



City of San Antonio

Agenda Memorandum

File Number: 15-5328

Agenda Item Number: 29.

Agenda Date: 1/28/2016

In Control: City Council A Session

DEPARTMENT: Department of Planning and Community Development

DEPARTMENT HEAD: John Dugan

COUNCIL DISTRICTS IMPACTED: 3 and 4

SUBJECT:

Public hearing and Ordinance amending the Verano TIRZ Project and Finance Plans, extending the term of the TIRZ and authorizing amendments to related agreements.

SUMMARY:

After a public hearing, City Council is being asked to consider amendments to the Verano Tax Increment Reinvestment Zone (TIRZ) Project and Finance Plans modifying the development schedule, construction timeline, financial assumptions, and extending the term of the TIRZ by eight years until September of 2045. These changes to the Project and Finance Plans have necessitated amendments to additional documents which are also to be considered by City Council. The related agreements for City Council consideration are as follows:

- Amended Development Agreement between Verano Land Group LP, the City of San Antonio, Bexar County, and the Verano TIRZ Board of Directors
- Assignment of Rights from VTLM Texas LP to Verano Land Group
- Amended Consent Agreement between the City of San Antonio, San Antonio Water Systems, Verano Land Group and the Verano TIRZ Board of Directors
- Amended Interlocal Agreement between the City of San Antonio and Bexar County
- Amended Interlocal Agreement between the City of San Antonio and the San Antonio River Authority
- Amended Interlocal Agreement between the City of San Antonio and Alamo Colleges

BACKGROUND INFORMATION:

On December 6 2007, City Council through Ordinance 2007-12-06-1257 designated the Verano Tax Increment Reinvestment Zone (TIRZ) #28. The TIRZ Project and Finance Plans and Development Agreement were

approved by City Council on November 20, 2008 through Ordinance 2008-11-20-1016 and amended on June 24, 2010 through Ordinance 2010-06-24-0621.

Additional action by City Council included the approval of a Consent Agreement which authorized the assignment of TIRZ revenue to San Antonio Water System (SAWS) in August of 2009 and the execution of Interlocal Agreements with Bexar County, the San Antonio River Authority and Alamo Colleges in June of 2010.

The TIRZ boundary is approximately 3,100 acres of largely undeveloped land which will be utilized to develop a walkable mixed-use community built on the concept of a walkable urban village. The development is centered on the Texas A&M University San Antonio (TAMU-SA) main campus. The campus is located immediately south of the intersection of Verano Parkway and University Way. TAMU-SA has already developed three buildings on its new campus and plans to continue development to meet the demands of a rapidly increasing student enrollment. Plans for the campus include nine academic buildings, student housing, administrative and fine arts buildings, and a full range of athletic facilities.

Since the initial TIRZ designation, little development has occurred, with the exceptions of Verano Parkway, University Way, and the TAMU-SA main campus. Development delays can be credited primarily to a lawsuit between Verano Land Group, the land owner, and VTLM, the projects original developer. The City of San Antonio was not a party to the lawsuit. In February of 2014 a settlement was reached between Verano Land Group and VTLM that assigned all rights and obligations related to the Verano development to Verano Land Group. The assignment is contingent upon City Council and TIRZ Board approval.

Shortly after the settlement was reached, Tax Increment Finance (TIF) staff was approached by Verano Land Group to restart the development. Given changes in market conditions, Verano Land Group had requested updates to the original Project and Finance Plans and related agreements to include modifying the Form Based Zoning requirement for two single family home sections of the development and adjusting the term of the TIRZ by adding eight years to account for time lost as a result of the legal dispute. These changes would also necessitate adjustments to the development schedule and updates to the development assumptions, which in turn would result in changes to the original financial projections.

The proposed changes to the zoning from "FBZD AHOD" Form Based Zone Airport Hazard Overlay District to "MPCD AHOD" Master Planned Community Airport Hazard Overlay District, were approved by the Zoning Commission on September 1, 2015 (Zoning Case Z2015248) and are scheduled to be considered by City Council under a separate agenda item today.

As part of the project restart, Verano Land Group has negotiated changes to a Utility Service Agreement (USA) with San Antonio Water System (SAWS) which governs the provision of water and wastewater services to the development. A key component of the original USA was the assignment of a portion of the developer's tax increment to SAWS to pay for these services. This assignment of TIRZ revenue was authorized by City Council through a Consent Agreement and Assignment of Rights to Receive Reimbursement. In negotiating the USA, Verano Land Group and SAWS have agreed to a reduction of TIRZ reimbursements to SAWS, which will necessitate amendments to the Consent Agreement and Assignment.

In addition, City Council is being asked to consider amendments to Interlocal Agreements with three Participating Taxing Entities who have agreed to contribute tax increment to the Verano Tax Increment Reinvestment Zone fund. The other taxing entities participating in the Verano TIRZ include Bexar County, Alamo Colleges, and the San Antonio River Authority. Changes to the interlocal agreements include modifying the development schedule, construction timeline, and financial assumptions. Bexar County and the San Antonio River Authority have agreed to extend their participation in the TIRZ by eight years until September of

2045, while Alamo Colleges period of participation in the TIRZ, which ends on September 30, 2037, will remain unchanged.

ISSUE:

In accordance with Chapter 311 of the Texas Tax Code (TIF Statute), the Board of Directors of a Tax Increment Reinvestment Zone may adopt amendments to the TIRZ Project and Finance Plans at any time; however, the amendments must be approved by the governing body that designated the TIRZ. Additionally, if the amendments increase the total estimated project costs of the TIRZ or modify the term of the TIRZ, the Ordinance must be adopted after a public hearing.

Today’s Council action will authorize amendments to the TIRZ Project and Finance Plans incorporating changes to the development schedule, construction timeline, financial assumptions, and term extension. City Council is also being asked to approve the “Assignment of Rights” from VTLM to Verano Land Group, and consider amendments to the original Development Agreement resulting from that change and to account for changes in the plans. City Council is also being asked to authorize the execution of the Amended and Restated Consent Agreement among the City, SAWS, Verano Land Group, and the Verano TIRZ Board of Directors. In addition, City Council will consider authorizing the execution of amendments to three Interlocal Agreements with Bexar County, San Antonio River Authority, and Alamo Colleges.

Development Schedule

Verano Land Group has modified the development assumptions and schedule to address changed market conditions. While decreasing the overall amount of vertical development, the extent and character of infrastructure improvements maintain the basic street design and grid pattern as detailed in the original plan. Changes to the vertical development for residential and commercial/industrial structures are detailed below.

Table 1

Vertical Development - Residential				
	Original # of Units	Proposed # of Units	Difference	% Difference
Total Single Famil	2,542	2,461	(81)	(3%)
Total Multi-Family	3,375	2,500	(875)	(26%)
Total Condo/Town	1,021	750	(271)	(27%)
Total Residential	6,938	5,711	(1,277)	(18%)

Table 2

Vertical Development - Commercial/Industrial				
	Original Plan	Amended Plan	Difference	% Difference
Total Office Sq. Ft.	1,395,440	925,000	(470,440)	(34%)
Total Retail Sq. Ft.	1,245,439	665,000	(580,439)	(47%)
Total Industrial Sq.	3,136,321	1,225,000	(1,911,321)	(61%)
Total Institutional	200,000	200,000	0	0%
Total Non-Reside	5,977,200	3,015,000	(2,962,200)	(50%)

In addition to the reduction in vertical development, the unit mix has changed to better reflect market conditions. The revised plan will include two types of detached houses, townhomes, courtyard apartments, garden style apartments and mixed use structures. Housing types from the original plan that are no longer in the amended plan include: side-yard houses, cottages, courtyard houses, and quadplexes. The requirement for alleys in the residential neighborhoods has also been deleted.

Construction Timeline

Verano Land Group has requested an amendment to the construction timeline which will take into account the lack of development over the initial years of the TIRZ and reflects the extended term. Vertical construction under the revised time-line has the first units completed in 2016 with development continuing until 2042. The developer has already secured contracts with two national homebuilders, and expects construction of the two single-family residential neighborhoods to begin in the first quarter of 2016. The proposed construction timeline is provided in the attached second amendment to the Project Plan.

Financial Assumptions

Changes to the development schedule and construction timeline, as well as, changes in the tax rates of participating taxing entities, have necessitated changes to the Verano Finance Plan. Most notable is the reduction in the projected tax increment generated from the Verano TIRZ, which directly impacts the proposed maximum contribution from each of the participating taxing entities. Maximum contributions for each of the Participating Taxing Entities, with the exception of Alamo Colleges, were reduced by 14%. Alamo College’s maximum contribution remained unchanged because Alamo Colleges decided not to amend the terms of the Interlocal Agreement. Table 3 illustrates the projected reductions in tax increment contributions from each taxing entity.

Table 3

Verano TIRZ Tax Increment Contributions Per Taxing Entity					
Entity	Participation	Original Max Contribution	Proposed Max Contribution	Difference (\$)	Difference (%)
COSA	75%	\$138,700,000	\$118,992,476	(\$19,707,524)	(14%)
Bexar County	70% O&M	\$ 94,874,108	\$ 81,393,692	(\$13,480,416)	(14%)
Alamo Colleges	50% O&M	\$ 15,000,000	\$ 15,000,000	-	0%
SARA	60%	\$ 5,125,892	\$ 4,397,567	(\$ 728,325)	(14%)
Total		\$253,700,000	\$219,783,735	(\$33,916,265)	(13%)

Development Agreement

Many of the changes reflected in amendments to the Project and Finance Plans will also be incorporated into the amended Development Agreement and Interlocal Agreements. The proposed changes are found in the attached Development Agreement and include:

- The term of the TIRZ is extended to September 30, 2045, with the exception of Alamo Colleges, which will participate until September 30, 2037
- The City’s annual administrative fee is reduced to \$120,000 consistent with the fee schedule in the newly adopted TIF Program Policies
- Participating Taxing entity fees have been adjusted to the following:
 - Bexar County - \$5,388 annually
 - San Antonio River Authority - \$1,000 annually

- Alamo Colleges - \$344.83 annually
- Participating Taxing Entities have agreed to forego any uncollected startup fees and uncollected annual administrative fees prior to 2016
- The Development Agreement is reassigned from VTLM, LP to Verano Land Group, LP
- The City maximum tax increment contribution is reduced from \$138,700,000.00 to \$118, 992,476.00
- The County maximum tax increment contribution is reduced from \$94,874,108.00 to \$81,393,692.00
- The Alamo Community College District maximum tax increment contribution remains unchanged at \$15,000,000.00
- The San Antonio River Authority’s maximum tax increment contribution is reduced from \$5,125,892.00 to \$4,397,567.00
- The scope of the development is changed slightly to incorporate linear parks, streetscapes, public parking garages, and parks/plazas

ALTERNATIVES:

If City Council were to decide not to approve the proposed amendments to the Project and Finance Plans and related agreements, there is strong possibility that the Verano TIRZ would need to be terminated and the proposed development would not occur. This could cause significant additional delays to new development on the Verano site which could impact the development plans of TAMU-SA.

FISCAL IMPACT:

The tax year 2007 beginning assessed value of the TIRZ was \$39,087,452. Projected captured values that are taxed to produce revenues to pay for the capital costs of the public infrastructure improvements commenced in tax year 2008. The projected captured value is expected to grow from \$4,592,033 in tax year 2008 to approximately \$2,780,592,431 in tax year 2044.

The cost of the public infrastructure improvements is incurred by Developer and reimbursed over time from revenues produced by the TIRZ. Revenues derived from the TIRZ will be used to reimburse costs in the order of priority payment as set forth in the Finance Plan.

The total capital cost for public infrastructure improvements is proposed at \$464,841,484.86 which includes the developer’s capital costs. It is projected that the developer would not receive payments until fiscal year 2023. The earliest projected payoff of the capital cost would occur in fiscal year 2045 and include an estimated developer contribute of \$276,523,078.95 out of a total project cost of \$468,668,990.59. The TIRZ collections for this project shall not extend beyond September 30, 2045 and may be terminated earlier once each taxing entity has deposited its respected amount as described in the table below.

Table - TIRZ Maximum Contributions*		
Participating Taxing Entities	Maximum Dollar Contribution	Maximum Length of Contribution
City of San Antonio	\$118,992,476.00	September 30, 2045
Bexar County	\$81,393,692.00	September 30, 2045
Alamo Colleges	\$15,000,000.00	September 30, 2037
Sam Antonio River Authority	\$4,397,567.00	September 30, 2045
Maximum Contribution Amount	\$219,783,735.00	

*Maximum contributions are based on negotiated amendments to interlocal agreements with other participating

taxing entities.

The City will contribute up to \$118,992,476 towards the Tax Increment Finance Fund.

RECOMMENDATION:

Staff recommends approval of the proposed amendments to the Verano TIRZ Project and Finance Plans, amendments to the Development Agreement between the Verano Land Group, the City of San Antonio, Bexar County and the Board of Directors, approval of the “Assignment of Rights” from VTLM to Verano Land Group and authorization to execute the Amended and Restated Consent Agreement between the City, SAWS, Verano Land Group and the Verano TIRZ Board of Directors. In addition, staff recommends City Council authorize the execution of related Interlocal Agreements with Bexar County, San Antonio River Authority and Alamo Colleges.