several stood out for the frequency with which respondents ranked them as "definitely needed." These included: 1) public improvement districts; 2) tax increment financing; 3) tax incentives; 4) utilities upgrades; and 5) financing for parking structures.

A copy of the survey document, followed by description of results by question, is provided on the following pages.

H-GAC LIVABLE MIXED USE DEVELOPMENT SURVEY

We are conducting a survey to identify, from a developer perspective, major challenges to developing financially feasible mixed use livable centers in the Houston-Galveston region (8-county region that includes Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery and Waller Counties). We are interested in your thoughts on such development in the region and the role public sector entities might play in offering incentives toward such development.

1. Have you developed projects in any of the following counties? Check all that apply:
   ___ Brazoria ___ Chambers ___ Fort Bend ___ Galveston ___ Harris ___ Liberty ___ Montgomery ___ Waller

2. What types of development? Check all that apply:
   ___ Urban ___ Suburban ___ Greenfield ___ Infill ___ Retrofit ___ Transit Oriented ___ Mixed Use
   ___ Office ___ Retail ___ Residential

3. On a scale of 1 to 5, where 1 is "Not a Challenge" and 5 is "Definitely a Challenge," how would you rank the following types of challenges related to developing livable, mixed use centers in the region?

		Not a Challenge				***Definitely***
a.	Land assembly/Presence of multiple property owners	1	2	3	4	5
b.	Cost of structured parking	1	2	3	4	5
c.	Development costs of higher-density (steel vs. wood frame)	1	2	3	4	5
d.	Market support	1	2	3	4	5
e.	Cost of upgrading utilities	1	2	3	4	5
f.	Cost of infrastructure improvements	1	2	3	4	5
g.	Obtaining financing for mixed use development	1	2	3	4	5
h.	Regulatory process to develop	1	2	3	4	5

4. Are there other specific challenges you perceive toward developing mixed use centers that are not covered above? Please describe:

   _____

   _____

5. Are there any additional comments/notes you would like to add regarding challenges (including comments on the challenges that you ranked above)? Please describe:

   _____

   _____

6. On a scale of 1 to 5, where 1 is "Not Needed" and 5 is "Definitely," how would you rank the following types of public incentives for developing livable, mixed-use centers in the region?

	Not Needed				***Definitely***
a. Land Acquisition	1	2	3	4	5
b. Financing for Parking Structures	1	2	3	4	5
c. Utilities Upgrades	1	2	3	4	5
d. Tax Incentives	1	2	3	4	5
e. Tax Increment Financing	1	2	3	4	5
f. Public Improvement Districts	1	2	3	4	5
g. Municipal Management Districts	1	2	3	4	5
h. Bond Financing	1	2	3	4	5
i. Cost Sharing Arrangements	1	2	3	4	5
j. Regulatory Relief	1	2	3	4	5

7. Are there other specific public sector incentives you feel are definitely needed not covered above? Please describe:

_____

_____

8. Are there any additional comments/notes you would like to add regarding incentives (including comments on the incentives that you ranked above)? Please describe

_____

_____

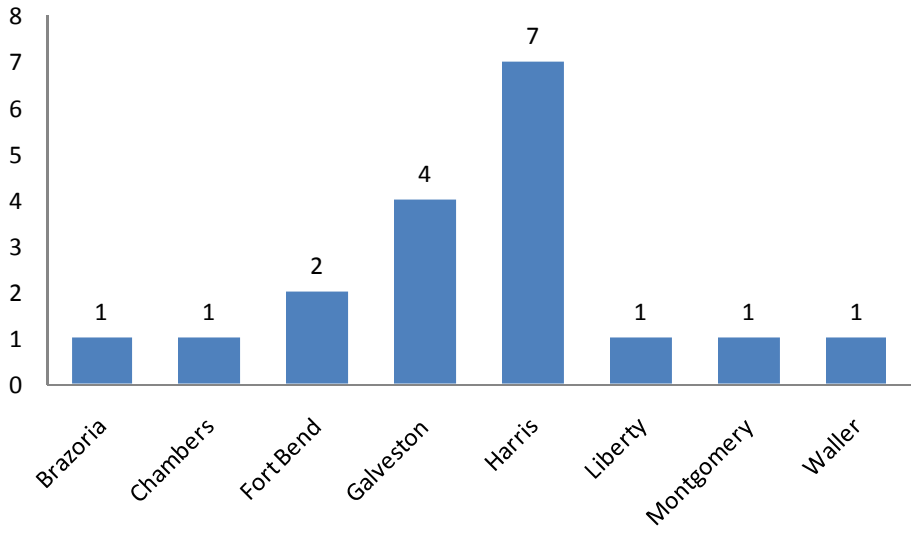
Thank you for your time in completing the survey! Your responses will be confidential and used to help study potential types of public incentives to support livable, mixed use development in the region.

Survey Results

Respondent Experience

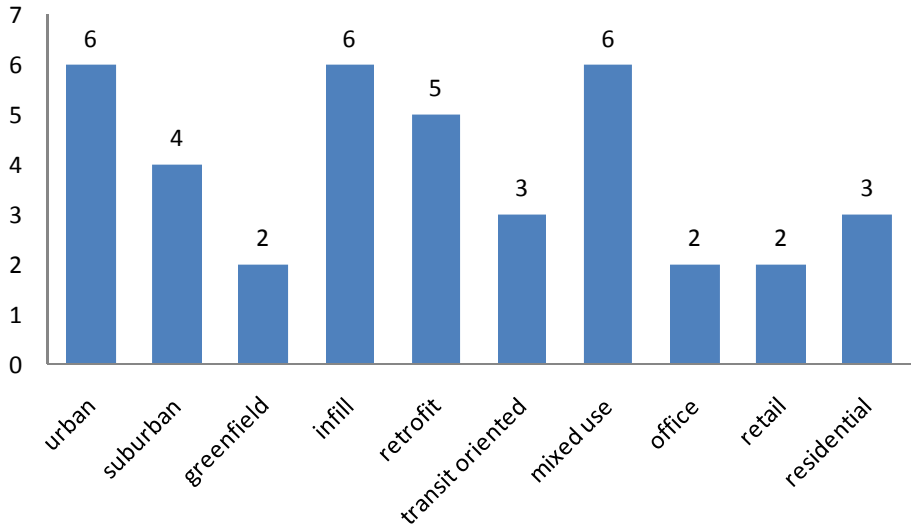
The developers surveyed primarily brought experience developing projects in Harris County (7 out of 13, or more than half of respondents, had developed there). Fewer respondents offered experience developing projects in Brazoria, Chambers, Fort Bend, Galveston, Liberty, Montgomery and Waller.

Number of respondents that have developed projects by county



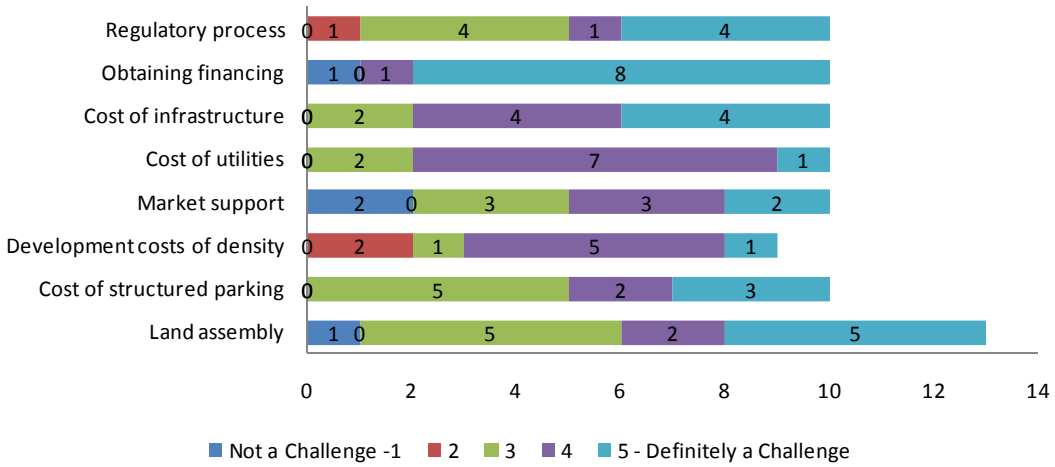
The types of development projects built by the developers surveyed spanned the gamut of locations and uses, from urban to suburban, from greenfield to infill, and from single uses to mixed use. The most commonly types of development experience include: urban, infill and mixed-use.

Number of respondents that have developed projects by type



Respondents were presented with a list of commonly cited challenges to development and asked to rank those challenges on a scale of 1 to 5, with 1 indicating the issue is "not a challenge" and 5 indicating the issue is "definitely a challenge." The most often cited challenges (those for which the issue was most frequently ranked as a "5") include: 1) obtaining financing for mixed-use development; 2) land assembly/presence of multiple property owners; 3) cost of infrastructure improvements; and 4) regulatory process to develop. The cost of utilities and development costs of density were also ranked highly as challenges, receiving the most recorded "4s" on the scale of 1 to 5. By far the item most frequently perceived as a major challenge to development was obtaining financing for mixed use development.

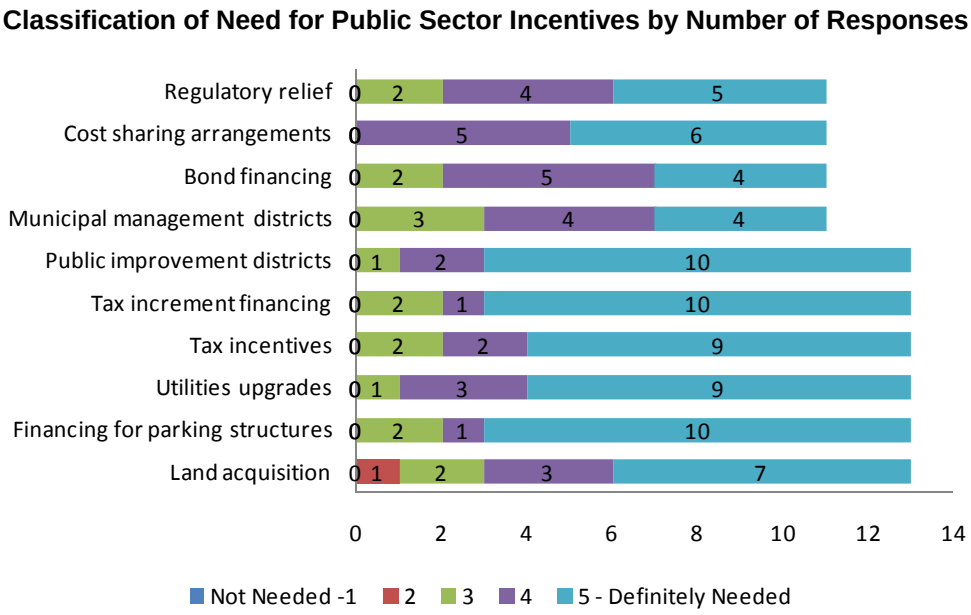
Classification of Challenges by Number of Responses



Respondents also were given the opportunity to describe challenges to development not included in the list they were asked to rank. Challenges raised by respondents (outside of those presented in the list) included:

- Achieving social aspects of a Livable Center separate from physical development
- Providing green and/or open space
- Engaging the community to be aware of development plans, and achieving buy-in from community
- Understanding available financing sources
- Committing time to a project when financing is uncertain

In addition to surveying developers' attitudes concerning challenges of development, the survey obtained feedback on perceived need for various types of public incentives. Of the ten types of incentives listed, respondents did not identify any as "not needed," and for most types of incentives, the majority of respondents indicated that the incentive was "definitely needed." However, a few types of incentives stood out for the high frequency of responses indicating they are "definitely needed:" 1) public improvement districts; 2) tax increment financing; 3) tax incentives; 4) utilities upgrades; and 5) financing for parking structures.



Respondents were asked to identify other types of public sector incentives needed that were not covered in the list presented above. Additional public sector activities noted by respondents included: promotion and marketing; public-private partnerships; affordable housing gap financing (bond financing was noted); incentives for LEED development; neighborhood empowerment zones; urban planner services for unincorporated County areas; public land banking; the overlap of special districts; incentives for trails and open space; and business recruitment incentives for high-technology industries.

Appendix B: Local Available Resources

To collect information on available incentives in the Houston-Galveston region, H-GAC surveyed local economic development professionals and reviewed information from local economic development organization websites and the Texas Comptroller's Office. The results of this research is summarized in the following matrix.

Available Incentives by County in the Houston-Galveston Region								
	H-GAC Region: Counties							
	Brazoria	**Chambers**	**Fort Bend**	**Galveston**	**Harris**	**Liberty**	**Montgomery**	**Waller**
Land Acquisition	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans, grants; 380 agreements	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants
Financing for Parking Structures	Data Not Available	Data Not Available	Data Not Available	Data Not Available	Data Not Available	Yes	Yes -- parking garage in downtown Conroe	Data Not Available
Utilities Upgrades	Yes - Infrastructure Grants, 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants	Yes - 4A/4B loans and grants
Tax Incentives	Yes - tax abatement	Yes - tax abatement	Yes - tax abatement, sales tax rebates	Yes - tax abatement	Yes - tax abatement	Yes - tax abatement	Yes - tax abatement	Yes - tax abatement, Chapter 381 Agreements
Tax Increment Reinvestment Zones	1	0	5	6	22	0	2	0
Public Improvement Districts	0	0	0	0	3	0	0	0

Available Incentives by County in the Houston-Galveston Region								
	H-GAC Region: Counties							
	Brazoria	**Chambers**	**Fort Bend**	**Galveston**	**Harris**	**Liberty**	**Montgomery**	**Waller**
Municipal Management Districts	0	0	0	1	3	0	0	0
Municipal Development Districts	0	1	0	0	2	0	0	0
Economic Development Zones	0	0	0	0	0	0	4	0
Reinvestment Zones	4	2	12	0	18	2	5	8
Bond Financing	Yes	Data Not Available	Yes	Data Not Available	Yes	Data Not Available	Yes	Data Not Available
Cost Sharing Arrangements	Yes - business incubators and co-ops	Data Not Available	Yes - business incubators and co-ops	Data Not Available	Yes - business incubators and co-ops	Yes - business incubators and co-ops	Yes. Parking spaces in garage downtown are being sold to Conroe on a construction cost per space basis.	Data Not Available
Regulatory Relief	Yes - fast track permitting	Data Not Available	Data Not Available	Data Not Available	Yes - fast track permitting	Yes - fast track permitting	Data Not Available	Data Not Available

Available Incentives by County in the Houston-Galveston Region								
	H-GAC Region: Counties							
	Brazoria	**Chambers**	**Fort Bend**	**Galveston**	**Harris**	**Liberty**	**Montgomery**	**Waller**
Foreign Trade Zone	Yes	No	No	Yes	Yes	Yes	Yes	No
Freeport Tax Exemption	Yes, in certain jurisdictions	Data Not Available	Yes, countywide	Yes, in certain jurisdictions	Yes, in certain jurisdictions	Yes, in certain jurisdictions	Yes, in certain jurisdictions	Yes - except in City of Katy
Industrial Districts	Yes	Data Not Available	Data Not Available	Data Not Available	Yes	No	Data Not Available	Data Not Available
Franchise Fee Grants	Yes	Data Not Available	Data Not Available	Data Not Available	Yes	No	Yes	Data Not Available
Skills Training Grants	Yes - Regional Workforce Board	Yes - Regional Workforce Board	Yes - Regional Workforce Board	Yes - Regional Workforce Board	Yes - Regional Workforce Board	Yes - Regional Workforce Board, Liberty County Workforce Academy	Yes - Regional Workforce Board; East Montgomery County offers Manufacturing training grants.	Yes - Regional Workforce Board

Note: *Data was obtained through the Texas Comptroller's Office, local economic development organization (EDO) websites and email surveys of local EDO professionals.*

Appendix C: Land Assembly Challenges and the Equity Investment Approach

Land assemblages are the most difficult development deals to complete. No demonstrable short-term revenue stream exists and the number of competing interests multiplies geometrically. Existing values differ from the value of all assembled parcel values, as well as reuse values. One innovative private sector approach to land assembly is the pro rata ownership/targeted equity investment model.

Under this approach, the developer establishes a Limited Liability Corporation (LLC) organizational structure that allows property owners to become equity investors. If the developer sets up an LLC, he can offer partnership interests equal to the land value to each property owner, either individually or through a land pooling approach. The developer can give a preferred return to each land owner or pool member. Landowners receive shares based on the proportional "value" of their property/improvement.

Benefits of the targeted equity investment approach to the "Investor Member" include:

- Limits/shield from development risks and liabilities (i.e. direct seizure or attachment by creditors)
- Access to and coordination with Managing Partner
- Ability to establish classes or groups of members, and separate rights and duties
- Independence from public procurement constraints
- Privacy of negotiations needed to secure private investment
- Flexible role/recourse for non-performance
- Does not preclude participating with multiple developers to complete a phased project
- Participation in project profits

The approach works for the owner who values his property fairly, wishes to convey at closing but does not want to create a taxable event. A deed for an LLC interest in the same property is usually not immediately taxed. Further tax issues such as "pre-contribution capital gains" and generation of "unrelated business income" must be worked out. For example, if pre-contribution (of land) gain is greater than the tax basis of the property, such gain must be attributed not to the group of landowners comprising the LLC's Investor Member, but to the individual property owner experiencing the gain. And, tax-exempt property owners may experience unrelated business income on profits generated unless a "qualified allocation" is made within the LLC (tax-exempts cannot shift losses to taxable members in the LLC).

It does not help the situation where a land owner has overvalued his land. Even if no dollars are transferred at closing, when the property is developed, the return to the developer will be much less. A developer also cannot afford to let a property owner into the LLC at above-market value and make project returns work. And, it does not help the owner who will not transfer the deed at closing. No new development or redevelopment can occur until the deed (or a long term lease) is in possession.

The approach may or may not involve "land pooling" (sometimes called land readjustment), which is a method whereby the ownership of plots of land is pooled, and the land is re-subdivided into new plots. Some of the "pros and cons" of this general approach are as follows.[6]

Pros:

- Land pooling is almost certain to be less expensive than gathering all project land into a single ownership, whether on the open market or by expropriation (eminent domain)
- The pattern of property divisions is reformed and new infrastructure and public space, particularly for roads and parks, is acquired
- Because the original land owners collectively retain control over the land development process, there is less land owner opposition to land pooling projects than to large scale land expropriations and development, and land pooling projects are considered less disruptive of the existing community
- Land pooling projects are attractive to landowners because substantial increases in the values of land may be achieved by the process, so that the value of the individual land holdings can be greatly increased
- Land pooling projects are attractive to planning authorities because they provide land under single control and for public facilities and much-needed urban infrastructure
- Land pooling guarantees the equitable sharing of costs and profits among landowners affected by redevelopment
- The advantages of land pooling lie in land use guidance and project management; in the promotion of redevelopment; in its equity to landowners; in provision of district design and facilities through land reserve; and, in the facilitation of project financing

Cons:

- Project areas often develop slowly, so owners may have to wait for the value of their land to increase
- Land pooling requires commitment by local agencies and landowners to its regulatory system, to sustained land market and development pressure, to current user displacement programs, and to an assistance provision to facilitate the participation/relocation of small landowners
- In the motive to gain profit and increase property values, improper land use can occur unless there are strong zoning controls
- As increased contribution ratios impose heavier operating cost defrayment on larger landowners, it may become increasingly difficult to gain consensus
- Varied interests held by multiple landowners and lease holders may make it difficult to coordinate the rights of all those involved
- Opportunity costs may arise if delays occur in public and community facilities necessitated by land pooling projects
- Where land prices of unimproved districts in urban areas are already high, it is difficult to expect a mark-up after land pooling

Whether consensus among property owners to invest in an equity LLC approach involves land pooling or not, an operating agreement should be prepared that codifies the consensus of

[6] Pros and cons are adapted from article by J.P. Whaler, PlanPacific, Inc, 2006.

landowners to become Investor Members in the LLC. This agreement needs to address, as a minimum:

1. Who will be on the Board of Managers representing the landowners in the Investor Member entity
2. Member voting:
    a. When is a quorum required/when is only majority vote required
    b. One vote per X square feet owned or per X dollars of "assessed value" (city tax records)
    c. If landowner owns less than X square feet or dollars of assessed value, still entitled to one vote
    d. Number of votes based on number of square feet or dollars of assessed value, not number of individuals owning a land parcel
    e. Board of Managers negotiates on behalf of no individual land owners
3. Restrictions on landowners:
    a. Cannot enter into separate agreement with developer
    b. Cannot act on behalf of LLC without written consent
    c. Cannot incur further indebtedness on behalf of LLC
4. Assessments and liability:
    a. Amount each landowner can be assessed per square foot to raise operating capital – this is a mechanism to raise the funds to conduct pre-development package work
    b. Failure to pay results in voting privileges being revoked until payments made current
    c. Purposes for which assessments can be used
5. How long the landowners are bound to this "compact"/what is the clear "exit strategy" if the project gains no traction
6. Conditions leading to early termination of agreement
    a. 51% vote to accept Board's recommendation to terminate
    b. 75% of members agree to terminate

There are several examples of projects undertaken with multiple landowners. The following attachment (Attachment A) provides some details of some projects where landowners have agreed to invest their land holdings, shared responsibility to raise initial operating capital, made decisions along the way, and shared in project risks and rewards with their group's private developer partner.

Attachment A

- Project Examples
- Land Assemblage

Project Examples

Name of Project	***Location***	***Project SF***	***Project Acres***	***Uses***
1. University Park at MIT Begun: 1983 Completed: 2005	Cambridge, MA	2.3M	27	1.3M SF of R&T 210-room hotel/conference center 150,000 SF retail 531 rental residential units 2,800 structured parking spaces Star Market (grocery store)
2. Science Center Begun: 1963 Completed: On-going but nearly fully built-out and occupied	Philadelphia, PA	2.0M	17	university research buildings 100 companies, 7,500 workers 3 incubators with life science tenants
3. Skyland TOD at Anacostia Metro Station Begun: 2007 Completed: On-going	Washington DC	915,000SF	18.5	315,000 SF of retail 600 residential units $125M project
4. New Town at Capital City Market Begun: 2007 Completed: On-going	Washington DC	Phase I 290,000SF	24 total project	Phase I 116 residential units 45,000 SF office 47,000 SF retail Underground parking garage

Project Examples (con't)

Name of Project	Location	Project SF	Project Acres	Uses
5. Alliance Industrial/Business Park Begun: 1986 Completed: 2015 *(Expected)*	Fort Worth, TX	6.0M	7,500	Airport Warehouse/Industrial Office Research & Development Retail $1.9 Billion public & private investment
6. Sandia Science & Technology Park Begun: 1998 Completed: ~175 acres available	Albuquerque, NM	900,000 SF	240	Research & Development Office Day Care Center $311 M investment

Land Assemblage

Project #1: University Park at MIT, Cambridge, MA

Similarities: urban location mixed-use research and development park; adjacent to campus; many of same private uses as Project Horizon

Land: MIT continues to own the land; Forest City Enterprises holds long-term lease

Project #2: Science Center, Philadelphia, PA

Similarities: urban location; phased involvement by a private developer; use of a variety of financial enhancements; robust menu of services and amenities provided by the Science Center as well as two of its shareholders, the University of Pennsylvania and Drexel University

Land: For Building 3701(started in 2000, completed in 2001), Science Center contributed the land ($4.4M) and some equity ($6.8M) to the $76M total project cost; developer matched the Science Center investment with investment in building financing and development costs; the two were then 50/50 partners with the developer being the General Partner responsible for project development, and the Science Center taking a Limited Partner role; other public contributions of $30M; 100% leased

Project #3: Skyland TOD at Anacostia Metro Station, Washington DC

Similarities: urban location; phased development; mixed use components; government sponsorship of redevelopment opportunity; previous attempts to assemble land have failed; local government development corporation (NCRC) assembling all properties and will act as "landowner", with individual property owners receiving "shares" in LLC and portion of cash flow generated by project improvements

Land: 17 different parcels controlled by 15 property owners; 30 different tenants, including 1940's-era Skyland Shopping Center; NCRC formed a $150M "strategic equity partnership" with Morgan Stanley to provide investment capital and is receiving $40M in TIF financing to help assemble land

Project #4: New Town at Capital City Market, Washington DC

Similarities: urban location; phased mix of uses including reuse of some improvements; government sponsorship of redevelopment opportunity; redevelopment of 24-acre site of underutilized land to increase workforce housing, jobs and tax base; public landowners include District of Columbia market and Gallaudet University and together control > 50% of project site

Land: 45+ property owners; once designated developer controls 50% of land, remaining land can be acquired through threat of condemnation; land assemblage plan calls for existing

property owners and/or lessees to invest in project as equity owners and participate in like-kind 1031 property exchanges

Project #5: Alliance Industrial/Business Park, Fort Worth, TX

Similarities: large (6M SF) and complex multiple-use project; multi-decade build-out plan; multiple property owners; combination of public and private investment capital; regional economic development goals; use of tax modification tools to spur development

Land: Landowners formed separate development entity (Alliance Development Company) responsible for: land assemblage, financing preliminary infrastructure development, selling development parcels, and asset management of land holdings slated for later-phase development; the Alliance Development Company donated large parcel to the City of Fort Worth for the creation of an airport and supporting facilities.

Project #6: Sandia Science & Technology Park (SS&TP), Albuquerque, NM

Similarities: urban location; multiple land owners (two public, one private); related to a research anchor; combination of public and private investment; long term project time line

Land: The Park is managed by the SS&TP entity, funded by Sandia National Labs; the land in the Park is owned by three different property owners: Albuquerque Public Schools, New Mexico State Land Office and Build New Mexico/Union Development Foundation (private); the three entities entered into a Memorandum of Understanding (MOU) committing their land to the SS&TP project; as each parcel is sold/leased to a company or developer, that “client” company/developer is responsible for the infrastructure for their site; each landowner receives one vote for every acre they own; operating agreement states that until 70% of the land is owned by someone other than the current major landowners, voting control stays with the SS&TP; in addition to the MOU, a Master Plan governs development of the Park, acceptable uses and design standards; the SS&TP has 240 total acres, 29 companies with 2,111 employees and nearly 900,000 SF of built space; total investment in the Park is over $311 million.

Equity Investment Approach to Land Assembly