San Angelo City Center

Master Development Strategy Update – Spring 2015

THE CITY OF SAN ANGELO ★ TEXAS ★

CATALYST
URBAN DEVELOPMENT

Acknowledgements

This document reflects the insight and collaborative of various entities from both the public and private sectors, through a process guided through the leadership of the City of San Angelo City Council, Downtown Development Commission, and City Staff. Special acknowledgment is given to the following participants in this process.

City of San Angelo City Council
San Angelo Downtown Development Commission
City of San Angelo Planning and Development Services
City of San Angelo Development Corporation
Downtown San Angelo, Inc.
San Angelo Chamber of Commerce
Discovery Resources
Goodfellow Air Force Base
San Angelo Tax Increment Reinvestment Zone Board
San Angelo Design & Historic Review Commission
San Angelo Parks & Recreation Board
San Angelo Museum of Fine Arts
San Angelo Health Foundation
Shannon Hospital
First Financial Bank
Pearl on the Concho
Texas Bank

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1.0 Prioritizing San Angelo's City Center

Distinguishing San Angelo within the Mid-Sized Texas Cities Marketplace

With its existing urban framework, historic buildings and cultural assets, San Angelo's City Center is well positioned to capitalize on its potential as a vibrant and dynamic mixed-use center of employment and entertainment. A stronger City center experience will benefit the regional profile of San Angelo as an employment and investment location and create momentum that will expand the City's overall tax base, economic profile, quality of life, and identity as a distinct place rich with character. This potential for change in San Angelo is evidenced through countless examples of urban regeneration across the Country in large and small markets alike. With this said, the marketplace for new construction at commercial densities in San Angelo is small enough that every zoning decision and incentive placement that encourages employment, loft housing, entertainment and certain restaurant uses away from the city center should be carefully considered as such development dilutes the city center's ability to achieve these goals.

To accomplish this strengthening of San Angelo's city center, a Master Development Strategy was prepared by Catalyst Urban Development, the City's master development consultant. Adopted by the City Council, the 2013 analysis suggests public and private partnerships be focused on three specific infill development types – workplaces, restaurants and housing.

A thought leader in modern urban studies and planning, Jane Jacobs famously remarked "*you can't rely on bringing people downtown, you have to* put *them there.*" The development priorities proposed for San Angelo's city center are rooted in the concept that a thriving city center experience requires daytime population (workforce), nighttime population (housing), and entertainment (restaurants and music venues) that will put people in the city center. While there are other worthwhile uses that can also strengthen the city center, these three priority uses were focused upon due to their relative simplicity to execute and the driving market factors identified in the Report *(see pages 2-5 in the Analysis for discussion on primary economic drivers; see* *pages 6-15 on analysis of San Angelo's trade area; see pages 16-22 for programming summary for each use; see pages 38-57 for redevelopment concepts for each use).*

This update to that master development strategy applies additional detail as to the specific implementation of these concepts that incorporate the following efforts and suggestions.

1.1 Stakeholder Feedback

Building upon the goals set forth in the Downtown Development Strategies report, the City's master development consultant held a series of meetings with City Center stakeholders to both discuss these goals and refine them as appropriate towards this consolidated City Center Redevelopment Strategy.

The following summarizes the input gathered from these discussions between representatives of Catalyst Urban Development and representatives from San Angelo's City Center business and community leaders. In each meeting, Catalyst communicated the task and results of the previous effort, outlined the projected growth and potential City Center development identified, and solicited comment and feedback regarding prioritizing this growth-related development in the City's core.

Stakeholder response was generally positive and supportive of workplace, restaurant, and housing development in the City Center. While thoughts on methodology differed slightly between groups, conversations identified an overwhelming desire for a concentrated development effort that further identifies key locations where development can occur, related investment scenarios characterizing the cost and economic gap to accomplish such projects, and identification and education of public financing tools that could fill such economic gaps related to new development and redevelopment in an urban format. Both this stakeholder feedback as well as that gained from the Downtown Development Commission underscored the importance of and need for the identification of potential funding sources that will allow new development of scale to occur in San Angelo's City Center. This information was used to help refine the strategy contained in this report.

<u>Group 1: Downtown San Angelo Inc. (Del Velasquez and Brenda Gunter)</u>

Downtown San Angelo Inc communicated support for new workplace, housing, and restaurant development Downtown. A preference for housing infill in existing historic buildings was identified, as well as desire for a lifestyle center with spa and restaurant north of the Concho River. The following bullet items provide an overview of the discussion:

- San Angelo is a member of the "Main Street" City program.
- There is money available for the renovation of non-certified historic buildings built 1936 onward as defined by Downtown San Angelo Inc.

- Concern was expressed for the need for grocery and neighborhood retail that would be created housing units be created in the City Center. They identified this as a future focus of economic development subsidy.
- Downtown San Angelo Inc's preference for prioritizing the redevelopment of older buildings was discussed. Once the challenges associated with such renovation were also discussed, there was a consensus that new housing of any type within the City Center was desirable and that special attention should be paid to incentivizing the reuse of existing buildings along the way.
- Downtown San Angelo Inc. expressed its desire to be included in any City-involved discussions related to City Center development, redevelopment, and related policy affecting such development.
- The historical role of key individuals within prior redevelopment efforts was discussed, and how this lead to Downtown San Angelo Inc's existence and ongoing relevance. Such successes were discussed as being key to be communicated in such a manner as to identify a foundation of prior successes that new development may be encouraged to build upon.
- Expressed need for clarity and transparency in the development of a City-sponsored plan and program for getting projects done in the City Center.
- Expressed need for education on benefits of HUD financing mechanisms, what HUD projects looks like (what can get accomplished), and general education on potential for HUD funds.
- Discussion on the need to re-examine the TIRZ due to the belief it was not set up to be catalytic and most efficient.
- Education on NMTC and its applicability might help facilitate streetscape improvements where there are gaps. A PID for maintenance could be included in the program and plan for development Downtown.
- Recognize one of the City's best assets is the river and believe the highest and best use of land along the river is commercial facilities that support a public waterfront with hotel , dining uses and other nighttime uses in addition to the proposed residential infill.

Downtown San Angelo Inc. provided the following market updates:

- The "townhouse hotel" closed the week of 1/19 with tentative plans for redevelopment into a mixed-use building with retail on the ground floor and condos and hotel uses above. The new owner is a hotelier out of Houston who intends to work with ArchiTexas, a design firm in Austin, to realize the improvement of the historic hotel building.
- A potential new owner has Harry's Food Store, located on Towhig, under contract. There are plans to convert the building to office and parking uses.

<u>Group 2: Discovery Resources (Randy Gill) & Goodfellow Air Force Base)</u>

Energy sector and Goodfellow AFB representatives communicated a positive employment market outlook for San Angelo and support for new workplace, housing, and restaurant development in the City Center. A preference for an organized City Center workplace marketing effort and housing infill was identified. The following bullet items provide an overview of the discussion:

- 2,600-3,000 students are training at Goodfellow AFB at any given time, with older folks and families tending to live off base. Related housing demand for families and single folks is roughly 2,000 households. Monthly housing allowances, updated annually in January, have been published for 2015 at http://goodfellowhousing.com/bah.php
- Air Force has awarded a HRMA, with the goal to justify building another 96 houses on AFB-owned land.
- The Air Force will work with area housing management groups to develop rental partnership agreements that eliminate deposits and credit checks from the rental process for military personnel, as well as reserve a certain number of units for military personnel on a referral basis.
- The oil and gas industry draws a radius of 60 miles around its production facilities, restricting the distance company-owned vehicles might commute-in on a daily basis. This in turn might limit the number of Energy Sector production employees living in the City Center. The energy sector houses two functions, operations companies which make sense In the City Center and then the industrial side which will always be outside of the City Center. There is significant potential for officing management companies In the City Center, as well as their supporting technical services - smaller companies that may require executive suite style offices. These smaller office users have been frustrated with lack of appropriate, available space in San Angelo through the last boom period. A lack of organized brokerage efforts identifies need for concentrated effort in the City Center.
- Goodfellow has synergies with ASU for things like language classes, P4 partnerships, and cultivates synergies and initiatives for efficiency (refuse and emergency managers are some examples).
- Goodfellow has desire for new missions and growth and is identifying this in their long-range plan for federal consideration. They have capacity and desire to add a training program that could bring an additional 3,000 trainees. The longevity of Goodfellow is secure in that there is a lot of existing expensive infrastructure on-base. The existing investment represents at least $400/SF, and with 500,000 SF currently, that translates to a $200,000,000 facility. Even with this

security, water and affordable housing are huge concerns that might limit the base's growth moving forward.

- The concept/potential to purchase insurance at a discounted rate, as part of a pool, is appealing as a City Center office user.
- Office-related needs In the City Center include meeting spaces, conference room space, and convenient/accessible parking.
- There is frustration with American Eagle as exclusive airline carrier. Energy sector believes there is a need for more flights, especially since Midland/Odessa has more flights and it gives those cities an economic advantage.
- The Energy sector believes it will take roughly 18 months for prices to return, with the $70 range per barrel a healthy range for the production of new wells.

<u>Group 3: TIRZ Board (Chair, Lee Pfluger), Design & Historic Review Commission (Chair, Ashley Young-Turner), Parks & Recreation Board (Chair, Louie Perez)</u>

Respective City Board representatives communicated support for new workplace, housing, and restaurant development In the City Center. These representatives expressed there is a need to educate City Council on the economic potential of development In the City Center and the public financing mechanisms required that will enable developments of scale to be built. The following bullet items provide an overview of the discussion:

- The TIRZ has been an effective tool for one-off projects, but there needs to be a more holistic approach rather than bits and pieces. A concrete review process with metrics for project eligibility will mitigate projects being awarded on case by case basis.
- There are players in San Angelo that might facilitate the creation of a City Center Investment Fund designed to provide capital for City Center projects that meet certain criteria. The Fund would provide its group of investors a guaranteed return to be paid by the project, but backed by City sources (like TIF funds).
- There is a need for a process champion that facilitates strong communication of City Center development guidelines and expectations.
- In conjunction with the Design & Historic Review Board, the City might identify key/target buildings for first phases of concentrated development effort in the City Center.

<u>Group 4: Chamber of Commerce (President, Phil Neighbors and Vice President, Pamela Miller), City of San Angelo Economic Development (Director, Roland Pena)</u>

The San Angelo Chamber of Commerce and Economic Development Director communicated resounding support for new workplace, housing, and restaurant development In the City Center. The Chamber was unique to identify efforts to encourage connectivity across the Concho, supporting comfortable and safe pedestrian connection across the river, as a facet of future City Center development The following bullet items provide an overview of the discussion:

- Renovation of historic buildings and new building development is desired to support a vibrant City Center for San Angelo, increase the City's tax base and tax revenues, and support tourism and convention efforts in the City Center.
- Increased activity in the City Center should be accompanied with an organized parking strategy that indentifies public parking and convenient access for both local and out of town visitors.
- The Chamber indentified connectivity is an important issue they face when marketing the City to visitors. Ideas that make the walk across the Concho more inviting and comfortable should be considered as part of a City Center development effort.
- Commercial uses along the Concho trail system, like hotel and dining, are desired to support the need for improved connectivity and further appeal to tourists and visitors.

The Chamber representatives provided the following market updates:

- The Pearl on the Concho is undergoing transformative renovation and improvements that include conference supportive meeting space. The lodging and event space is expected to open in the coming months.
- The Angry Cactus (club/restaurant) is expected to submit for permit in the coming months; Twisted Root burger is under construction and expected to open in the coming months.

<u>Group 5: San Angelo Museum of Fine Arts (Director, Howard Taylor), Health Foundation (Chairman, Mike Boyd and President, Tom Early), Shannon Hospital (Facilities Director, Dale and President/CEO Brian Horner, and Board Member Mike Boyd), First Financial Bank (President, Mike Boyd), Texas Bank (President, Gary Cox), and Pearl on the Concho (General Manager, Mikala Brownfield)</u>

Community and Employment leaders in and around San Angelo's City Center communicated support for new workplace, housing, and restaurant development In the City Center. The group identified the need for targeting catalytic projects on specific sites within the City Center, and rallying around those projects to identify economic gaps and realize solutions for filling those gaps. The following bullet items provide an overview of the discussion:

- The Health Foundation has expressed a significant interest in a resort-style destination hotel on or by the river, particularly on land owned by the Foundation.
- These community leaders suggested support for a City Center Development Fund and indicated a process champion might be found in current active players in the City Center.
- This group agrees that uniqueness of place and sense of community identity provide San Angelo's greatest assets. Capitalizing on the City's uniqueness of place to support urban development and draw people to the "historic city center" should be approached holistically and include consideration of land south of the Concho and surrounding the City's existing cultural amenities.
- The museum is the heart of 200 acres designated as a cultural place/district.
- There is a need to understand the assets present in the City Center and the economic impact of preserving and celebrating those assets. The museum wants to be involved with acquiring and transitionally redeveloping/developing the land immediately around the museum (including the depot, river stage and historic fort).
- The is belief that spur for development most likely will not come organically, and an effort should be mounted to reach out to local investors to tap on investment from within the community.
- There is consensus that redevelopment and new development In the City Center presents a unique opportunity for San Angelo to become a true destination in the region and across the State.
- The Master Developer effort should include providing precedent and proposed strategy for a City Center Development Fund that raises private funds accessible to applicants who meet certain project requirements. This Fund would support local and out-of-town parties who recognize the potential for new development to capitalize on the City Center's existing assets.
- There is general belief that a specific, detailed phased development plan must be created to move the effort from concept to built reality.
- This plan would identify sites, development cost, related economic gap need, and proposed solutions for filling the gap. These sites should be north and south of the river.
- This effort must include educating the City Council on public financing mechanisms that can be used to fill the gap. The council should be a player willing to give up a certain amount of future revenue (delayed future revenue) for the realization of the potential of the City Center; failure to capitalize future potential revenue will result in unrealized potential.
- Shannon's representatives confirmed progress of the MOB expansion and identified need to improve wayfinding, make it consistent and/or coordinate

with signage and wayfinding in the City Center. The expansion plan's footprint and parking strategy should be studied for potential synergies with future urban development efforts that will interact with blocks included in the expansion.

1.2 Form-Based Code – *An Enhanced Zoning Concept*

The use of zoning regulations began in the early 20th century in response to urban overcrowding and the intrusion of heavy industry into residential and retail areas. Communities such as San Angelo chose to address the problem by separating incompatible uses and limiting residential density. It is for this reason that commercial and office buildings generally occur in one part of town, houses in another, retail and restaurants in a specific area. This also tended to organize the City through high-speed roadways that are often the sole way for people to travel from one location to another. Because traditional zoning rules often promote low-density development and limited "one-size-fits-all" housing choices, the policies encourage excessive land consumption and automobile dependency. Such zoning can stand in the way of communities seeking to create vibrant, walkable neighborhoods that give residents the option of walking to a store, park or work. And such ordinances can even interfere with a person working from home or operating a home-based business.

In reaction to these new desires, communities nationwide are using **Form Based** zoning codes that accommodate these new market desires. For these opportunities to be best accommodated in San Angelo's City Center, it is recommended the City adopt a Form-Based Code for its City Center zone.

Key Points

Unlike conventional zoning, form-based code offers the following benefits:

- Instead of dictating or limiting activities, a form-based code focuses on such elements as parking locations and limits, building frontages and entrances, window standards, streetscaping and building elevations.

- With form-based code what matters are the relationships between buildings and the street, pedestrians and vehicles, public and private spaces and the size and types of roads and blocks.

- Form-based code can be customized to fit San Angelo's vision for its City Center, be it to preserve and enhance a particular neighborhood's character, dramatically change and improve it, or do a bit of both.

1.3 Simplified Economic Development Facilitation

Currently, there are a range of players in the marketing, coordination and facilitation of economic development in the City Center. To various degrees, these include the following entities:

- City of San Angelo
- San Angelo Development Corporation
- Downtown San Angelo Inc.
- San Angelo Chamber of Commerce
- San Angelo Area Foundation
- San Angelo Health Foundation
- San Angelo Restaurant Association

The existence and efforts of these entities is a strength to build upon. That said, there lacks a coherent strategic plan that organizes these various entities' activities with regard to economic development in the City Center. Parties interested in investing within the City Center are often communicated to by individuals from various entities, and competing concerns can overshadow the underlying interest. If such efforts are not coordinated, these well-meaning activities can work to stifle market interest in the City Center to due to perceived complexity and politic. As such, it is highly recommended that a strategy be executed in which there is a clear structure of coordinated communication across all parties that determines singular responsibility for 1) marketing to potential City Center interests, 2) accumulation and presentation of information pertinent to City Center interests, 3) preparation of business plan for how such interests may implement new investment that includes economic development incentives, and 3) on-going communication and opportunities associated with on-going operations.

2.0 Workplace Infill Development

Promoting New Daytime Population and Employment in the City Center

2.1 Employment Demand

The primary economic drivers in San Angelo's trade area have been identified as the health care sector, ASU, Goodfellow AFB and the energy sector. These four drivers influence the San Angelo employment market in meaningful ways, and provide long-term stability to San Angelo's employment offerings. As the City and its marketing partners devise strategies to attract employment to the San Angelo market, special attention should be paid to the leveraging of these economic drivers towards new and creative employment infill within the City Center.

<u>Demand Characteristics</u>

The full San Angelo employment market has been identified and categorized on page 14 of the Report by industry and percentage of market capture. The following to list identifies the top categories (with their percentages of the total San Angelo workforce) that most easily relate to the type of building space that may be applied in the City Center. Below each category are examples of such employers and primarily taken from the list of the top 20 employers within San Angelo as also identified in the Report.

1. Education services, health care and social assistance — 24.9%
- Shannon Health System
- San Angelo ISD
- Angelo State University
- Baptist Retirement Center
- (Howard College)

2. Professional, scientific, management, administrative, waste management — 7.7%
- Performant DCS/HCS/VFI
- (SKG Engineering; Brockett & McNeel; Devon Energy)

3. Public Administration — 6.7%
- City of San Angelo
- Tom Green County

4. Construction — 5.8%
- Reece Albert
- (Templeton Construction)

5. Finance, insurance, real estate, rental and leasing services — 5.5%
- BlueCross BlueShield of Texas
- (Wells Fargo, First Financial Bank, QualTrust FCU, San Angelo FCU,
- Citizens State Bank, First National Bank of Mertzon, Texas Bank)

6. Information — 3.4%
- SITEL
- Verizon

Potential Synergies

Targeted effort should be made in the analysis of these employment categories to determine synergies in use across other employment categories that could be capitalized in the City Center. For instance, the largest number of employees in SAISD is situated in or adjacent to the City Center. Through strategic analysis, there are a host of related service companies that would benefit by being adjacent to these facilities. The fact that Goodfellow is in close proximity allows such synergies to be realized when attracting related companies to the City Center. And providing an intown alternative to the location of flex office and light industrial facilities on the north side of the City Center are another area of opportunity.

The addition of these new employees the City Center will bring regional benefits to the City Center by increasing the daytime population and related impacts including added restaurant and housing demand. As such, specific research should be made identifying such potential across current employers within San Angelo to devise a strategy tailored to attracting these businesses to move into the City Center--San Angelo's only true urban place.

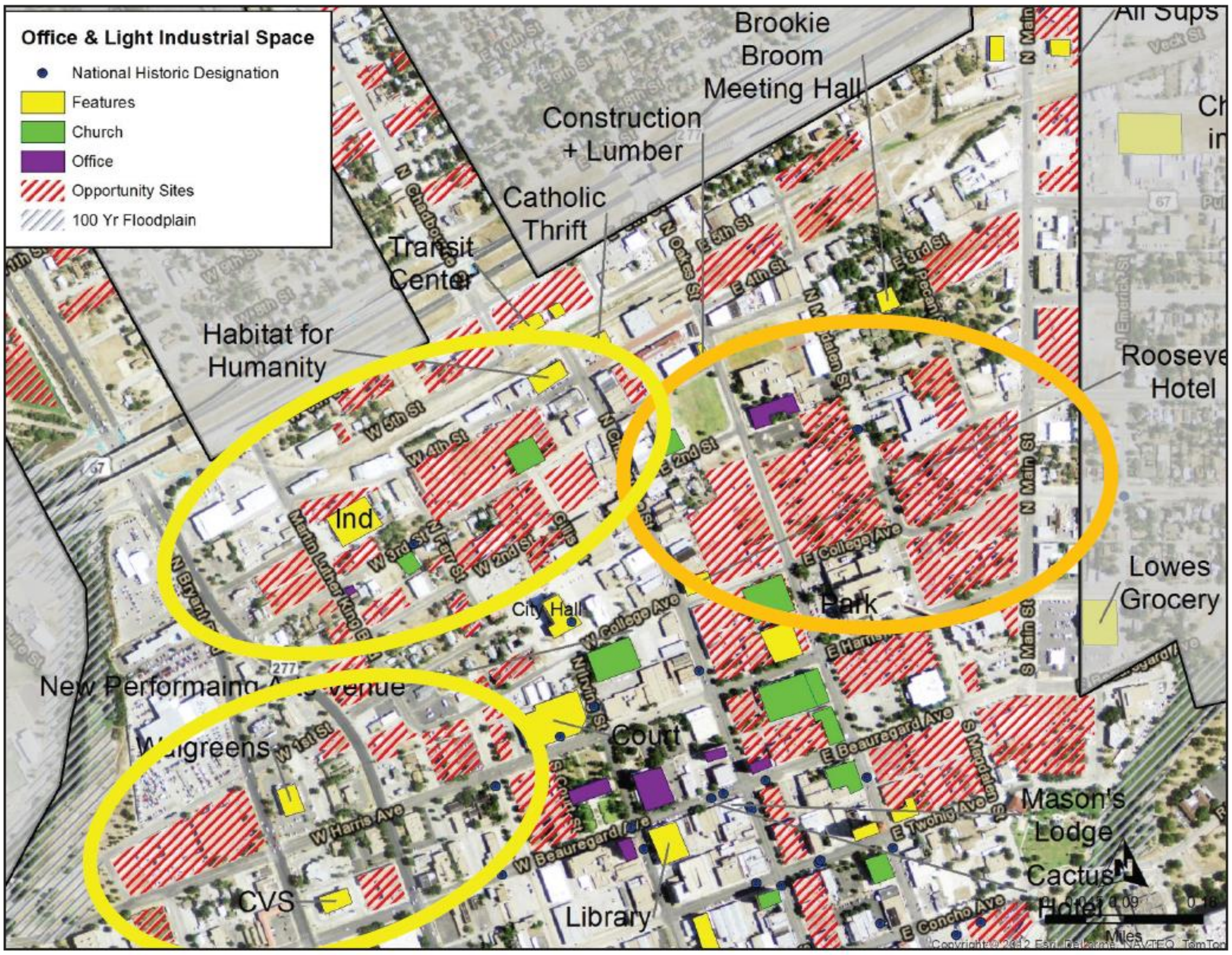
This is not to say that employment along the Loop or on the periphery of the City is negative. But, by orchestrating a policy to move businesses that are strategic to building synergies in the City Center allows a stronger collective impact than these same companies would provide simply coexisting with other land uses on the periphery. From the City's perspective, such infill development in the City Center will introduce new daytime population that will further momentum in retail, service and restaurant investment, and will bring the added recognition that will strengthen San Angelo's City Center identity as a regional center of mixed-use experience that can advance the City's brand itself.

2.2 Workplace / Workforce Infill Strategy

Opportunity Sites

The opportunity sites analysis in the Downtown Master Development Strategy highlights four areas for new workforce development projects. First, it identifies the existing office buildings in San Angelo to be equipped to handle more conventional office infill and should be marketed as such (albeit many are in need of improvement). Second, there are underutilized properties on the entire north side of the City Center and around the railroad line that can accommodate larger footprint new development in which office may front the street with storage and parking behind. There are additional opportunities around Shannon Medical Center for new health-science infill development. And finally, it identifies smaller sites along West Harris for infill of single user executive office buildings.

The map below identifies these potential workplace / workforce infill sites based on the physical analysis prepared in the report in which opportunity sites are hatched in red *(see pages 28-42 of the Report for the full analysis leading to the identification of these general City Center opportunity sites).* The yellow circles indicate opportunities for lower density flex office / light industrial infill, which at the time of the report anticipated immediate potential for energy sector uses. The orange circle identifies sites better suited for medium density office uses, including and not limited to medical uses.



<u>Demand Calculations</u>

The market research contained in the City Center Master Development Strategy shows the largest employment sectors, employers, and employment projections over the next 5-8 years. From the period between 2013 and 2023, the Census Bureau and ACS Survey identified an increase of 2,828 jobs in the San Angelo trade area. The report identifies 48% (excluding ASU and energy sector) of these jobs are tied to employment categories that can fill traditional office space. When adding the potential measured at that time for employment growth related to ASU and the energy sector, an additional 5,818 jobs may be added. When combined, a total of 8,646 jobs have been reported as having possibility during this time period, with 48% (4,159 jobs) being office-oriented (as the capture pool for consideration in the City Center). Applying a potential capture rate of 25% as the goal for attracting such new growth in the City Center, and utilizing building area calculations associated with this number of people, the Report identified 220,936 sf of potential building space through 2025.

<u>Programming</u>

For the purposes of calculating project applications, the following programming assumptions have been identified.

Traditional Office Space (30% of demand:	66,280 sf
Light Industrial / Flex Office (70% of demand):	154,655 sf

Note: At the time of this update, it is unclear how much of the baseline demand has filled in across the larger San Angelo trade area or within the City Center area in particular. It is recommended that the City and Chamber identify this amount of office absorption through measurement of building permits and change in area office vacancy rates to further refine this opportunity analysis.

2.3 Zoning Modification

In general, zoning in the City Center zone is supportive of the type of workforce and office uses anticipated in the Downtown Redevelopment Strategy. That said, it is recommended the City enact a form-based code to ensure the urban form of the City Center is preserved and enhanced. Special care should be taken in the form based code to address parking both in terms of the amount required by use and ability to utilize on-street parking as supply.

2.4 Two Investment Scenarios

There are two types of investment potential associated with Workplace / Workforce infill within the City Center. These two approaches are summarized on the next several pages for review and consideration.

a. Project Lease – Reconfiguration of Outdated Tenant and Common Space

The acquisition, renovation and lease to third-party tenants in existing office or light industrial space within the City Center provides needed daytime population within the core, and provides opportunities to upgrade existing older facilities and generate a stronger tax base. This carries with it the second highest cost of the three options, and generates the need for economic gap financing. This scenario is illustrated in the photos above, and the economic implications are shown below.

Example 1: Continental Building

<u>Cost Model</u>

Program:	10,000 sf
Development Cost (Renovation $50/sf):	$500,000
Tenant Improvement Allowance ($20/sf):	$200,000
Current Lease Rates:	$15/sf
Operating Costs:	$8/sf
Return on Costs Threshold:	8.5%
Supportable Building Acquisition Price:	$160,000

<u>City's Role</u>

As part of this process, the City's role is simply to communicate this opportunity to an existing property owner or prospective building tenant. As part of this dialogue, the City would communicate the available incentive program and related qualifying factors. The City's role should not be to act as a redevelopment principal that actively purchases buildings or properties for the purpose of redevelopment unless such activities are the result of careful strategy and consideration as these efforts can tend to upset the local investment market due to the unknowns created by such public action.

<u>Analysis Behind Cost Model</u>

1. **Identify Cost to Improve the Asset to Achieve Market Level Rent**
   For purposes of this analysis, the building shell and common areas were assumed to be improved with a cost of $50 per net rentable square foot and the cost for the Tenant Finishes Improvements were quantified at $25 per net rentable square foot.

2. **Define Current Market Lease Rates for Similar Class Improved Assets:** Through a thorough review of the immediate market it was determined that rental rates could be increased by $6 per square foot.
3. **Establish an Operating Budget to Operate the Asset as Stabilized:** The operating budget could be reduced by $1.25 psf through a more efficient and modern design of the building systems.
4. **Calculate the Net Additional Operating Income:** Net Additional Operating Income is Additional Revenues plus Operating Expense Savings. This was calculated as $7.25 psf.
5. **Define Return on Costs Threshold:** The Return on Costs is the unlevered rate of return required for the risk profile of the investment. This was determined to be 8.5%.
6. **Calculate the Supportable Building Acquisition Cost:** This is the Additional Net Operating Income divided by the Return on Costs Threshold. This was calculated as approximately $340,000
7. **Determine the Financial Gap:** This calculation will be determined by the Total Sales Price less the Supportable Building Acquisition Cost.

Note: If there is a gap generated in this scenario, there are a range of tools that may be utilized to close the gap. This combination of funding sources should be tailored to the specific project and developer/sponsor. The full collection of gap financing mechanisms is presented in the *Development Incentives* section of this document; the scenario described above is for illustration purposes.

b. Project Development – New Construction of Class A Building

The development of new owner-occupant office and employment uses within the City Center provides the largest opportunity for tax base growth, but at the highest cost and need for economic gap financing. The implications of this scenario are shown below.

Example 1: W. 4th Street Warehouse Site

<u>Cost Model</u>

Program:	10,000 sf
Development Cost (New Construction $145/sf):	$1,450,000
Tenant Improvement Allowance ($20/sf):	$200,000
Current Lease Rates:	$18/sf
Operating Costs:	$8/sf
Return on Costs Threshold:	8.5%
Economic Gap Requiring Incentive:	$675,000

<u>City's Role</u>

As previously discussed, the City's role is simply to communicate this opportunity to an existing property owner or prospective building tenant. As part of this dialogue, the City would communicate the available incentive program and related qualifying factors. The City's role should not be to act as a redevelopment principal that actively purchases buildings or properties for the purpose of redevelopment unless such activities are the result of careful strategy and consideration as these efforts can tend to upset the local investment market due to the unknowns created by such public action.

<u>Analysis Behind Cost Model</u>

1. **Identify Cost to Acquire and Improve the Asset to Achieve Market Level Rent**
   For purposes of this analysis, the land was assumed to be acquired at $200,000 and the Cost for the Shell and Tenant Finishes Improvements were quantified at $145 per net rentable square foot.
2. **Define Current Market Lease Rates for Similar Class Improved Assets:**
   Through a thorough review of the immediate market it was determined that rental rates are in the $18 psf range

3. **Establish an Operating Budget to Operate the Asset as Stabilized:**
   An operating budget of $8 psf has been established to operate a building of this quality.
4. **Calculate the Net Operating Income:**
   Net Operating Income is Revenues (Market Lease Rates) less Operating Expenses. This was calculated as $10 psf.
5. **Define Return on Costs Threshold:**
   The Return on Costs is the unlevered rate of return required for the risk profile of the investment. This was determined to be 8.5%.
6. **Calculate the Supportable Cost:**
   This is the Net Operating Income divided by the Return on Costs Threshold. This was calculated as approximately $1,175,000
7. **Determine the Financial Gap:**
   This calculation is the Total Development Costs (step 1) less Total Supportable Costs (step 6). This derived a gap of approximately $675,000

Note: There are a range of tools that may be utilized to close the gap described above and should be tailored to the specific project and developer/sponsor. The full collection of gap financing mechanisms is presented in the *Development Incentives* section of this document; the scenario described above is for illustration purposes.

2.5 Public/Private Partnership – These investment scenarios would culminate in a public/private partnership and development agreement that defines the gap financing concepts necessary to implement the development, and define the timeframes for implementation and related roles of the City, land owner, and developer/tenant.

2.6 Small Business Advancement

As with most communities across Texas, small business interests reflect the majority of economic development activity that occurs in the San Angelo workplace market. As such, these business should be focused upon and facilitated to all extents possible. Furthermore, the locating of small businesses in the close geographic context of the City Center allows inherent synergies to develop over time that include support of the restaurant, civic and cultural uses Downtown, and will lead to more identifiable and visual activity that will strengthen the City Center's regional profile and identity through sheer critical mass of use and activity. As such, the following tasks are suggested.

<u>Leveraging the Angelo State University Small Business Development Center</u>

The stated mission of the Angelo State University Small Business Development Center is to "foster small business success in the ten counties that comprise the SBDC service area." Having counselors that are certified business advisors in such areas as marketing, human resources, financial analysis, business planning, financing and others, the Center works to accomplish these goals through counseling, technical assistance, training seminars and workshops, advocacy, research studies, resource information and coordination with the U.S. Small Business Administration and other community business support services.

As this facility is located in the City Center, it is recommended they become part of a small business economic development strategy the City develops that helps better utilize the SBDC's resources to both locate and retain such businesses in the City Center.

Operating Incentives

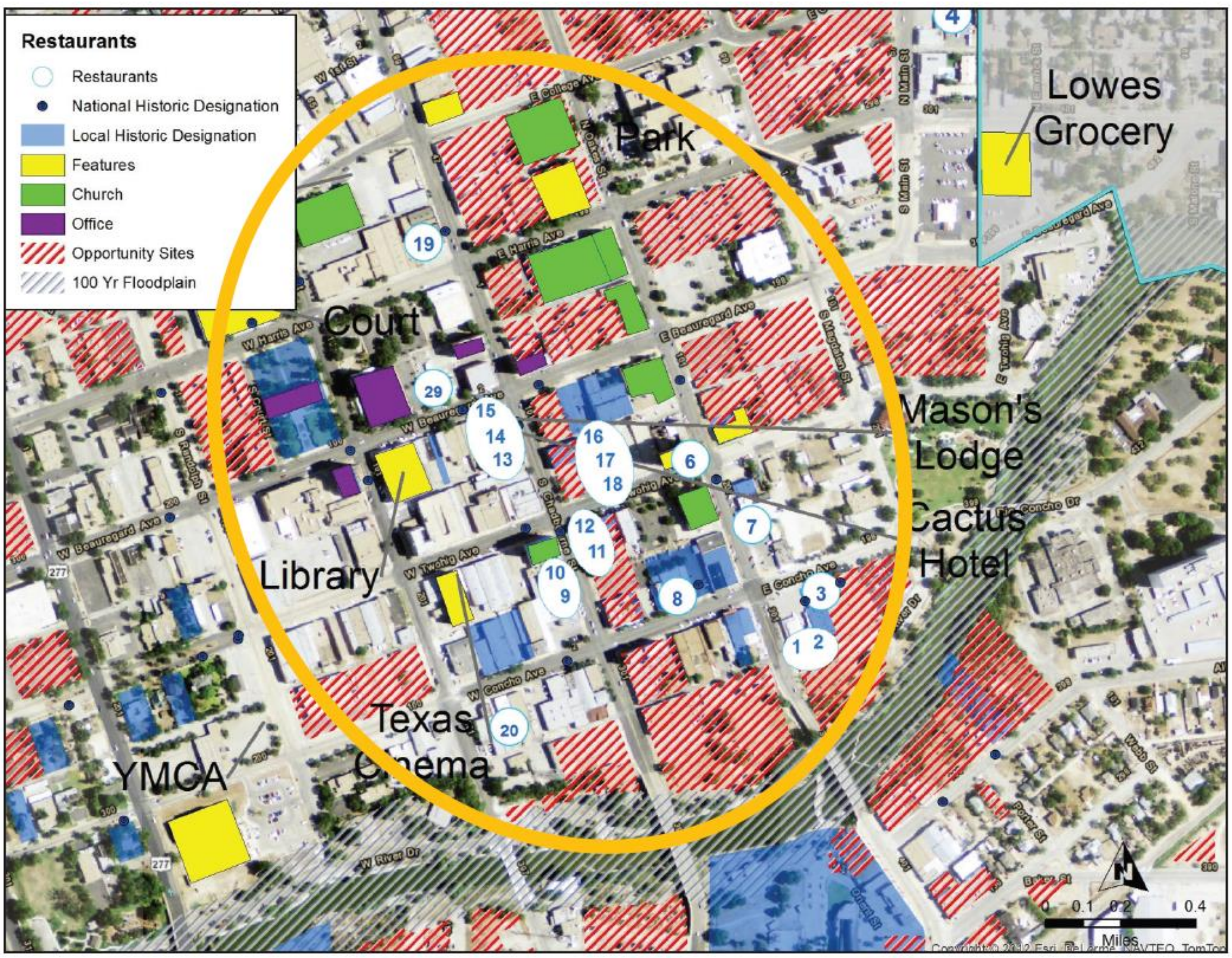
In addition to the benefits provided by the SBDC, it is recommended the City work in conjunction with its marketing partners to devise economic development strategies designed to decrease operating expenses, increase efficiency, and add to a stronger workplace experience in the City Center specifically. These efforts would be economically incentivized to achieve initial catalytic investment. (see *Development Incentives* later in this report).

3.0 Restaurant Infill Development

Promoting Expanded "Eat-er-tainment" Options in the City Center

3.1 Restaurant Infill Strategy

The Downtown Master Development Strategy identified demand for six new restaurants over the next 10 years. *(see page 25 of the report for the demand analysis).* The Strategy suggests locating these restaurants along and near Chadbourne Street to create the critical mass needed for a more defined restaurant district. The map below identifies potential restaurant infill sites based on the physical analysis prepared in the report in which opportunity sites are hatched in red *(see pages 28-42 of the Report for the full analysis leading to the identification of these general City Center opportunity sites).* The specific sites identified for potential restaurant investment are targeted within the orange ellipse. These are presented for informational and programming purposes only and should not be considered mandates for redevelopment or acquisition.



Programming and Implementation

As part of the implementation effort, the following four steps are recommended.

a. **Strategized Programming** -- The City and its City Center marketing partners, in coordination with existing restaurant owners, should document current cuisine options, and encourage a more diverse restaurant offering the City Center through addition of new restaurant types.
b. **Coordinated Oversight** -- Through this process, the City should help facilitate the creation of a City Center Restaurant Association under the concept that a more coordinated and diversified restaurant offering in the City Center will have a larger market impact and increase restaurant sales.
c. **Marketing Campaign** -- Working with this Association, the City and its City Center marketing partners should create a marketing campaign for the City Center's restaurant and entertainment establishments. Simultaneously, this group would prepare simple tenant improvement and signage criteria aimed to create a stronger visual presence for restaurants In the City Center.
d. **Incentive Policy** -- The strategy to attract new restaurants should include economic incentivizes if necessary to achieve initial catalytic investment.

3.2 Zoning Modification

In general, zoning in the City Center zone is supportive of the type of restaurant uses anticipated in the Downtown Redevelopment Strategy. That said, it is recommended the City enact a form-based code to ensure the urban form of the City Center is preserved and enhanced. Special care should be taken in the form based code to address parking both in terms of the amount required by use and ability to utilize on-street parking as supply.

3.3 Three Investment Scenarios

In an effort to inform item (d) above, there are three investment scenarios that are summarized over the next several pages for further review and consideration.

a. Project Development – New Construction

The development of new owner-occupied restaurants within the City Center provides the largest opportunity for tax base growth as it combines new construction with operational gains. It also triggers the highest cost and need for economic gap financing in certain cases. A high-level summary of the potential economic gap is depicted below. More detailed financial analysis will occur in a later phase of this work effort.

Example 1: W. Concho Avenue Site

Cost Model

Program:	5,000 sf
Acquisition Cost (assumption):	$200,000
Shell Development Cost (New Construction $145/SF):	$725,000
Tenant Improvement Allowance ($125/SF):	$625,000
Current Lease Rates:	$15.00/SF
Operating Costs (Non-reimbursable CAM):	$1.25/SF
Return on Costs Threshold:	8.5%
Economic Gap Requiring Incentive:	$740,000

City's Role

As previously discussed, the City's role is simply to communicate this opportunity to an existing property owner or prospective building tenant. As part of this dialogue, the City would communicate the available incentive program and related qualifying factors. The City's role should not be to act as a redevelopment principal that actively purchases buildings or properties for the purpose of redevelopment unless such activities are the result of careful strategy and consideration as these efforts can tend to upset the local investment market due to the unknowns created by such public action.

Analysis Behind Cost Model

1. **Identify Cost to Acquire and Improve the Asset to Achieve Market Level Rent**
   For purposes of this analysis, the land was assumed to be acquired at $200,000 and the Cost for the Shell and Tenant Finishes Improvements were quantified at $270 per net rentable square foot.

2. **Define Current Market Lease Rates for Similar Class Improved Assets:**
   Through a thorough review of the immediate market it was determined that rental rates are in the $15 psf range
3. **Establish an Operating Budget to Operate the Asset as Stabilized:**
   An operating budget of $1.25 psf has been established to operate a building of this quality.
4. **Calculate the Net Operating Income:**
   Net Operating Income is Revenues (Market Lease Rates) less Operating Expenses. This was calculated as $13.75 psf.
5. **Define Return on Costs Threshold:**
   The Return on Costs is the unlevered rate of return required for the risk profile of the investment. This was determined to be 8.5%.
6. **Calculate the Supportable Cost:**
   This is the Net Operating Income divided by the Return on Costs Threshold. This was calculated as approximately $808,000
7. **Determine the Financial Gap:**
   This calculation is the Total Development Costs (step 1) less Total Supportable Costs (step 6). This derived a gap of approximately $740,000

Note: There are a range of tools that may be utilized to close the gap described above and should be tailored to the specific project and developer/sponsor. The full collection of gap financing mechanisms is presented in the *Development Incentives* section of this document; the scenario described above is for illustration purposes.

b. Project Lease Requiring Acquisition and Renovation (Single Use)
The acquisition, lease and renovation of existing building stock within the City Center for restaurant uses provides needed activity and opportunities to upgrade existing older facilities that generate a stronger tax base. This triggers the second highest cost of the three options, and may generate the need for economic gap financing. The scenario below outlines this need.

Example 2: S. Chadbourne Street Building (Twisted Root)

<u>Cost Model</u>

Program:	5,000 SF
Shell Development Cost (Renovation $30/SF):	$150,000
Tenant Improvement Allowance ($90/SF):	$450,000
Current Lease Rates:	$15/SF
Operating Costs (Non-reimbursable CAM):	$1.25/SF
Return on Costs Threshold:	9.0%
Supportable Building Acquisition Price:	$165,000

<u>City's Role</u>

As previously discussed, the City's role is simply to communicate this opportunity to an existing property owner or prospective building tenant. As part of this dialogue, the City would communicate the available incentive program and related qualifying factors. The City's role should not be to act as a redevelopment principal that actively purchases buildings or properties for the purpose of redevelopment unless such activities are the result of careful strategy and consideration as these efforts can tend to upset the local investment market due to the unknowns created by such public action.

<u>Analysis Behind Cost Model</u>

1. Identify Cost to Improve the Asset to Achieve Market Level Rent
For purposes of this analysis, the building shell and common areas were assumed to be improved with a cost of $30 per net rentable square foot and the cost for the Tenant Finishes Improvements were quantified at $90 per net rentable square foot.

2. Define Current Market Lease Rates for Similar Class Improved Assets:
Through a thorough review of the immediate market it was determined that rental rates are in the $15 psf range.

3. Establish an Operating Budget to Operate the Asset as Stabilized:
An operating budget of $1.25 psf has been established to operate a building of this quality.

4. Calculate the Net Additional Operating Income:
Net Additional Operating Income is Additional Revenues less Operating Expenses. This was calculated as $13.25 psf.

5. Define Return on Costs Threshold:
The Return on Costs is the unlevered rate of return required for the risk profile of the investment. This was determined to be 9.0%.

6. Calculate the Supportable Building Acquisition Cost:
This is the Additional Net Operating Income divided by the Return on Costs Threshold. This was calculated as approximately $165,000

7. Determine the Financial Gap:
This calculation will be determined by the Total Sales Price less the Supportable Building Acquisition Cost, as well as other unforeseen costs such as primary infrastructure upgrades, etc.

C. Project Lease Requiring Acquisition and Renovation (Mixed-Use)

The acquisition, lease and renovation of existing building stock within the City Center for restaurant uses below and office uses above provides needed activity and opportunities to upgrade existing older facilities that generate a stronger tax base while providing additional streetscape activity. This triggers the highest cost of the three options, and may generate the need for economic gap financing. The scenario below outlines this need.

Example 3: S. Chadbourne Street Building (core area)

<u>Cost Model</u>

Program:	12,000 SF
Shell Development Cost (Renovation $45/SF):	$540,000
Tenant Improvement Allowance ($75/SF):	$900,000
Current Blended Lease Rates:	$16.50/SF
Blended Operating Costs (Non-reimbursable CAM):	$4.65/SF
Return on Costs Threshold:	9.0%
Supportable Building Acquisition Price:	$140,000

City's Role

As previously discussed, the City's role is simply to communicate this opportunity to an existing property owner or prospective building tenant. As part of this dialogue, the City would communicate the available incentive program and related qualifying factors. The City's role should not be to act as a redevelopment principal that actively purchases buildings or properties for the purpose of redevelopment unless such activities are the result of careful strategy and consideration as these efforts can tend to upset the local investment market due to the unknowns created by such public action.

Analysis Behind Cost Model

1. Identify Cost to Improve the Asset to Achieve Market Level Rent

For purposes of this analysis, the building shell and common areas were assumed to be improved with a cost of $45per net rentable square foot and the cost for the Tenant Finishes Improvements were quantified at $75 per net rentable square foot. \

2. Define Current Market Lease Rates for Similar Class Improved Assets:

Through a thorough review of the immediate market it was determined that rental rates are in the $16.50 psf range with the blended of uses.

3. Establish an Operating Budget to Operate the Asset as Stabilized:

An operating budget of $4.65 psf has been established to operate a building of this quality and blending of uses.

4. Calculate the Net Additional Operating Income:

Net Additional Operating Income is Additional Revenues less Operating Expenses. This was calculated as $11.85 psf.

5. Define Return on Costs Threshold:

The Return on Costs is the unlevered rate of return required for the risk profile of the investment. This was determined to be 9.0%.

6. Calculate the Supportable Building Acquisition Cost:

This is the Additional Net Operating Income divided by the Return on Costs Threshold. This was calculated as approximately $140,000

7. Determine the Financial Gap:

This calculation will be determined by the Total Sales Price less the Supportable Building Acquisition Cost, as well as other unforeseen costs such as primary infrastructure upgrades, etc.

3.4 Public/Private Partnership – These investment scenarios would culminate in a public/private partnership and development agreement that defines the gap financing concepts necessary to implement the development, and define the timeframes for implementation and related roles of the City, land owner, and developer/tenant.

4.0 Housing Infill Development

Promoting the Expansion of a Nighttime Population in the City Center

4.1 Housing Infill Strategy

The addition of urban housing units within the City Center is fundamental to achieving the activity and reinvestment specified in the City of San Angelo's various policy statements regarding its City Center. Such housing infill brings three benefits to the City Center. First, it delivers a nighttime population base that is present to frequent City Center restaurants and retail. Second, it adds new building massing that has a strong visual impact on the City Center's building form. And, the addition of housing allows the City Center's competitive position to be strengthened as it expands its use offering (while also combining with the first two benefits described here).

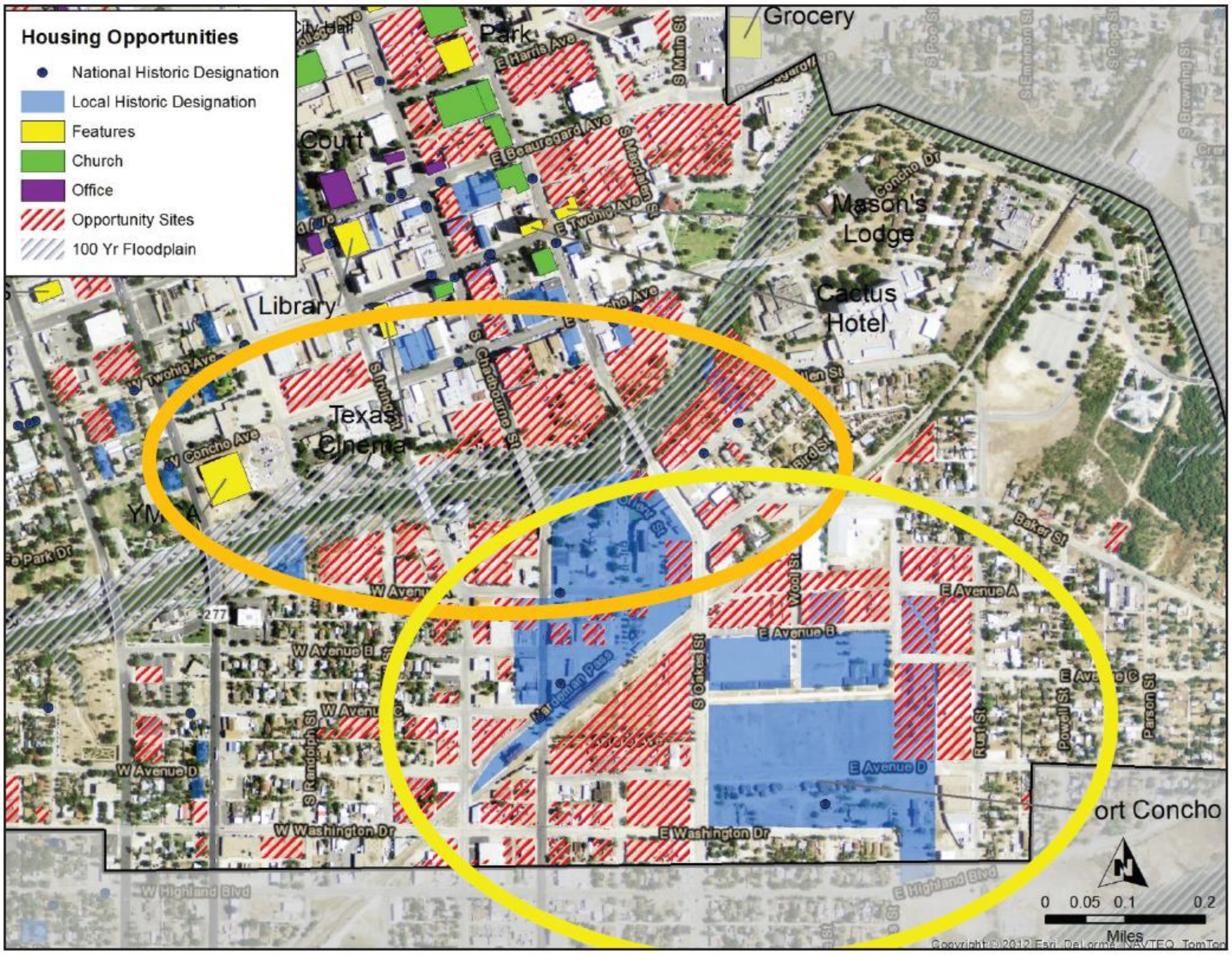
a. Housing Infill Concept

The Downtown Master Development Strategy has identified two areas suitable for immediate infill of various residential products within the City Center. The neighborhoods surrounding the Arts Walk and Historic Fort Concho are ripe for lower density infill development that includes small lot single-family, attached single-family and townhomes, and lower density multifamily on primary corridors. The properties along the Concho River hold immediate potential for the infill of medium and higher density multifamily development, so long as these are implemented utilizing a higher quality standard of exterior masonry materials and architectural designs that compliment adjacent City Center structures. The addition of a new residential night-time population will further the goals for strengthened commercial development in the City Center and provide a new population and activity that will help further the City Center's identity as a regional mixed-use destination.

b. Housing Infill Opportunity Sites

The Downtown Master Development Strategy shows potential development areas for medium density housing *(see pages 54-56)*. In the attached plan diagram, the yellow circle highlights lower density housing opportunities that can leverage the nearby cultural and historic amenities towards the creation of a more vibrant in-town community. The orange circle highlights medium density housing opportunities around the Concho River that can leverage this riverfront location to better connect the City Center to the Arts and Historic District, provide new gateways into the City Center, and create a stronger Concho River zone. These are presented for informational and programming purposes only and should not be considered mandates for redevelopment or acquisition.

It should be noted that properties fronting the Concho River are ideally located to allow the creation of a medium density residential community with direct access to the City Center's retail, restaurant and cultural user core, near the City's employment anchors, and focused on strengthening the riverfront experience. Development on both sides of the river will leverage the City's recent investments in the nearby public spaces and artwork, will provide pleasant views both to and from the City Center, and provide a critical mass of ongoing residents that will further support City Center businesses. All developments should be designed to enhance the historic, cultural, and community features of the adjacent areas.



c. Provision of Affordable Housing

The area in and around the City Center currently has ample residential assets that provide affordable housing as defined by HUD. What it is missing is upscale market-rate housing delivered to appeal to the market place identified in the Downtown Master Development Strategy policy. With this said, and over time, once such market rate housing occurs care should be taken to avoid full gentrification in which the lower demographic no longer has the opportunity to enjoy the amenities offered by the City Center lifestyle. And while this scenario would not occur until several thousand new residential units are implemented, it is important to incorporate such a strategy in long term planning goals.

4.2 Housing Infill Programming

The Downtown Master Development Strategy identifies a total projected need of 2,452 new multifamily units over the next 10 years *(see pages 25-27 in the report).* Applying a 25% capture rate and segmenting total households to those that can afford rents that justify new construction, housing demand for the City Center is shown as 613 multifamily units over this same time period. These units would occur in the formats described below.

a. New Development Format

- Involves the new construction of critical mass required for operational efficiencies in one location, as preferred by capital and investment underwriting
- Achieves critical mass of neighborhood on a phase by phase basis
- Requires larger and more complicated land assembly
- Brings with it higher infrastructure and site improvement cost
- Creates easily discernable market comparable for underwriting

b. Renovation Format

- As the buildings in the City Center available for renovation are not large enough to achieve the critical mass of product that new development affords, the renovation format requires multiple sites be assembled to achieve such massing
- By its very nature, renovating historic structures carries higher risk than new construction due to unknown building and site conditions
- Historic renovations helps reclaim existing unique resources within the City Center and allows for special tax credit financing
- Renovation can carry higher cost than new construction on a per unit basis

4.3 Implementation Concepts

In order to realize the investment in and development of the identified housing potential, several steps are recommended.

a. **Land Control** – The City and the San Angelo Health Foundation control key properties identified within the housing strategy. The City should enter into a binding Letter of Intent with a qualified interested developer in which the land is offered for such development.
b. **Regulatory Consistency** – As part of this process, the City would work with the developer to ensure zoning and other regulations are coordinated with project design in a manner that allows such infill urban housing to occur.
c. **Gap Financing** – The City would work with the developer to identify any economic gaps and determine methods and agreements to close these gaps through gap financing techniques.
d. **Public/Private Partnership** – This effort would culminate in a public/private partnership and development agreement that defines the funding and land offering identified above, as well as what the development shall be.

4.4 Cost and Risk Factors

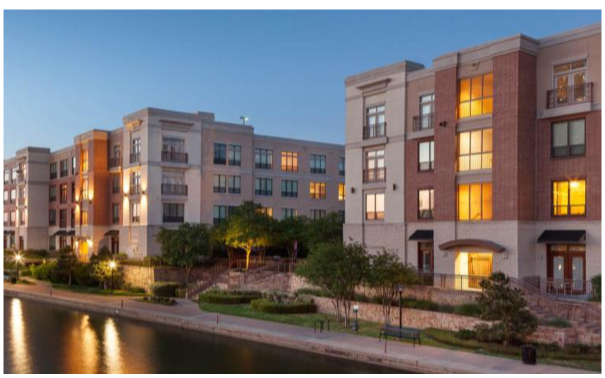
Housing development in and around the riverfront will carry higher site costs and material standards inherent and necessary in this high-visibility area. Such development will also carry costs associated with maintaining a fully connected public access with accompanying improved open spaces. As these higher costs add higher risk to the initial investors, and given such ongoing development will require initial private successes to provide new comparables that future/on-going developments will require, the City and related groups such as the San Angelo Health Foundation may help mitigate this higher cost of development by making their lands available for purchase or ground lease at rates conducive to such initial development. Further, the downtown tax increment reinvestment program (and the other Urban Development Finance Tools identified in this document) should be focused to assist in the payback of certain site improvements that further the larger goal of interconnectivity and public spaces in these areas

4.5 Zoning Modification

As discussed previously, it is recommended the City enact a form-based code that allows a host of activity to occur within the City Center including residential uses. Special care should be taken in the preparation of this code to ensure the urban form of the City Center is preserved and enhanced, urban streetscapes are created and connected throughout the City Center, and there should be special focus on the Concho riverfront becoming more activated as a residential and mixed-use destination.

4.6 Investment Scenario

The development concept of new infill residential uses as identified in the City Center Master Development Strategy *(see page 56)* carries with it an economic gap due to the factors described in the previous item. A high-level summary of this gap is depicted below. More detailed financial analysis will occur in a later phase of this work effort.



Concho Loft Riverwalk Concept

Mixed-Use Urban Streetscape Residential Concept

<u>Cost Model</u>

Program:	180 Apartment Units
Development Cost (New Construction $145/SF):	$21,925,000
Current Lease Rates:	$1.30/SF per month
Vacancy:	7%
Operating Costs:	$.58/SF per month
Return on Costs Threshold:	8.00%
Economic Gap Requiring Incentive:	$3,425,000

City's Role

As previously discussed, the City's role is simply to communicate this opportunity to an existing property owner or prospective building tenant. As part of this dialogue, the City would communicate the available incentive program and related qualifying factors. The City's role should not be to act as a redevelopment principal that actively purchases buildings or properties for the purpose of redevelopment unless such activities are the result of careful strategy and consideration as these efforts can tend to upset the local investment market due to the unknowns created by such public action.

Analysis Behind Cost Model

1. Identify Cost to Acquire and Build the Asset to Achieve Market Level Rent
For purposes of this analysis, the Cost for the Land, Hard Costs and Soft Costs were quantified at $145 per net rentable square foot.

2. Define Current Market Lease Rates for Similar Class Improved Assets:
Through a thorough review of the immediate market it was determined that rental rates are $1.30 psf per month

3. Establish an Operating Budget to Operate the Asset as Stabilized:
An operating budget of $.58 psf per month has been established to operate a building of this quality.

4. Calculate the Net Operating Income:
Net Operating Income is Revenues (Market Lease Rates) less Operating Expenses. This was calculated as $1,480,000

5. Define Return on Costs Threshold:
The Return on Costs is the unlevered rate of return required for the risk profile of the investment. This was determined to be 8.0%.

6. Calculate the Supportable Cost:
This is the Net Operating Income divided by the Return on Costs Threshold. This was calculated as approximately $18,500,000

7. Determine the Financial Gap:
This calculation is the Total Development Costs (step 1) less Total Supportable Costs (step 6). This derived a gap of approximately $3,425,000

Note: There are a range of tools that may be utilized to close the gap described above and should be tailored to the specific project and developer/sponsor. The full collection of gap financing mechanisms is presented in the *Development Incentives* section of this document; the scenario described above is for illustration purposes.

4.7 Public/Private Partnership Scenario

Proposed Concho Loft Riverwalk Project

There are a range of both public and private tools that may be utilized to close the gaps described above through a public/private partnership. For the purposes of illustrating this need for public/private partnering, the terms outlined below reflect a potential development scenario for the implementation of a public/private partnership aimed at financing the financial gap for the loft residential development identified in 4.6 on approximately 6.82 acres of City owned property along the Concho River. Due to the scale of the need identified in this scenario, a range of tools are utilized to reduce initial cash outlay by the City.

(a) The City would enter in to a ground lease of its property with Developer

(b) The City would fund infrastructure improvements (presumably through TIRZ financing)

(c) City would waive all municipal fees

(d) City would issue a tax exemption certificate for the materials required for the Public Infrastructure

(e) The City would provide an abatement of all City taxes for the Project over the initial 24 year lease term

(f) The City would assist the Developer in obtaining an abatement of county taxes over a 15 year period

(g) City would assist the Developer in obtaining all required permits and approvals

(h) Project grant

5.0 City Center Incentives Program

Providing a Framework for Economic Development

5.1 Background and Purpose

The Downtown Master Redevelopment Strategy was adopted by the San Angelo City Council in 2013 as a guide for the revitalization of San Angelo's City Center. The strategy was prepared with the understanding that new and renovated construction in the City Center often poses initial development costs that can be hard to address with traditional market financing or smaller incentive programs such as façade improvement grants and the current Tax Increment Reinvestment policy. *In short, the types of new development and renovation identified in this document will require a greater incentive package than anticipated in the current TIRZ project and finance plan*

In order to incentivize the type of new investment that will make appreciable impact in the City Center real estate environment, it is recommended the City of San Angelo help overcome obstacles to private investment by establishing a City Center Incentives Program as proposed here. This Program has been envisioned to provide for a range of additional incentives in the form of public investments in City Center development projects that are timed with and supportive of private investment if a facet of the development involves creation of public assets that have lasting public benefits and facilitate additional private investment. The purpose of the following City Center Development Incentives Program is to outline the criteria by which the City of San Angelo will consider such additional incentives for City Center development projects.

5.2 Applicable Incentives

The City of San Angelo has allowed a range of development incentives for projects that bring new business and create impactful improvements to the City Center. For the purpose of consolidating these programs into one location, a listing of these incentives by type follows.

5.2.1 Tax Increment Financing

Tax Increment Reinvestment Financing is an effective reinvestment tool that many cities utilize to help induce new activity within an area like San Angelo's City Center. The TIRZ that was created for the City Center contains a project plan that identifies a goal for its resources to be applied equally (1/3) to each of the 3 project types identified in the Master Development Strategy (workforce, restaurant and residential). Furthermore, the TIRZ project plan identifies projects that fall within these targets shall be eligible for the following incentive categories.

a. **Sales Tax on Construction Materials**
   Cost of sales tax on locally purchased construction materials and equipment used on the project.

Note: This category can be difficult to implement and can cause an inefficient review process due to the need to verify purchases in order to provide the reimbursement. As such, it is recommended this item be removed from the TIRZ project and finance plan.

b. Development Fee Reductions
Cost of the following development fees.

- Preliminary Plat, Final Plat, Amended Plat and Replat application fees
- Abandonment of public right of way application fees
- Application fees for release of easements
- Dedication of a public right of way or easement
- Special Use, Conditional Use or Zone Change application fees
- Building Permit fees
- Off site sign demolition permit fees (removal of billboards)
- Permit fees for demolition of any non-historic building or structure
- Water tap fees

c. Secondary Egress
Costs involved in the installation of additional exits if required by International Fire or Building codes.

d. Asbestos Abatement
Costs involved in the abating of asbestos if required by International Fire or Building codes.

e. Sprinkler & Monitored Smoke Alarm System
Costs involved in the installation of a sprinkler or monitored smoke alarm system if required by International Fire or Building Codes.

f. Paving
Costs involved in approved paving (parking areas, driveways, sidewalks, and curbing) if required by City Code or International Fire or Building Codes.

g. Outside Storage Screening
Costs involved in the approved screening of outside storage areas.

h. New Sign Installation
Costs involved in approved new exterior signage.

i. Landscape Installation
Costs involved in approved new drought tolerant landscaping.

j. Facade Improvement
Costs involved in approved facade improvements on existing buildings. Buildings identified as resources in the 2006 and 2009 Historic Resources Survey are strongly encouraged to apply, at no cost to the applicant, for a Historic Overlay through the Design and Historic Review Commission.

k. Property Tax

In addition to the funding package items defined above, TIRZ funds could cover a portion of property taxes. Specifically, the increment between the original tax amount and the new tax amount following improvements beginning with the year a Certificate of Occupancy is granted may be eligible. All projects should not be eligible for this however, and should be based on the evaluation matrix described below.

Note: Most redevelopment projects require far greater incentive funding than the TIRZ can provide as currently structured. It is recommended the strictly defined incentive categories contained in the TIRZ project and finance plan be eliminated in order to focus on simply contributing to worthy projects as defined through the Project Evaluation Matrix below.

<u>Project Evaluation Matrix</u>

While the current TIRZ project and finance plan represents a positive policy goal, there are certain projects that may merit a larger percentage of these funds based on its importance and impact. As such, it is recommended that there be further flexibility built into the TIRZ policy that helps incentivize key new projects based on a project prioritization evaluation matrix. The basis behind such a prioritization matrix is listed below. It is assumed that projects that score at least one point are eligible for TIRZ funding, but only those that score above 4 points may be eligible for greater than the currently anticipated spending limits imposed by current TIRZ policy.

a. Critical Mass of People

The number of people being brought to the City Center by the proposed development
0-10 = 1 pt
10-20 = 2 pts
20-30 = 3 pts

b. Tax Base Generation

The amount of tax base being generated by the proposed development based on anticipated project taxable value
Up to $100,000 in projected value = 1 pt
$100,000 to $500,000 in projected value = 2 pts
Over $500,000 in projected value = 3 pts

c. City Return on Public Investment

The ratio of public dollars spent to private dollars invested
$1 public to $5 private (minimum) = 1 pt
$1 public to between $6 and $9 private = 2 pts
$1 public to over $9 private = 3 pts

d. Bonus – Regional Profile Driver
Certain projects that are seen to help drive the subjective sense of brand identity and regional profile afforded to the City Center may receive 1 point.

Additional Tax Increment Financing Techniques

While the eligible costs identified the in the current TIRZ project and finance plan are a positive use of the TIRZ policy, the following reflects additional techniques to apply tax increment financing that may also be useful.

a. Infrastructure

- Storm sewer
- Sanitary sewer
- Water
- Electrical (overhead service or below grade service)

b. Other Project Costs

- Pre-Development Costs (design and professional service fees, land carry, etc.)
- Special Financing Tool Expenses (HUD Section 108 loan carry costs, New Markets Tax Credits legal expense, Historic Tax Credit legal expense, etc.)

5.2.2 Tax Abatement

At present, the City of San Angelo and Tom Green County may provide personal property and real estate tax abatements for periods of 5 to 7 years. Abatement levels range from 20% to 75% and are determined by the number of new jobs created and/or the amount of new investment in the community.

Project Eligibility

At present, the City of San Angelo requires all companies receiving the abatements must meet a minimum job creation level of 5 new jobs and no less than $250,000 in new valuation in either real estate and/or personal property. Businesses currently eligible for the tax abatements are shown below.

- Manufacturing
- Warehousing/distribution centers
- Home/regional administrative offices
- Data processing centers
- Telecommunications services

It is recommended this current eligibility requirement be amended to also allow such businesses the following to be eligible for such abatement.

- Restaurant and entertainment uses
- Residential developments
- Medical office uses
- Professional and technical office uses
- Retail uses

a. Tax Abatement for Currently Non-Eligible Uses
Tax abatement can be an effective redevelopment tool to help induce new investment activity within San Angelo's City Center. Given the eligible uses do not

align exactly with the focus project types identified in the 2013 Master Development Strategies Report, the City may consider the addition of residential and restaurant/retail uses as eligible projects on a case by case basis depending on the level of impact they bring.

b. Inventory Tax Exemptions

All three taxing districts within San Angelo (City, County, and the San Angelo Independent School District) may provide 100% tax exemptions for inventory and work-in-process that will be shipped outside of the state of Texas and kept on site for less than 175 days. San Angelo is one of the few cities in Texas where all three taxing districts provide this incentive.

c. Tom Green County/San Angelo Enterprise Zone

There are a limited number of projects selected state-wide, so job creation and job quality are important considerations for each project. Companies that are approved as designated projects within the zone are eligible for sales tax refunds of up to $2,000 per new employee over the 5 year period. The total amount of tax refunds is capped at $1,250,000 per company over the 5 years. An additional advantage to the program is a refund of state franchise taxes paid. The company receiving the benefits of the program must agree to hire 25% of their new employees from within the zone.

d. Sales Tax for Economic Development

San Angelo voters approved a 1/2 cent increase in the sales tax for community and economic development projects. The San Angelo Development Corporation has established priorities for manufacturing, warehousing/distribution, telecommunications services, data processing, and home/regional offices. Loans and grants are available for buildings, land, equipment, training, site infrastructure, moving expenses, lease subsidies, and other expansion costs. The minimum job and investment thresholds are 5 new jobs and $125,000 in new investment. Job retention may also be considered. The project must meet state mandated NAICS codes and "a definition of primary employees." Depending upon the wages and types of jobs created, the Development Corporation may provide assistance from $1,000 to $5,000/new job. High skill-high wage jobs may carry a higher incentive level. New and existing companies are eligible. Financial assistance may be provided through the following:

- Grants
- Loan participation(s) with local financial institutions

e. Main Street Design Assistance:

San Angelo was designated a Texas Main Street City by the Texas Historical Commission (THC) in 2005. One benefit of this designation is free architectural design assistance provided by the design staff of the THC's Main Street Program. Property owners within the Main Street district benefit from architectural services for rehabilitating storefronts, entire buildings, sign design and conducting building maintenance projects on historic structures. Services generally include on-site visits, architectural renderings, color selection and other design assistance related to building rehabilitation. These services are coordinated through the Downtown San Angelo, Inc. office.

f. Grow San Angelo Fund

This fund is a partnership between the San Angelo Development Corporation and the Grow America Fund, Inc. (GAF). The Grow San Angelo Fund is an SBA 7(a) guaranty program administered by the National Development Council (NDC). NDC is one of the nation's oldest not-for-profit corporations specializing in community, economic and public facility development. The Grow San Angelo fund is designed to help small businesses within the City of San Angelo obtain the financing required to grow their business. GSA will look to finance healthy, successful small businesses that need expansion capital.

g. Other Assistance

The Chamber of Commerce can provide coordination of services such as incentives, training, financing arrangements, find available land and buildings, and refer business owners to helpful services provided by Angelo State University, Small Business Development Center and the Concho Valley Center for Entrepreneurial Development.

5.2.2 Additional Incentives Program

In addition to the incentives noted in the previous section, there are other programs and activities the City and private developers may undertake to bring new investment in the City Center. A summary of these items and applicability to the City Center follows below.

a. Land Cost

Land assembly can be one of the most difficult challenges associated with development within the City Center. The following programs have been utilized by other communities having similar goals.

<u>Public Land Donation</u>

The City owns key parcels within the City Center area that may be offered to the developer zero or below-market pricing as part of an incentive program to facilitate larger reinvestment.

<u>380 Land Write-Down</u>

As many properties within the City Center are privately owned and consist of existing cash-flowing improvements, the cost of assembly can be a major detriment to the redevelopment of property. Through the use of a 380 Agreement, and funded through the community and economic development funds program or other source.

b. Industrial Development Program (NIFA)

Through the Industrial Development Program, NIFA seeks to encourage the investment of private capital in order to stimulate economic activity, create jobs, provide adequate health care facilities and expand the tax base throughout the state. NIFA has the authority to issue revenue (tax exempt) bonds or other debt instruments to raise funds used to finance eligible projects. The bond issues are repaid from the proceeds received by NIFA from the borrower under a revenue agreement (i.e. lease, loan agreement, installment sale contract, or possibly TIRZ). Generally, the maximum bond amount is $10 million, unless the project qualifies as an "exempt facility" such as solid waste facilities, nonprofit hospitals or nonprofit nursing homes.

5.2.4 San Angelo Economic Development Corporation (COSADC)

COSADC could be leveraged as a financing arm of the City, offering a variety of financial products to assist the growth of City Center businesses, or those relocating to the City Center. For debt, COSADC could initiate various loan sizes on below-market terms that include low interest rates, extended terms, or subordination to senior private financing. Loan amounts would be generally determined based on the number of jobs created by a project and could be limited to no more than 40% of total project cost. In addition to financing of capital improvement projects, financing products would include working capital and loan guarantees for smaller emerging companies, bridge loans, and capital for projects that are positioned to achieve policy goals. For equity, COSADC could work with other community-focused capital groups such as the San Angelo Health Foundation, San Angelo Baptist Foundation and others to fund predevelopment activities associated with approved projects. The COSADC would offer special financing during all stages of approved projects – pre-development, property acquisition, construction, and permanent; with repayment occurring through various loan programs; Federal, State and Local grants; and possibly TIRZ funding augmentation. Potential programs would include those defined below.

a. Pre-Development Incentives

- **Economic Development Grants** to particular projects of merit
- **Pre-Development Loans / Lines of Credit / Recoverable Grants** with up to 12-month terms are available to pay early project pre-development expenses, organizational cash flow needs or leasehold improvements for approved projects.
- **Bridge Loan Program** to provide bridge financing for contract receivables, primarily Federal, State and City grants.

b. Project Development Finance Incentives

- **Acquisition Loans** with up to three-year origination periods are available to pay purchase and closing costs associated with property acquisition.
- **Subordinate Term Loan Program**
  A Subordinate Term Loan program could be created to provide financing to experienced developers of approved commercial, industrial and multifamily

projects of all sizes in the City Center. Through this effort, the City could seek to fill funding gaps in projects that achieve specific policy goals.

- **Partner Bank Guarantee Program** could be made available to any small business or non-profit located in or planning to locate to San Angelo's City Center that is having difficulty accessing conventional financing. Through this program, the City could provide a guarantee of up to 50% of the loan amount through an approved partner bank with a maximum guarantee amount of $250,000.

- **Construction Loans** with up to two-year terms and origination periods are available to pay hard and soft construction costs for rental housing, for-sale housing, community facilities and commercial or mixed-use projects.
- **Mini-Permanent Loans** with up to seven-year terms, amortized over a maximum 12-year schedule, are available to provide permanent financing for rental housing and community facilities.

c. EB-5 Loan Program

The Federal EB-5 program provides an opportunity for prospective immigrants to invest in U.S.-based commercial enterprises, qualifying the investors for residency status. For instance, the City of Dallas has set the minimum investment at $500,000, while other communities have set this at $50,000. For this program to occur, a relationship with a processing entity would be created to form the required "Regional Center" that identifies foreign investors and processes their applications for low-interest senior financing for large-scale, job-creating projects undertaken by strong governmental, corporate or institutional sponsors. The program is under the oversight of the United States Citizenship and Immigration Services (USCIS). Given the global interest in the West Texas energy sector, and for this program to implement, the City and the COSADC would work with its regional West Texas neighbors to form a Regional Center that administers the program.

d. Financial and Technical Assistance

Special assistance could be offered to existing and proposed tenants in the City Center that could include flexible loans and lines of credit with competitive interest rates and minimal closing costs, pre-negotiated and comprehensive group insurance rates (health, life, business, property, etc.). Such a program should be executed in close working relationship with an Economic Development Department for the City of San Angelo.

e. Encourage and Support Non-Profit in addition to For-Profit Developers to ensure all levels of development activity are harnessed through the use of both public and private capital around the City's stated redevelopment vision.

5.2.5 Potential for a 4(a) Corporation

Once the COSADC 4(b) corporation is more effectively leveraged and utilized to incentive City Center development on a larger scale, the City may choose to create an additional ½ cent sales tax based 4(a) corporation with specific focus on the ongoing maintenance of public improvements placed in the City Center. This should not be done until a critical mass of investment is created under the 4(b) efforts however.

5.2.6 Additional Federal Tax Credit, Grant and Loan Programs

There are a range of available tax credit programs that can be used by both public and private developers and building owners to leverage financing. The City can make these programs known to the specific sponsors of approved projects. Some of these programs are identified below.

a. New Markets Tax Credit
New Markets Tax Credit (NMTC) funds community and economic development projects in distressed communities. If eligible, the City may encourage and support the use of such Credits to leverage private-sector equity and loan capital investment into community development projects to stimulate economic growth and create jobs.

b. Low Income Housing Tax Credits
Low Income Housing Tax Credits (LHTC) can be used to deliver affordable housing in the City Center area per specific public policy goals. While these credits are sometime controversial as they are set up to induce affordable housing, many communities realize such housing will occur regardless of public policy and by managing the zoning and communication for such new investment becomes more locally empowering.

c. Historic Rehabilitation Tax Credits
The Historic Rehabilitation Tax Credit program is an invaluable tool to reestablish the former state of City Center structures with a historic designation. They are available at the Federal and State levels.

d. HUD 221(d)(4) AND 223(f) Mortgage Insurance
HUD offers mortgage insurance programs targeted to facilitate the construction of market-rate multifamily and senior living facilities in markets where traditional lending has not been active. There have been recent successful applications of the HUD 221(d)(4) insurance program in which HUD provides mortgage insurance to private banks delivering construction debt. At such projects as The Boulevard, this program was used to allow private developers lower cost financing and the City may work with HUD more proactively to better position such projects to advance its policy goals in the City Center.

e. Economic Development Administration (EDA) investment policy is designed to establish a foundation for sustainable job growth and the building of durable regional economies throughout the United States. This foundation builds upon two key economic drivers - innovation and regional collaboration. Innovation is the key to global competitiveness, new and better jobs, a resilient economy, and the attainment of national economic goals. Regional collaboration is essential for economic recovery because regions are the centers of competition in the new global economy and those that work together to leverage resources and use strengths to overcome weaknesses will fare better than those that do not. EDA encourages its partners around the country to develop initiatives that advance new ideas and creative approaches to address rapidly evolving economic conditions. The City should research the range of grants and assistance available through EDA.

f. Housing and Community Development Act (CDA) is a law designed to encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods. The City may work closely with its community banking partners to identify approved projects that meet its policy goals around the City Center.

6.0 City Center Incentives Application

Providing a Framework for Incentives Consideration

6.1 City Center Incentive Application Process

The City Center Development Incentives Program should apply to requests for incentives to be used in a City Center development project that involves creation of, and investment in, public assets with a lasting public benefit and facilitation of additional private investment. These requests would likely use several of the tools identified above, and should be made available on all qualifying projects.

a. Preliminary Review Process

Prior to consideration by the City Council, parties intending to request City Center Development Incentives would contact the San Angelo Development Corporation (COSADC) prior to submitting their request. Once the developer has completed initial design of the project, the project would be scheduled for design review by the City's Economic Development and Planning Departments, as coordinated by COSADC. The developer would provide a site plan, project imagery and gap financing request in advance of the project review meeting. The development team would attend the project review meeting to present the project and answer questions from City staff.

City staff would attempt to reach consensus regarding any design modifications or economic structuring alternatives with the developer. Once a finalized project proposal is arrived at, COSADC would coordinate the Developer's submission to the Downtown Development Commission.

Note: It is recommended the City spearhead a process aimed at determining such a structure and guidelines for how City Center opportunities are transacted. Due to the complexity involved in this effort and the related challenges presented by a multiple front display to the general marketplace on the part of downtown enthusiasts, it is suggested there be one single source position that serves as the clearinghouse for City Center interests requiring an economic development process. In most cases, this position is held by the economic development department of the respective City. This position would act as facilitator/point of contact to promote additional internal discussion with other parties prior to DDC and/or Council meetings.

b. Submittal Requirements for DDC

After completing the preliminary review process, parties requesting City Center Development Incentives would submit the information listed below for consideration and approval. If the City Manager, or other City Staff designated by the City Manager, determines that additional information is needed in order to undertake the evaluation process, parties requesting City Center Development Incentives must submit such additional information as may be required by the City Manager, or other City Staff designated by the City Manager.

1. Project amount and purpose

2. Description of the redevelopment project, including details of how the proposed project meets the criteria defined in this City Center Redevelopment Strategy.

3. Design plan to include site plan, project imagery conveying intent and quality, and program.

4. Description of the development team, including relevant past performance and financial wherewithal to implement the project.

c. Submittal Requirements for City Council

Upon recommendation by the Downtown Development Commission to advance the proposed public/private partnership to the City Council, the developer should submit a summary of its full business plan to City staff for review and comment prior to arranging City Council meeting. This information would include the following items.

1. Market Analysis, including written description of plan to meet projections

2. Pro Forma, including written description of plan to meet projections

3. Proposed source of capital, including:

a. Evidence of developer equity

b. Statement of lender interest

4. Project plan and team qualifications as presented to DDC

5. Repayment plan, if the City ordinarily requires a repayment plan or contingent repayment plan in connection with the type of incentive at issue

6. Backup repayment plan, including potential guarantors, if a repayment plan is required Developer

d. Evaluation Process

In considering a request for City Center Development Incentives for a City Center development project, the City Council will evaluate specific criteria regarding the public benefit of the project, the business plan for the project, and the developer's background and qualifications. In its evaluation, the City Council should consider the Project Evaluation Matrix (identified on page 35).

It is recommended that a project should receive at least 70% of the available points in each of the three criteria categories identified in the Project Evaluation Matrix (section 5.2.1) to be considered for City Center Development Incentives. If the evaluation determines that City Center Development Incentives should be considered, the resulting rating from the evaluation matrix may determine the required form of the guarantee for public revenue shortfall and the debt service coverage ratio for public financing. Higher rated projects would receive the more favorable terms. If requested, parties requesting City Center Development Incentives may modify their proposal after the initial evaluation in order to improve the terms through a subsequent evaluation. Final approval of City Center Development Incentives will be by the City Council.

e. Development Agreement
Concurrently with, or prior to, the approval of City Center Development Incentives by the City Council, the City and the developer would enter into a Development Agreement governing the conduct of the respective parties in relation to the proposed City Center development project. The Development Agreement will include a site plan and elevation drawings or renderings of the project, and a Sources and Uses of Funds table that identifies the various sources of public and private project funds and how they will be used. Among all other provisions, the Development Agreement will set forth the method and manner for disbursement of funds by the respective parties to pay for eligible project costs as well the responsibilities and milestones of the respective parties in project completion.

f. Gap Financing Requirement
Approval of City Center Development Incentives would require a financial analysis demonstrating that the project would not otherwise be possible without the use of the requested development incentive ("gap" analysis). Parties requesting City Center Development Incentives will be required to provide the City pro forma cash flow analyses and sources and uses of funds in sufficient detail to demonstrate that reasonably available conventional debt and equity financing sources are not available to fund the entire cost of the project and still provide the developer a reasonable market rate of return on investment. The reasonableness of the rate of return on investment will be determined by dividing net operating income by development cost and comparing that rate to the overall capitalization rate for the land use(s) proposed.

g. Annual Reporting
Developers would provide an annual report to the City no later than 30 days following the anniversary date of the Development Agreement. The annual report should provide an account of all sources and uses of funds to pay private costs of the project, and detail the developer's progress towards completing all responsibilities and milestones of project completion identified in the Development Agreement.

h. Waiver of Policy
Should the City Council determine the terms of this proposed policy be inappropriate to evaluate a particular request for City Center Development Incentives, it is recommended that the Council may, by majority vote, waive or modify the binding effect of this policy in regard to that project.