



Report on Net Revenue from Incentivized Economic Development Projects

City of Denton
Economic Development Department

2020

BACKGROUND AND PURPOSE

The City of Denton promotes high-quality development that improves the quality of life of its residents. The City uses economic development incentives to stimulate private development and redevelopment, expand the tax base, generate jobs, and enhance the local economy. Denton is home to several corporate, regional, and international headquarters, as well as central distribution and maintenance facilities. The City facilitated a number of these projects by granting incentives to make the project feasible and to reimburse the costs of required public infrastructure.

In 2009, the City of Denton Economic Development Department created the initial Net Revenue Report to examine the fiscal impact made by the businesses that have received property and sales tax incentives from the City, evaluate the efficiency of the public investment and to guide future policy decisions. State and DCTA sales tax revenue were added in 2010. In 2013, the report was expanded to include the revenue for Denton County, which includes both the incentives in which the County has partnered with the City, as well as the revenue from the incentives that the County did not invest in. The report comprised all of the taxing entities with the inclusion of Denton Independent School District (DISD) in 2015. The report was redesigned in 2016 and again in 2020.

This is the eighth update of the report, which provides a comprehensive look at the fiscal impact made by the businesses that have received property and/or sales tax incentives from the City and evaluates the efficiency of the public investment. The total incentive received by the company, the City tax revenues generated since the agreement was initiated and the cost/benefit of the projects are provided. In addition, the report includes information regarding state, Denton County Transportation Authority (DCTA), Denton County, and DISD ad valorem and sales tax revenues created by these developments.

CITY OF DENTON

The City has awarded 35 incentives to foster development in the community, with 27 being represented in this report. The remaining incentives have not initiated, were terminated, or are not ad valorem or sales tax based. The City has invested \$29.9 million in tax-related incentives, and in return, has benefited from a net increase in property and sales tax revenues of \$91.6 million since the inception of the incentive program in 1999. The cost benefit percentage for all incentives awarded is 307%. Chapter 380 sales tax rebate incentives represented the highest percentage at 335%, followed by Chapter 380 property tax rebates and property tax abatements at 202% and 298%, respectively. There have been 10,581 jobs created or retained by incentivized projects.



10,581
New Jobs



307%
Benefit



\$9.4B
Property Valuation



\$91.M
Net Revenue

Table 1: City of Denton Summary

Total of all Property Incentives	Property Tax Totals	Sales Tax Total	Total
Cumulative Property Valuation	\$4,469,212,423	\$4,975,635,463	\$9,444,847,886
Cumulative Property Tax Generated	\$28,606,136	\$33,481,596	\$62,087,732
Cumulative Sales Tax Generated	\$0	\$59,417,524	\$59,417,524
Cumulative Property & Sales Tax	\$28,606,136	\$92,899,120	\$121,505,256
Less Incentives	\$8,539,236	\$21,346,908	\$29,886,144
Net Property and Sales Tax Revenue	\$20,066,900	\$71,552,212	\$91,619,112
Cost Benefit Percentage	235%	335%	307%
Jobs Created/Retained	6,861	3,720	10,581

TAXING JURISDICTIONS

The Ratio of Return is included below. See Appendix A for information on the methodology for this report.

3:1
City of Denton

8:7
Denton County

107:8
Denton ISD

Table 2: City, County and DISD Summaries

Total of all Property Incentives Ratio of Return	City of Denton	Denton County	Denton ISD
Cumulative Property Valuation	\$9,444,847,886	\$4,306,191,483	\$4,469,212,423
Cumulative Property Tax Generated	\$62,087,732	\$10,813,945	\$67,618,682
Cumulative Sales Tax Generated	\$59,417,524	\$0	\$0
Cumulative Property & Sales Tax	\$121,505,256	\$10,813,945	\$67,618,682
Less Incentives	\$29,886,144	\$1,118,570	\$621,572
Net Property and Sales Tax Revenue	\$91,619,112	\$9,695,375	\$66,997,110
Cost Benefit Percentage	307%	867%	10,779%
Ratio of Return	3.1	8.7	107.8

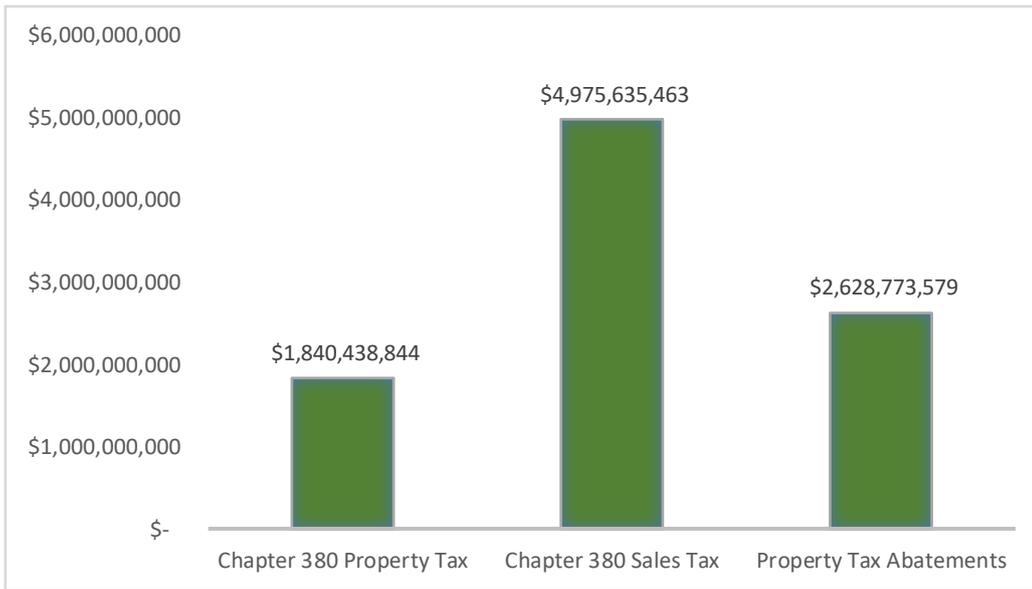
The 2020 report provides the ad valorem revenue that **Denton County** received from all of the incentives awarded by the City of Denton. The cost/benefit is also provided for the seven Tax Abatements and the two Chapter 380 Agreements in which the County jointly participated with the City to stimulate economic growth. Chapter 312 of the Texas Property Tax Code authorizes taxing entities to provide tax abatements. Chapter 381 of the Local Government Code authorizes counties to provide loans or grants to support economic development activities.

The County has invested a total of \$1.1 million in tax related incentives, and in return, has benefited from a net increase in property tax revenues in the amount of \$9.7 million since the inception of the incentive program in 1999. The cost/benefit for all of the incentives awarded (joint and City only) is 867%. The cost/benefit from all of the tax abatements and Chapter 380/381 property tax incentives was 526% and 3,038%, respectively.

The report was expanded in 2015 to include the ad valorem revenue that **DISD** has received from all the incentives awarded by the City. The cost/benefit is also provided for the two tax abatements in which DISD jointly participated with the City to stimulate economic growth. (Note: Texas school districts were at one time able to offer tax abatements similar to those of cities and counties, but that authority was repealed by the Texas Legislature). It is also important to note that the report uses the entire DISD tax rate, which includes the maintenance and operations and interest and sinking portions of the tax rate.

DISD has invested a total of \$621,572 in tax related incentives, and in return, has benefited from a net increase in property tax revenues in the amount of \$67.0 million since the inception of the incentive program in 1999. The cost benefit percentage from all of the tax abatements alone was 6,364%. The cost/benefit from all of the incentives awarded is 10,779%.

Graph 1: New Taxable Value Created in Denton



Graph 2: New Jobs Created in Denton



STATE AND LOCAL SALES TAX REVENUES

Table 3 provides the breakdown of the total revenue to City, State, and the Denton County Transportation Authority (DCTA) from sales taxes generated at the major retail developments that have received incentives from the City of Denton. The State of Texas collects sales and use taxes from all retail sales and taxable services. The State has directly benefited from the incentives awarded for these mixed-use developments. Since 2005, the State of Texas has received a total of \$246 million in additional sales tax revenues as a result of the incentives awarded by the City. The state revenues comprise 76% of the total sales taxes generated by these mixed-use centers.

Table 3: City, State, and DCTA Sales Tax Composition

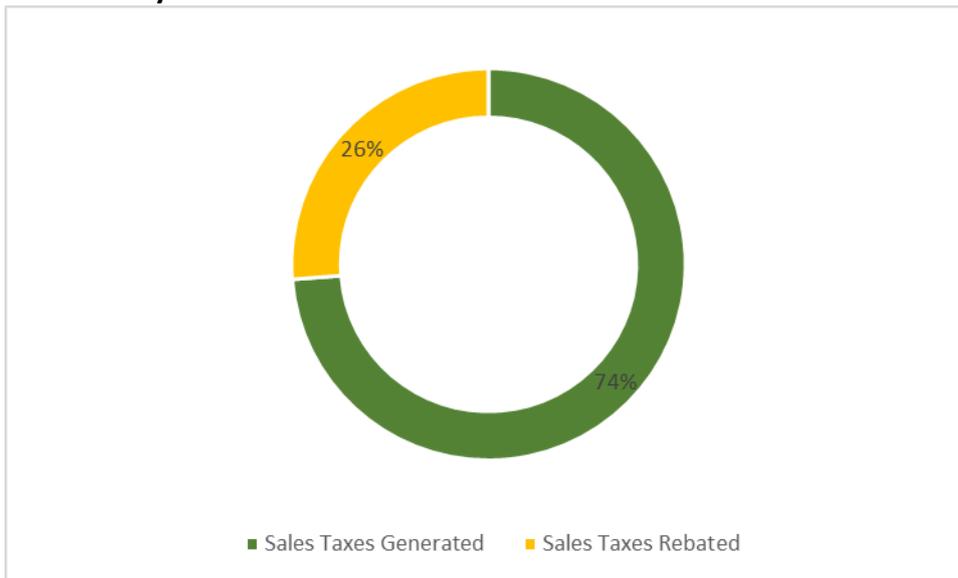
	Rates	Totals
Total Sales		\$3,937,099,600
Total City Sales Tax Generated	\$0.02	\$59,056,494
Total State Sales Tax Generated	\$0.06	\$246,068,725
Total DCTA Sales Tax Generated	\$0.01	\$19,685,498
Total Sales Tax Generated	\$0.08	\$324,810,717

Confidential information has been removed, but is included in the total

Table 4: Total City, State, and Local Sales Tax Cost/benefit

Development	Totals
Sales Tax Generated	\$324,810,717
Less Sales Tax Incentive	\$20,985,878
Total Net Revenue	\$303,824,839
Cost Benefit Percentage	1,448%

Chart 1: City Sales Taxes Generated and Rebated



CONCLUSION

Incentives are an important tool that can be used to attract or retain private investment in Denton. Since the majority of incentive options available to Denton are tax based, tracking and reporting on the cost/benefit of the incentives awarded by City Council enhances transparency, supports fiscal responsibility, and aids in future decision-making regarding incentives.

APPENDIX A

METHODOLOGY

This report represents the eighth update of the Net Revenue Report. The incentives are tracked for ten years regardless of the term. Standard economic development practice for impact analysis is ten years. For example, an incentive with a term for seven years is tracked for an additional three years until the ten-year period is reached.

An incentive is not deducted for the remaining three years following the term. This is standard practice and also allows for more commensurable comparisons between incentives.

The ad valorem or property tax valuation is based on the values that are released by the Denton Central Appraisal District (DCAD) for the previous tax year. The certified valuations, released in July, are compiled from the DCAD website and sent out on a City of Denton Verification Form to the appraisal district. This form also includes a request for the breakdown of the Business Personal Property (BPP) that is not available on the website and a section that notifies the City if the property is being contested. The incentive calculations occur for the uncontested properties following the receipt of the forms from DCAD. The City notifies DCAD if the threshold has been met by companies for all of the tax abatements. DCAD also contracts out some of their accounts to Wardlaw. The tax bills are distributed from DCAD in October. The calculations for the contested properties are prepared upon receipt of the Verification Form from the appraisal district, which occurs sometime after October until the early part of the following year.

Sales tax is collected by calendar year and is based on the allocation month that the sales tax report from the Texas Comptroller of Public Accounts is received. Sales tax is generated two months prior to the receipt of the reports from the state comptroller. Sales tax generated in December 2019 is reported to the City in February of 2020, for example. Historical tax rates for Denton County and DISD, dating back to 1999, were gathered for this study from DCAD, Denton County, and DISD. The terms for the incentives were provided by Denton County and DISD, as several of the agreement terms and investment percentages differ from the terms of the City.

Property tax is included from the base year of the economic development agreements or the first tax year that was available from DCAD when the initial report was compiled. Sales tax revenue reflects the revenues received since the initial tracking began or the grant payments were initiated. For example, the Unicorn Lake Agreement was approved in 2004; however, the first grant payment was made in 2009 after the thresholds were met. Property valuation for Unicorn Lake is cumulative since 2006 and sales tax is provided beginning in 2009. Sales tax monitoring for Rayzor Ranch began in 2010 prior to the receipt of the first payment in July 2012 to assist the City with preparing the 5-year forecast during the budgeting process. The incentive for Golden Triangle Mall was initiated in the summer of 2016, so only half of a year of rebates are included in the report. Tracking for the development began in 2013.

School finance involves a complex funding formula from several different federal, state and local funding sources. As aforementioned, the report uses the entire DISD tax rate, which includes the Maintenance and Operations (M&O) and Interest and Sinking (I&S) tax rates. The M&O portion of the tax rate is used for salaries, utilities, supplies etc. The I&S portion of the tax rate is used to fund payments on debt service for facilities and is the only portion of the DISD tax rate that is not affected by funding from the State of Texas.

This study seeks to aid in the decision-making process by providing the net revenue from the incentivized projects. The calculations for the net revenue and cost/benefit are included below.

Net Revenue = Revenues (property only and or sales tax generated) - incentive

The report carries these calculations a step further to obtain the Cost/benefit of the incentive projects.

Cost/benefit Percentage = Net revenue/incentive X 100

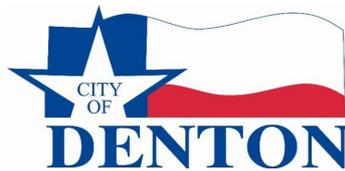
It is important to note that the report only gathers the sales tax generated from the projects which received a sales tax incentive. These include: Denton Crossing, Unicorn Lake, Rayzor Ranch, Golden Triangle Mall, Buc-ee's, WinCo and O'Reilly. Other projects, such as Schlumberger, generate sales taxes that would not have been generated in Denton if the business had not located in this community. This study takes a more conservative approach and does not include the sales taxes for the ad valorem only incentives.

The rate of return provides the net revenue of the taxes generated relative to the cost of the incentive, as a ratio. The ratio of return for the City in 2020, for example, was 3:1. Another way of putting this is that the City received 3 times the revenue of the incentive forgone. The formula is presented below.

$$\text{Ratio of Return} = \text{Net Revenue (property only and or sales tax generated-incentive)}/\text{incentive}$$



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