

The City of Richland Hills, Texas



Tax Increment Reinvestment Zone Number 1 Baker Boulevard TIF

PRELIMINARY FINANCING PLAN

DRAFT

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ECONOMIC FEASIBILITY STUDY

History & Current Status

What is now Baker Boulevard was first established as Highway 183 in 1939 as the primary route from Fort Worth to Dallas. It was expanded to four lanes in 1950, prompting substantial residential development within the area. By the end of the 1970s, Richland Hills had been fully developed.

During this time period, development along Highway 183 reflected the roadway's status as a highway, a trend that continues even today. Over the next few decades, Highway 183 lost its position as the primary connector between Fort Worth and Dallas to the freeways that continue to serve the area. During this time the roadway was designated "Highway 10" as Highway 183 was rerouted. The stretch of the highway which runs through Richland Hills was renamed "Baker Boulevard," yet the corridor retains its bias toward highway-oriented development.

As it exists today, Baker Boulevard has been described as a rural highway in an urban setting. Property depths along Baker Boulevard reflect what was the standard for highway-side development throughout the 1950s and 1960s, and, as such, are inadequate for the size of contemporary retail today (often referred to as "Big Box" retailers) development today. Addressing the situation created by these shallow depths require extensive improvements in order to promote development along certain portions of Baker Boulevard that does not require Big Box depths. In other words, it is necessary to transition the area from a highway setting to that of a urban boulevard.



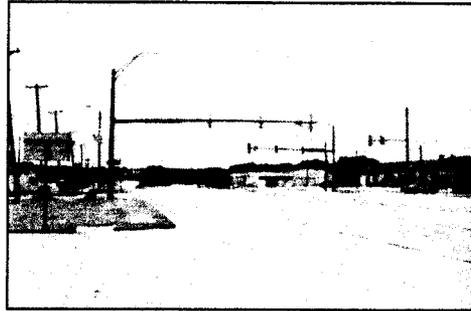
Since 1992, the City of Richland Hills has commissioned three separate studies to identify ways to revitalize Baker Boulevard. Each of those studies centered around the common theme of transforming Baker Boulevard from a highway to a Main Street. These recommendations are reflected in the projected proposals contained within this document.

For over the past two decades, development along Baker Boulevard has been sparse and of an undesirable quality. Until the corridor has undergone the various infrastructure improvements necessary to transform it from a highway to true boulevard, it is unlikely for the current development trends to discontinue.

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ECONOMIC FEASIBILITY STUDY (continued)

However, given Baker Boulevard's proximity to major thoroughfares on either end of the (Hwy Loop 820 on the east, Highway 26 and Rufe Snow on the west), there are a few sites within the TIRZ that represent significant opportunities for retail development or redevelopment within the next few years, thereby generating the initial increment in the Zone needed to fund the public improvements for the renovation of the interior of the street into a true urban boulevard. We anticipate the creation of the 154 acre Baker



Boulevard TIF and site marketing costs are to be funded by the TIF to further increase the marketability of these sites.

Specifically, the plot of land at the tip of Rufe Snow and Highway 26 has the location and traffic count to make a promising grocery store site and the former Sam's Club site near Loop 820 will be an attractive redevelopment opportunity for a Big Box retailer looking for a Highway location once the property becomes free from the leases that currently encumber it.

Once these developments are secured, they will effectively transform the eastern section of Baker Boulevard near Highway 820 into a "Merchant District" – one anchored by a traditional Big Box retailer (more than 100,000 sf). Likewise, the western region of Baker Boulevard, near Rufe Snow and Highway 26 will become a "Market District" – one anchored by smaller (non-Big Box, under 100K sf) retailers.



Once these developments and some ancillary others take place at the "Merchant" and "Market" districts near the respective ends of Baker Boulevard, the funds will be in place for the public improvements needed to begin creating a "Main Street District" along the interior corridor of Baker Boulevard.

This Main Street will be attractive for retailers and developers who are increasingly looking for more upscale and urban sites. Typical development is projected to be 2-4 story mixed-use properties, with retail at ground level and residences above. The new, urban "Main Street District", along with Richland Hill's proximity to Downtown Fort Worth, the DFW Airport, the TRE station, and major highways will make this an appealing location for people who previously would not have considered Richland Hills

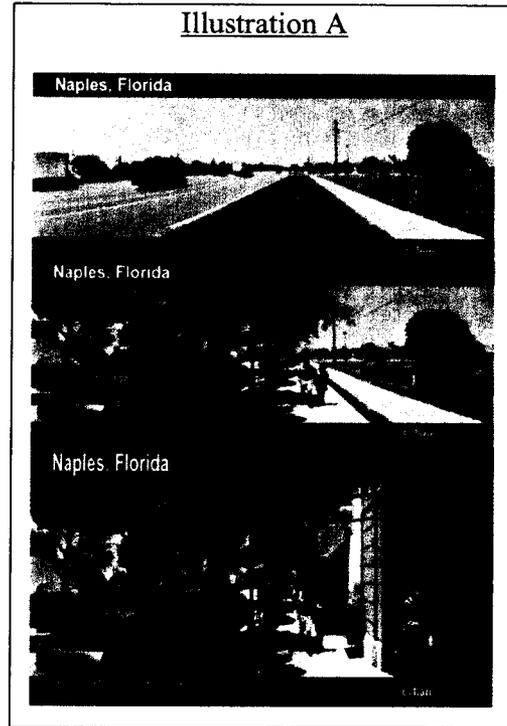
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ECONOMIC FEASIBILITY STUDY (continued)

as a residence. We anticipate not only mixed-use development in this “Main Street” or City Center District, but additional retail development as well. The creation of the City Center District is further anticipated to boost the City’s sales tax revenue and create new employment opportunities within the City (see Illustration A).

The increment created by the developments in the Merchant and Market districts, and eventually the Main Street District as well, is anticipated to be sufficient to cover all project costs. The increment is also anticipated to be sufficient to issue debt

approximately 10 years into the life of the project, to finance the remaining project costs at that time. Note that the issuance of debt will be at the option of the TIF Board based on the performance of the TIRZ and other market conditions, and is not a requirement of the TIF.



Tax Increment Analysis

The tax increment analysis was generated by performing the following tasks:

- ◆ Designating an eligible area as the Baker Boulevard tax increment reinvestment zone (“Zone”),
- ◆ Determining the current base assessed value of the existing property within the Zone,
- ◆ Projecting the tax rate captured by the TIF, including any contributions from other taxing authorities,
- ◆ Projecting new development within the Zone and determining the amount of tax increment created from the zone over the existing base value.
- ◆ Determining what public improvements are needed, and the estimated cost of the improvements, to achieve the goals of the TIF,
- ◆ Creating an economic proforma, showing the use of the tax increment funds for the public improvements needed, as they become available.

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ECONOMIC FEASIBILITY STUDY (continued)

The economic projections included in this analysis are dependant on the following major assumptions:

- ◆ The timing and value of new development within the Zone,
- ◆ Appreciation of existing land and improvements within the Zone,
- ◆ The loss of value for any existing development improvements demolished to make way for new development, and
- ◆ Future tax rates and the percentage of participation of each taxing jurisdiction.

See Section 8 of this Financing Plan and the economic proforma for more information assumptions used in the financial projections.

Projected new development in the Zone was based on comparables of the taxable values and taxable sales revenue of similar projects, particularly in nearby municipalities when available. The value on the tax roles is assumed to approximate their initial construction costs, which is in accordance with Tarrant County taxing policy.

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The Tax Increment Reinvestment Zone (“TIRZ”) Financing Plan provides information on the projected economic impact of the TIRZ. The plan details the tax valuation projections for the TIRZ, as well as the projected tax increments captured by the TIRZ. It also details the increment created from contributions of each taxing entity, as well as how the increment created can be utilized to enhance the region, eliminate blighted conditions, and contribute to further economic growth in the TIRZ.

The reinvestment zone financing plan must include the following items:

- 1. *A detailed list describing the estimated project costs of the zone, including administrative expenses.***
 - ◆ Redevelopment within the Baker TIF will consist of a combination of public improvements and private investment projects over time. These improvements will create a comfortable, pedestrian-friendly “main street” environment which is necessary to attract mixed-use economic growth opportunities within the Zone.
 - ◆ The initial improvements contemplated in the Baker TIF include public infrastructure (curb & gutter, drainage, sidewalks, decorative streetlights, public park with a fountain, etc.) associated with “main street” style retail and mixed-use development. A county hospital clinic is also contemplated to be added in the Zone as an amenity to the residents of the City, particularly to those residents in the nearby assisted living community, though this is still in discussion with the County and the Hospital District and is preliminary at this time. In addition, Demolition, environmental remediation, and all expenses allowable under the Tax Increment Financing Act are contemplated to be performed on an as-needed basis within the Zone. Note that some of the infrastructure costs will be covered by grants obtained by the City. The improvements planned for the Baker Boulevard tax increment reinvestment zone will include, but are not limited to, the following:
 - Beautification landscaping along the existing medians, primarily trees
 - Wide, pedestrian-friendly (10-12’) sidewalks on both sides of the street
 - Curb and gutter abutted to the sidewalks
 - Drainage piping and inlets added throughout district
 - Landscaping along the sidewalks, to create shade and beautification and further enhance the pedestrian-friendly atmosphere of the area
 - Decorative, highway-grade street lighting fixtures
 - 60’ colorful fiberglass utility poles
 - Public park and plaza with large decorative fountain
 - Potential county hospital clinic
 - Administrative expenses for maintenance of the TIF

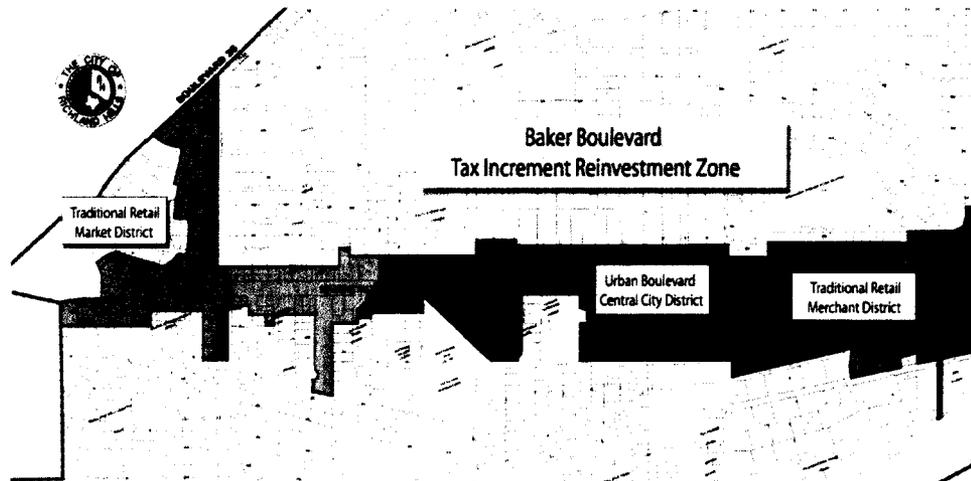
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See Exhibit A for the detail listing of TIF projects and estimated costs.

2. A statement listing the kind, number, and location of all proposed public works or public improvements in the zone.

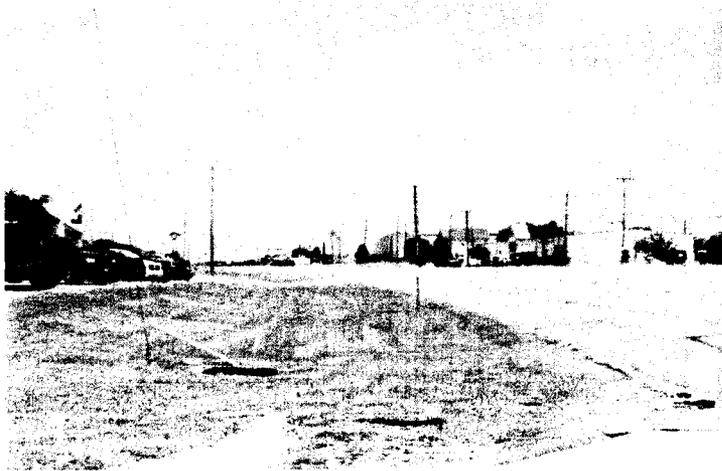
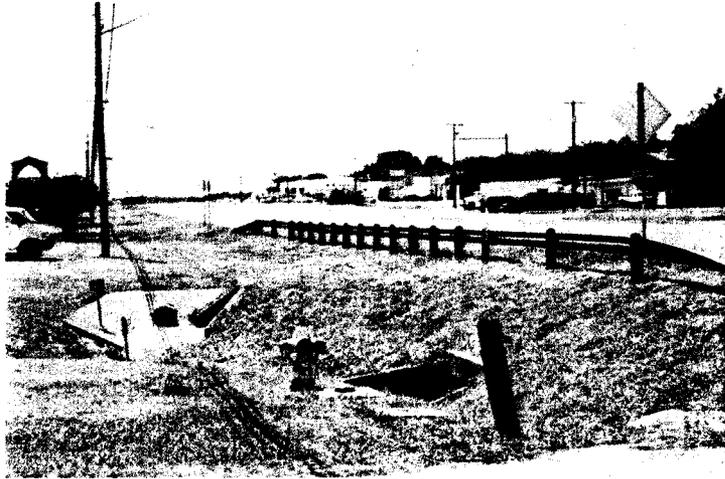
- ◆ See Section 1 above and Exhibit A for a listing of proposed public improvements in the zone.

Public improvements will be located primarily in the Central City District of the TIRZ (shown in the red areas of the map below).



- ◆ The first phase of landscaping will be added to the existing medians in the Main Street district of the TIRZ. Sidewalks, curb and gutter, drainage improvements, and sidewalk landscaping will be added over the existing shoulder and drainage ditches of the district. See pictures below for examples of existing drainage ditch that would be replaced by sidewalk, curb and gutter.

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In order to maximize the effectiveness of the public improvements in creating a “main street” environment and attracting development, it is contemplated that a portion of the curb and gutter work will be performed early in the life of the TIF, using funds from the RTC grant (the RTC grant funds will also be used for some other improvements not included in the TIF plan). The remaining infrastructure improvements will be performed as sufficient increment becomes available.

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3. *The estimated amount of bonded indebtedness to be incurred;*

- ◆ No bonded indebtedness is contemplated to be incurred at this time.

However, the City and TIF Board will consider issuing bonds to be serviced by funds generated by the TIF revenue when sufficient increment has been generated to support a debt issuance sufficient to fund all or substantially all remaining infrastructure project costs, or at such other time as the TIF Board deems appropriate.

4. *The time when related costs or monetary obligations are to be incurred;*

- ◆ See Exhibit C for projected timing of project costs to be incurred.

5. *A description of the methods of financing all estimated project costs and the expected sources of revenue to finance or pay project costs, including the percentage of tax increment to be derived from the property taxes of each taxing unit that levies taxes on real property in the zone;*

- ◆ All project costs are expected to be paid for by incremental property tax and sales tax revenue generated by the TIF on a pay-as-you go basis. As mentioned above, debt issuance will be contemplated as the TIF increment grows sufficient to support a bond issuance to fund a substantial amount of the remaining project costs.

The percentage of the tax increment derived from the property taxes of each taxing unit that levies taxes in the TIRZ is as follows (also shown in Exhibit B):

- City of Richland Hills – 100%
- Tarrant County – 75%
- Tarrant County Hospital – 75%
- Tarrant County College – 25%
- Birdville ISD – 0%

In addition, a .125% sales tax increment will be contributed to the TIF from the City of Richland Hills.

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6. *The current total appraised value of taxable real property in the zone;*

- ◆ The current appraised value of the taxable real property in the Baker Boulevard TIRZ is estimated to be \$48,619,230, based upon 2008 appraised values.
- ◆ This is approximately 10.7% of the total appraised value of all taxable property in the City of Richland Hills, or well within the 15% limit required by section 311.006(a)(2) (Based on the total taxable appraised value of \$455,461,741.)
- ◆ Total value of the privately-owned property used for residential purposes within the Baker Boulevard TIRZ is \$3,206,211, or 6.6% of the total taxable real property in the TIRZ, which is within the 10% maximum allowed by section 311.006(a)(1).

7. *The estimated captured appraised value of the zone during each year of its existence;*

- ◆ This section outlines the projected Zone tax increment. The actual increment generated will depend on several factors, including:
 - The base value of the real property in the Zone subject to property tax
 - *Property value estimated to be \$48.6 million – see Exhibit B*
 - *Existing sales tax base estimated to be \$9.4 million – see Exhibit B*
 - Expected Growth of the Taxable Real Property in the Zone
 - *The taxable real property in the zone is projected to increase to \$116.1 million by the year 2028 and generate a total increment of \$6.1 million over the life of the TIF.*
 - *The taxable sales of the properties within the Zone is projected to increase to \$117.9 million by 2028 and generate a total increment of \$1.6 million over the life of the TIF.*
 - *Note that the projection of the future tax increment captured is dependent on the timing and value of new development, the appreciation of existing land and improvements, and the loss of value from any existing improvements removed or demolished to make way for new developments. These projections are estimates based on the information known to date, and are subject to change based on market conditions.*

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- *A 2.5% annual base growth rate is used as an estimate for appreciation of existing improvements and taxable sales, which is considered to be conservative.*
- *See Exhibit B for the detail of the annual growth projection.*
- **Participation by Taxing Units**
 - *The Taxing Units have not yet agree to a specific level of participation. However, the economic projections utilized in this plan project participation as outlined in section 6 above. The projected total contributions by each Taxing Unit over the life of the TIF are:*
 - *City of Richland Hills - \$3.2 million*
 - *Tarrant County - \$1.4 million*
 - *Tarrant County Hospital - \$1.2 million*
 - *Tarrant County College - \$0.2 million*
 - *Birdville ISD - \$0*
- **Projected Tax Rates & Collections**
 - *Property tax rates are conservatively assumed to remain unchanged from the 2008 rates. The plan assumes a 100% collection rate by all taxing units.*
- **The duration of the Zone**
 - *The duration of the Zone will be the lesser of 21 years or when all project costs are paid. Assuming the Zone exists for its full term, the expiration date of the Zone will be December 31, 2028. The Zone will begin with the increment generated by the 2009 tax appraisal and end with the increment generated by the 2028 tax appraisal. Note that the economic proforma included in Exhibit C shows the funds created by the increment spent for public improvements one year in arrears, to be consistent with the property tax collection deadline of January 31 of the year after the tax assessment (i.e. 2008 taxes are collected by Jan 31, 2009).*