

Bridging the Gap: Recent Trends in Economic Development
*Economic Development Tools Available to Texas Municipalities and
Their Increased Importance in an SB 2 World*

July 26, 2019

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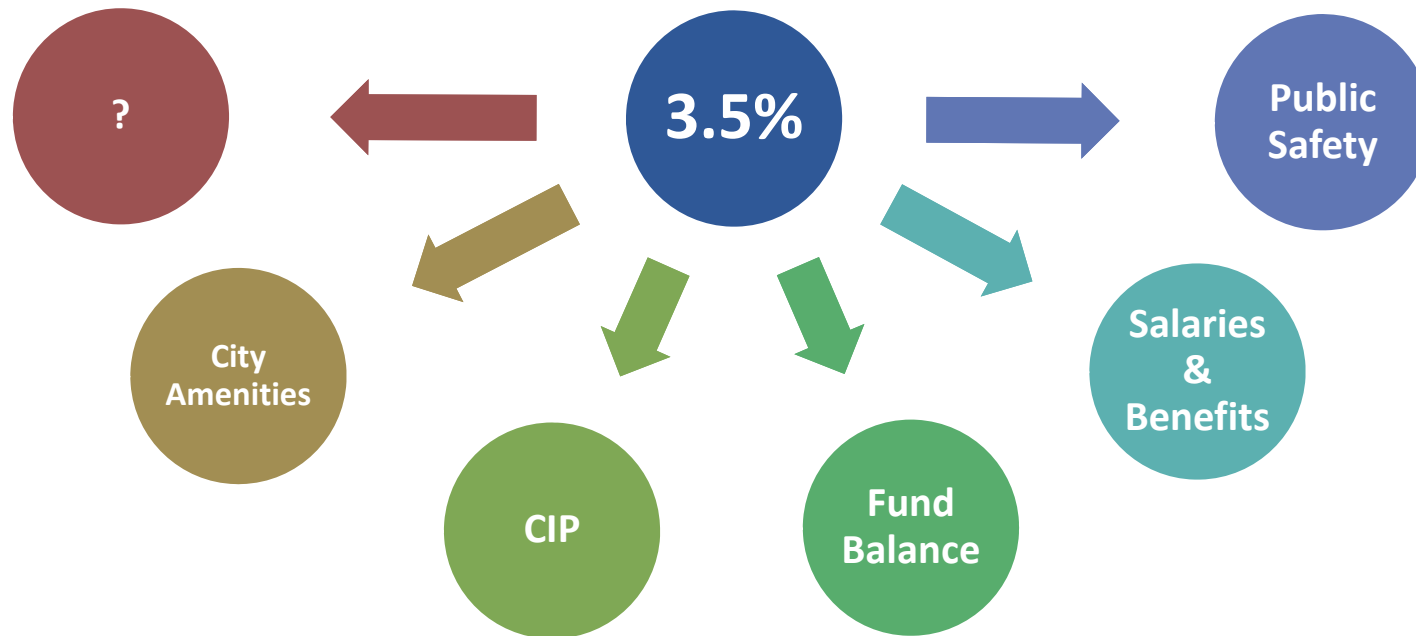
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3.5%

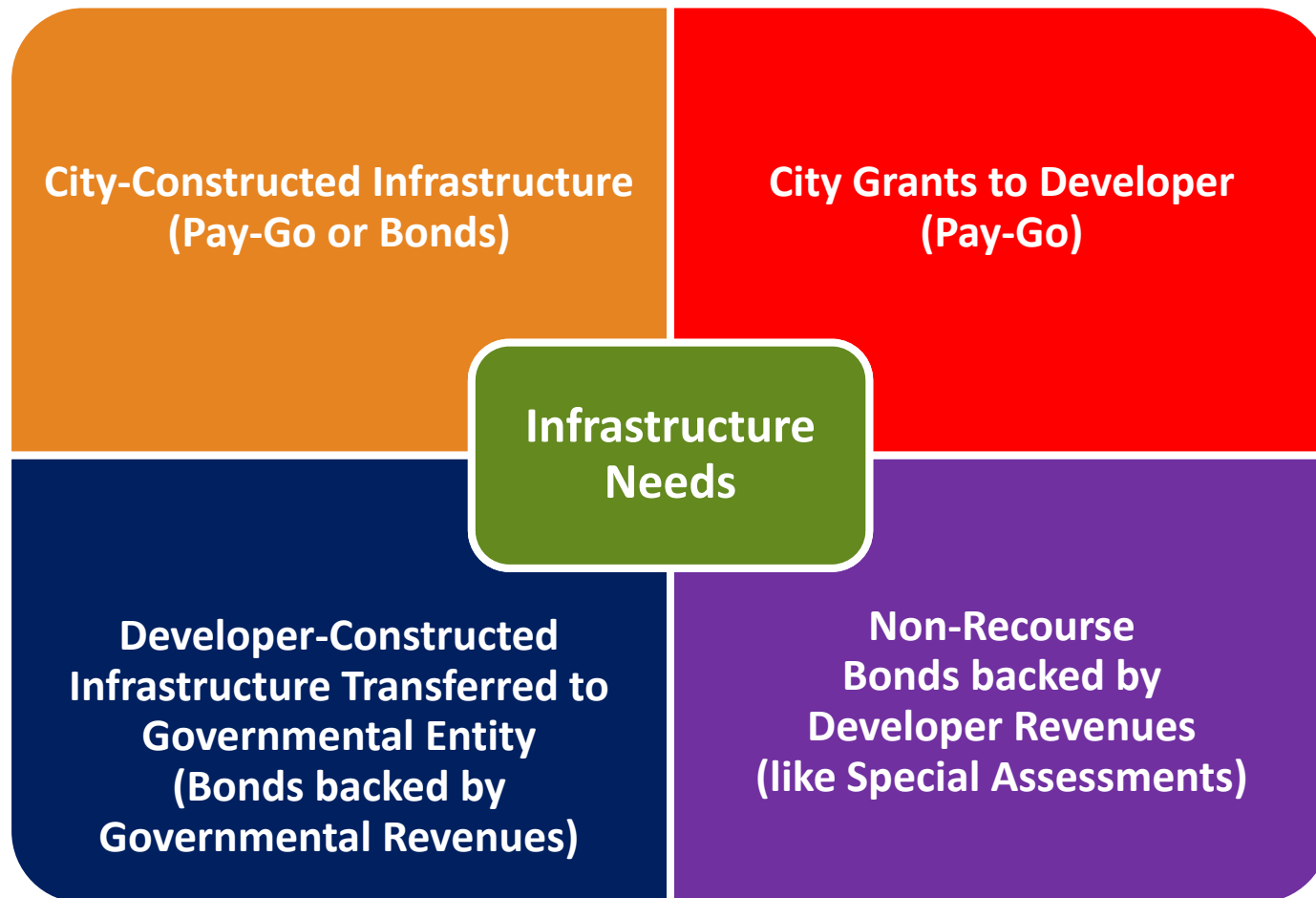
- **Rate changes effective January 1, 2020**
- **Applies to cities, counties and certain other taxing units**
- **Reduces amount that property tax revenue may increase year over year from 8% to 3.5%**
- **Ability to bank up to 3 years of unused increases**
- **November uniform election date for increases exceeding 3.5%**
- **“De minimis rate” \$500,000 new revenue exception for smaller cities (population <30,000)**

What Does a 3.5% Cap Look Like?

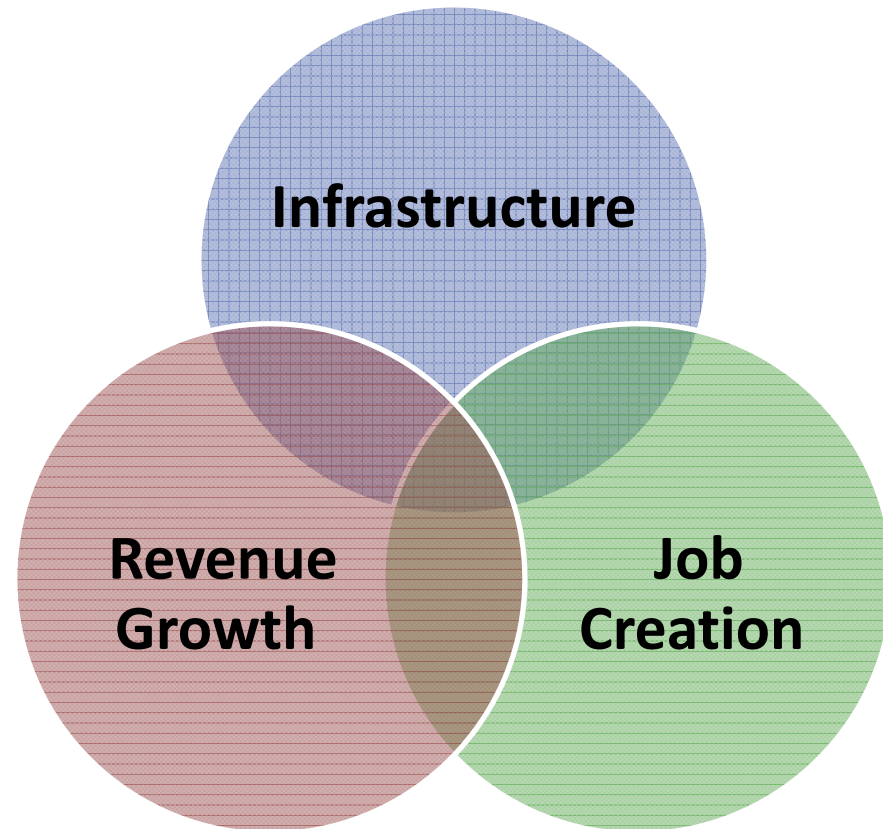


- Based on State Controller’s Office data for FY 2018, the cities in Region 8/13 levied at 97% of the 8% rollback levy, on average¹
- For FY 2018 alone, a reduction from 8% to 3.5% potentially equates to \$110 – 120 million in reduced property tax revenues
- We have a real world example of the long-term effects of property tax caps
- What takes the brunt of the shortfall—general government functions, public safety, infrastructure expansion, maintenance?

¹ Source: Comptroller.texas.gov: Tax Year 2017 City Rates & Levies



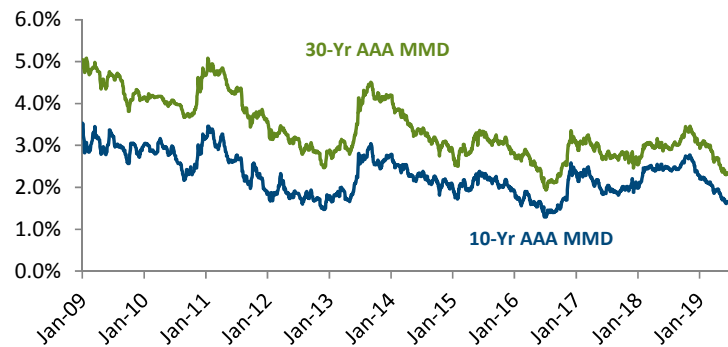
- Tax Increment Reinvestment Zones
- Tax Abatements
- Public Improvement Districts
- Municipal Management Districts
- Chapter 380/381 Agreements
- Economic Development Corporation Sales Taxes (4A/4B)
- City Hotel Occupancy Taxes (HOT)
- State HOT Opportunities
- Tourism PIDs
- Opportunity Zones



Bonds supported by economic development tools are becoming an attractive alternative

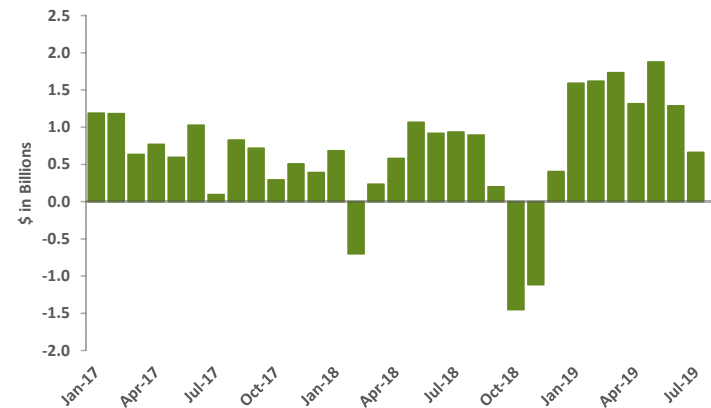
- **Upfront funding (closes the “gap” more quickly)**
 - Building at today’s pre-inflation construction costs
- **Historically attractive rates (significantly reduced borrowing costs)**

Historical Tax-Exempt Yields



Source: Thomson Reuters’ The Municipal Market Monitor

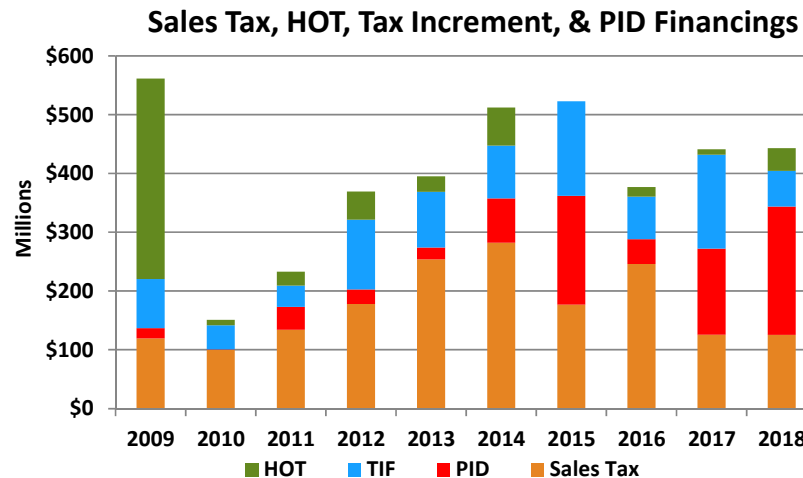
High Yield Fund Flows



Source: Lipper.

- **Decreased equity requirements for developers (and more bells and whistles)**
- **“But For”**

Composition of stand-alone revenue supported bonds backed by economic development revenues is changing



- **Increased use of Public Improvement Districts**
- **TIF issuance is a function of both needs and TIF maturation**
- **Sales Tax & HOT financings – tend to be project specific**
- **Expanding the leverage picture—self-supporting certificates of obligation**

Important things to consider when bond financing a project:

- **Developer Experience**
- **Adequacy of Funding to Complete Project**
- **Elements of the Project**
- **Market/Competition**
- **Insurance**
- **Litigation**
- **Governmental Actions**

Case Study – City of Fort Worth’s Rock Creek Ranch

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FORT WORTH
City of Fort Worth
(Rock Creek Ranch PID)
Special Assessment
Revenue Bonds

\$12.7MM Series 2017	\$5.2MM Series 2018
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- The City of Fort Worth established a public improvement district (“PID”) for Walton’s 1,756-acre Rock Creek Ranch development in southwest Fort Worth as a policy tool to spur development and aid in the establishment of a future Tarleton State University (“TSU”) campus
 - Walton donated 80-acre site in the heart of the PID to Tarleton State University for development of a 960,000 square foot Fort Worth campus allowing TSU to consolidate 6+ Fort Worth-area locations into a single campus
 - PID financing provided key water, sewer and road infrastructure that simultaneously supported development of the TSU campus as well as future residential and commercial development in the PID
 - Overall development slated for 4,900 single-family homes, 2,500 multi-family units (a number of which will provide housing near the TSU campus) and 3.78 million square feet of commercial space

Source: Official Statements.



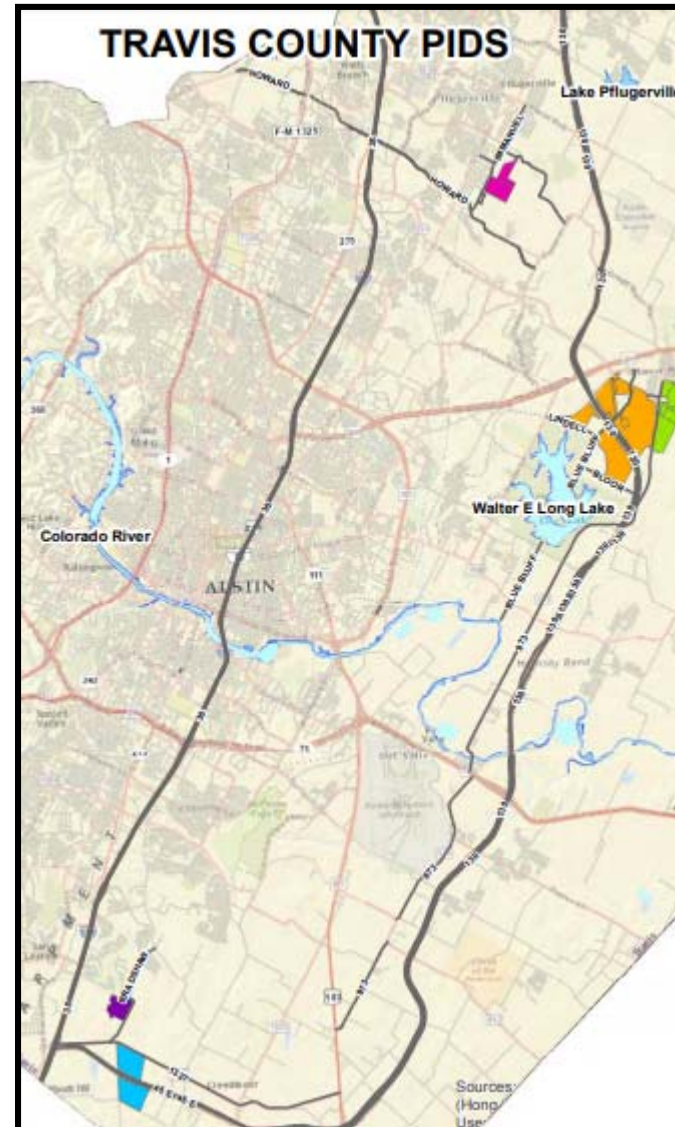
- In February 2019, Edinburg EDC issued \$10.8 million to fund:
 - Public resource and workforce training center
 - Parks and park facilities
- Bonds secured by a 3rd lien on the EDC’s 0.50% citywide sales tax levy
- Sold on a non-rated, limited offering basis



- In March 2015, the City of Edinburg’s Local Government Finance Corporation issued \$40.7 million to fund construction of an entertainment center (Burt Ogden Arena)
- Bonds were secured by a pledge of revenues from two separate TIRZ, a City grant, lease payments and a 2nd lien on the EDC’s 0.50% citywide sales tax levy
- ‘BBB+’ underlying rating, ‘AA’ insured rating, public offering



- Travis County established a county-wide PID program
- Desire to spur residential/commercial development and address affordable housing issues
- Developed an *extensive* PID policy with County requirements clearly outlined
- “PID Community Benefit Fee”
 - Equal to 10% of net PID bond proceeds
 - Can be waived if other Community Benefits are negotiated (mass transit centers, public roadway improvements, affordable housing opportunities, among others)



Case Study – Round Rock’s Kalahari Project

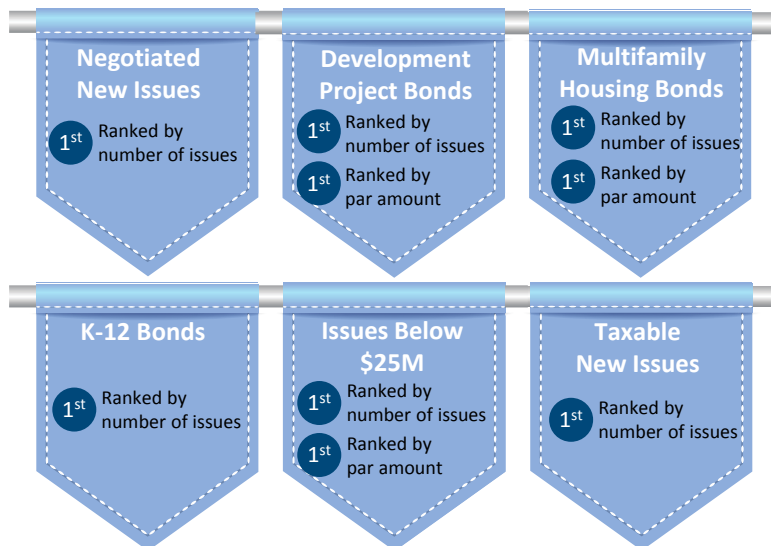


- **\$550MM development featuring hotel, convention center, 200,000 sq. ft. indoor water park, indoor theme park**
- **City purchased and leased 351 acres**
 - Repayment by developer over two installments
- **In addition to private dollars, City committed to approximately \$70 million in project financing**
 - Anticipated issuance of \$30 million in COs (city-owned offsite and onsite improvements), \$42 million in Type B sales tax revenue bonds (City-owned convention center)
- **Utilizes State HOT and Sales Tax incentives**
- **Goal: Project revenues pay for the project**

- **Vision – Proactive policies can provide and incentivize investment**
 - Component units working together
 - Written policies engender important public policy conversations
- **Developers have real estate lawyers -- should you?**
- **Create win-win scenarios (don't give the store away, avoid FOMO)**

About Stifel

2018 National Public Finance Rankings



National Public Finance Rankings

2018 Negotiated, Lead Managed Issues (Ranked by # of Issues)

Rank	Firm	# of Issues	Mkt. Share	Par Amount (US\$ mil)
1	STIFEL	536	11.1%	\$10,197.0
2	RBC	404	8.4	19,745.7
3	Piper Jaffray & Co	298	6.2	10,326.1
4	Raymond James	294	6.1	10,135.8
5	BAML	291	6.0	31,652.2
6	D A Davidson & Co	284	5.9	3,544.7
7	Citi	239	5.0	28,710.7
8	J P Morgan	200	4.1	24,824.2
9	Robert W Baird & Co	197	4.1	2,834.5
10	Wells Fargo & Co	181	3.8	10,978.9

Source: SDC Thomson Reuters as of 1/2/2019. National negotiated transactions, rankings measured by number of issues allocated to Book Runner.

Distribution System



Broad Service Platform: 139-member Public Finance team located in 25 offices



Distribution Strength: Balanced platform with ability to sell bonds directly to all classes of muni bond buyers



Institutional Sales & Trading: 240+ representatives covering institutions including bond funds, banks, insurance companies, money managers



Private Client Group: 2,300+ professionals in 366 offices across 43 states with over \$289bn in AUM

Stifel Public Finance Offices













Recent Stifel Texas Transactions



Recent General Government Transactions

Recent Development Transactions

 <p>City of Allen \$3,845,000 Waterworks and Sewer System Revenue Bonds, Series 2019 Sole Manager</p>	 <p>City of Houston \$529,220,000 Combined Utility System First Lien Revenue Refunding Bonds, Series 2018D & 2018E Co-Manager</p>	 <p>City of Allen \$9,330,000 Waterworks & Sewer System Revenue Bonds, Series 2018 Senior Manager</p>	 <p>Edinburg Economic Development Corporation \$10,840,000 Sales Tax Revenue Bonds, Series 2019 Sole Manager</p>	 <p>Saint George Place Redevelopment Authority \$19,960,000 Tax Increment Contract Revenue Bonds, Series 2019 Sole Manager</p>	 <p>Viridian Municipal Management District \$5,480,000 Assessment Revenue Bonds, Series 2018 Senior Manager</p>
 <p>City of Grand Prairie \$36,515,000 Combination Tax and Revenue Certificates of Obligation, Series 2017 Senior Manager</p>	 <p>City of El Paso \$83,880,000 Water and Sewer Revenue Improvement & Refunding Bonds, Series 2017 Senior Manager</p>	 <p>City of Allen \$11,845,000 General Obligation Bonds, Series 2017 Senior Manager</p>	 <p>City of Fate (Williamsburg PID #1) \$4,810,000 Special Assessment Revenue Bonds, Series 2018 Sole Manager</p>	 <p>City of Fort Worth (Rock Creek Ranch PID) \$5,155,000 Special Assessment Revenue Bonds, Series 2018 Sole Manager</p>	 <p>City of Fort Worth (Rock Creek Ranch PID) \$12,685,000 Special Assessment Revenue Bonds, Series 2017 Sole Manager</p>
 <p>City of Richardson \$23,000,000 General Obligation Refunding and Improvement Bonds, Series 2016A Senior Manager</p>	 <p>City of Pearland \$29,840,000 Permanent Improvement Refunding Bonds, Series 2016B Senior Manager</p>	 <p>City of Frisco \$107,710,000 General Obligation Refunding and Improvement Bonds, Series 2015A Senior Manager</p>	 <p>Amarillo Economic Development Corporation \$22,480,000 Taxable Sales Tax Revenue Refunding Bonds, Series 2017 Senior Manager</p>	 <p>Southwest Houston Redevelopment Authority \$25,950,000 Tax Increment Contract Revenue and Refunding Bonds, Series 2017B Senior Manager</p>	 <p>Allen Community Development Corporation \$31,235,000 Sales Tax Rev Ref Bonds, Taxable Series 2016 Senior Manager</p>

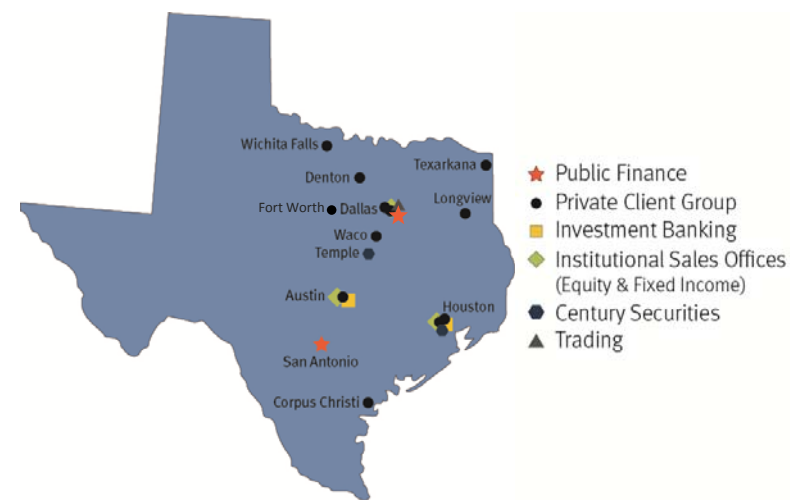
Texas Public Finance & Sales/Trading Efforts

Texas Public Finance, Sales & Trading Offices

Office Location	Type	Public Finance	Retail Sales	Inst. Sales	Inst. Trading
Austin	Stifel Retail & Institutional		8	1	
Austin	Century Securities*		1		
Corpus Christi	Stifel Retail		6		
Canyon Lake	Century Securities*		1		
Dallas	Stifel Retail, Institutional, Trading, & PF	2	10	2	3
Dallas - Crescent	Stifel Retail		9		
Denton	Stifel Retail		2		
Fort Worth	Stifel Retail		7		
Frisco	Stifel Retail		2		
Houston NW	Stifel Retail & Institutional		7	1	
Houston - McKinney	Stifel Retail		7		
Longview	Stifel Retail		4		
San Antonio	Public Finance	2			
Sugar Land	Stifel Retail		3		
Temple	Century Securities*		1		
Texarkana	Stifel Retail		2		
Waco	Stifel Retail		2		
Wichita Falls	Stifel Retail		4		

*Century Securities is a subsidiary of Stifel's parent company, Stifel Financial, and is part of the network of brokers that constitutes Stifel's Private Client Group.

- Stifel continues to expand Texas staffing and capabilities**
 - Over 550 negotiated transactions exceeding \$38 billion in par amount
 - Public Finance offices in Dallas and San Antonio
 - 76 retail sales professionals located throughout the state
 - 4 institutional sales and 3 institutional traders located in Dallas, Houston and Austin



Texas Sales & Trading

Offices	17
Retail Professionals	76
Client Accounts	23,039
Client Assets (Total/Muni)	\$6.8b/\$607m
Institutional Sales	4
Institutional Trading	3

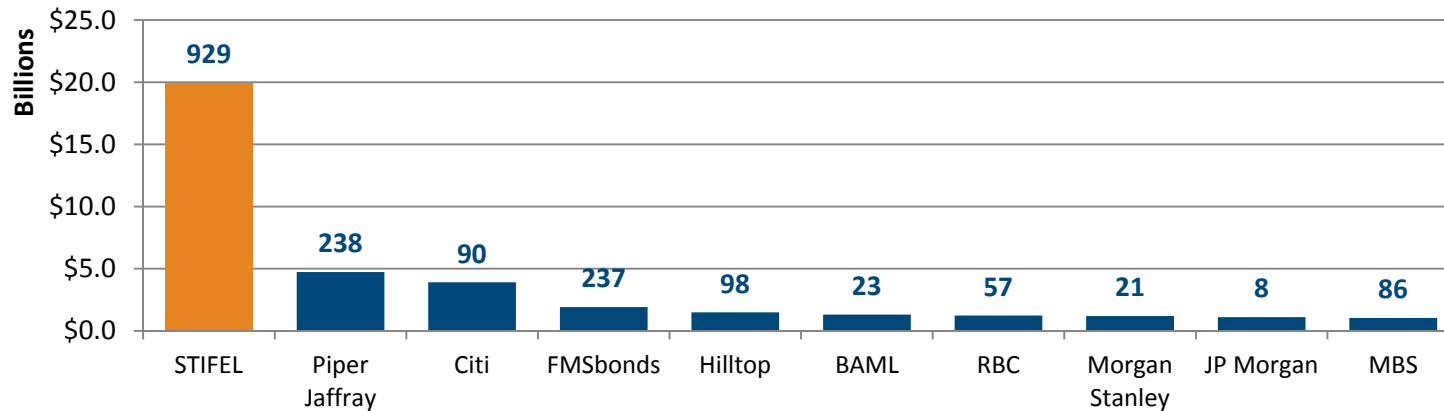
Development Expertise

- Stifel is a national leader in underwriting bond issuances for development districts and is particularly experienced in credits backed by special assessments, special taxes, and tax increment revenues
- Since 2009, Stifel has ranked #1 in development district financings by volume and number of transactions, and our lead managed development experience exceeds the 2nd through 10th ranked firms combined by both volume and number of transactions.

National Development Rankings 2018 Lead Managed Negotiated Issues (Ranked by Par)				
Rank	Firm	Par Amount (US\$ mil)	Mkt. Share	# of Issues
1	STIFEL	\$1,482.9	30.4%	87
2	Piper Jaffray	632.3	13.0	30
3	Citi	503.6	10.3	8
4	FMSbonds	413.9	8.5	54
5	Jefferies	311.5	6.4	1
6	MBS Cap. Mkts.	263.2	5.4	25
7	RBC	162.8	3.3	8
8	Morgan Stanley	155.5	3.2	4
9	D A Davidson	142.1	2.9	7
10	Ramirez & Co	103.1	2.1	4

Source: SDC (True Economics to Book) negotiated Assessment District, Mello-Roos, Tax Increment/Allocation revenue bond transactions ranked by par. As of January 2, 2019.

**National Development Rankings
2009 - 2018 Lead Managed Issues (Ranked by Par)(Number of Deals Above Bars)**



Source: SDC (True Economics to Book) negotiated Assessment District, Mello-Roos, Tax Increment/Allocation revenue bond transactions ranked by par. As of January 2, 2019.

- **Stifel has leveraged its nationwide development finance expertise to serve Texas and nationwide clients**
- **Expertise includes:**
 - Municipal Management Districts
 - Tax Increment Reinvestment Zones (TIRZ/TIF)
 - Public Improvement Districts
 - 4A/4B Sales Taxes
- **Stifel's expertise enables us to produce customized solutions**