

Wylie Economic Development Corporation

2017 Annual Report

January 14, 2018

Financial Condition

The Wylie Economic Development Corporation (WEDC) makes financial reporting a priority each year. The WEDC Bylaws require that each year no later than January 31, a review of all expenditures, accomplishments and expenditures other than direct economic development be presented to Council.

Each year, following the close of the fiscal year, the WEDC undergoes an audit of its financial practices and transactions from the prior fiscal year. Although this year's audit is not yet complete, the WEDC has not been notified that any discrepancies or irregularities. To create a greater opportunity for a 'clean' audit, WEDC staff works closely with the City of Wylie Finance Department throughout the year so that there is a complete understanding of all WEDC activities by Finance staff and the same can be more accurately documented and communicated to the auditors.

The WEDC began the fiscal year with a fund balance of \$465,686. In Fiscal year 2016-17 sales tax receipts were up 5.87% over FY 2015-16 receipts with sales tax receipts totaling \$2,627,376. Other sources of revenue included rental income of \$120,857, sale of a 1.53-acre pad site on Highway 78 to Chick-Fil-A for \$1,350,000, receivables associated with a loan of \$14,150, and \$2,300,000 in loans secured for the acquisition of property. FY 2016-17 available operating funds totaled \$6,881,586.

Expenditures for WEDC operations were as follows: Personnel - \$408,335, administrative costs - \$133,782, marketing and promotion activities - \$160,865, debt service (including a \$1,000,000 principal reduction payment) - \$1,862,453, direct business incentives - \$863,913, and \$272,605 in other expenses primarily made up of environmental remediation and site development costs. Total expenditures for FY 2016-17 were \$6,778,466.

As shown above, in FY 2016-17 the WEDC had \$863,913 in expenditures on incentives. Within the figure, \$411,530 was paid to ongoing sales tax reimbursement programs, \$95,434 for industrial projects, \$90,400 for office/medical/general commercial, and \$176,882 for infrastructure assistance. The WEDC also forgave a loan of \$91,667 pertaining to infrastructure assistance with the project meeting the required performance measures. Of the expenditures made, \$212,000 represented a one-time commitment or the final payment on a multi-year agreement.

The WEDC currently owns 25.63 acres of land with 44,974 square feet of improvements and a cost basis of \$8,329,086. All WEDC land is either acquired for (a) business park development, (b) redevelopment of dilapidated properties, and/or (c) a tactical intervention to protect the property from uses which may not reflect the highest and best uses for a strategic area. Total outstanding loans for land acquisition are currently \$4,158,196. While encouraged by our lender, but more of a philosophical principal of the Board, as redeveloped land is sold the proceeds from the sale are used to pay off principal of any loans secured to purchase that specific property.

Reflective of that practice, \$1,200,000 out of the total debt service budget of \$2,009,836 for FY 2017-18 is earmarked for principal reduction based upon a pending sale.

The FY 2017-18 WEDC Budget identifies \$4.86 mm in total revenues & expenditures. On the revenue side sales tax is the primary revenue source at \$2.8 mm, sale of WEDC property at \$1.5 mm, and rental income of \$103,000. Of the total expenses, Debt Service equals \$2 mm, Personnel \$410,000, and Incentives \$1.7 mm. Within the Incentives budget there are thirteen ongoing projects which represent \$931,000 in prior commitments and \$742,000 for future projects.

As an ongoing performance indicator, staff tracks all commercial values as a percentage of the total assessed valuation (less value attributed to tax-exempt properties). In 2017 commercial properties were valued at \$701 mm, or 16.7% of the total \$4.2 billion assessed valuation. Over the past five years, commercial values have increased by \$165 mm (31%) with new construction accounting for \$88 mm of the total. Over the same period, total valuation has increased by \$1.6 billion or a 60% increase. With an active housing market, it will continue to be a challenge for commercial value to reach in excess of 20% of the total with the highest ratio over the past 10 years being 20.42% in 2013.

High-Impact Initiatives

Woodbridge Crossing

The WEDC & City of Wylie continue to fund a sales tax reimbursement program to Inventrust (owner of Target Center). In FY 2016-17, \$721,492 was reimbursed to Inventrust with total taxable sales in the Center over the same period at approximately \$75 mm. The City & WEDC are committed to reimburse Inventrust up to a maximum \$6 mm. \$4.68 mm has been reimbursed to date with total obligations being satisfied on or about October 2019. Over the life of the Performance Agreement, \$4.7 mm in ad valorem taxes have been paid to the City with a current valuation of \$70 mm which is a 14% increase over 2016.

In 2017 construction began on a 6,000 square foot strip center fronting 544 with McAlister's Deli slated to take 4,000 square feet. With 2,000 square feet of spec space remaining and Inventrust actively marketing the same, a majority of the inquiries for space are in excess of the available 2,000 square feet. Inventrust has indicated that based upon this level of interest, a pending 5,500 square foot multi-tenant building is being designed to break ground in 2018.

Also announced in 2017 is the construction of 24,500 square feet of in-line space adjacent to Kohl's which should begin on or about May of 2018. While 16,000 square feet has executed leases, Inventrust has committed to build over 8,000 square feet of spec space which has not been an option in the past based upon a conservative approach of only building space with leases in

hand. Inventrust has indicated that this change in philosophy is due to the strength of the Wylie market and Woodbridge Crossing.

Woodbridge Parkway Corridor

In 2017 the WEDC provided a small incentive package for the reimbursement of qualified infrastructure to IHOP which opened in July. In the past the WEDC has participated in incentive packages for Woodbridge Center, The Rock, and B&B Theatre. In 2014, the WEDC also partnered with the City of Wylie and the City of Sachse to extend Woodbridge Parkway from Hensley Lane and provide direct access to State Highway 78. Of the \$976,000 borrowed for the WEDC commitment, a remaining principal balance of \$524,518 exists.

The WEDC continues to fund a Sales Tax Reimbursement Agreement with Clark Street Development (owner/developer of Woodbridge Centre). In FY 2016-17, \$101,000 was reimbursed to Clark Street with a total of \$425,441 paid since July 2013. The center is currently generating \$20 mm in taxable sales on an annual basis with total sales difficult to determine. It is not uncommon for a Kroger to have \$50 mm in annual sales with the ratio for taxable vs. non-taxable sales unknown.

2018 will see the construction of a Pet Supplies Plus in Woodbridge Center and a Credit Union of Texas at the corner of 544 and Woodbridge Parkway. There is also significant interest by restaurant users for the 2 remaining pad sites.

The WEDC also continues to fund a sales tax reimbursement program and Performance Agreement to B&B Theatres Operating Company. Approximately \$288,609 in infrastructure/sales tax reimbursement payments have been made to B&B since 2013.

Sanden & F.M. 544

In 2017 the La Quinta Inn & Suites completed their project after a much-delayed construction process. The WEDC entered into a Performance Agreement with the developer which was amended twice. With a \$5.7 mm value and impact to Occupancy Taxes as of yet unknown, the new product will absolutely increase the marketability of the pad sites remaining on 544.

Also under construction in 2017 is the Holiday Inn Express & Suites which is a WEDC project as well. Slated to be complete in the second quarter of 2018, the 98-room, 60,000 square foot project, along with La Quinta and Best Western, should fill the need for hotel rooms in Wylie, Lavon, Sachse and Murphy for the foreseeable future. Estimated construction cost for the Holiday Inn is \$9.2 mm.

Aside from the benefit to property taxes and increased marketability of surrounding 544 corridor, Occupancy Taxes were an obvious factor in considering participation in the above two projects. Taxable sales are projected to be approximately \$3 mm per year which will generate \$210,000 annually to the City of Wylie in Hotel & Motel Occupancy Taxes. While these figures are of course estimates, the City will be able to more accurately budget for this increased revenue stream on or about the third or fourth quarter of 2018 as both entities will be operating and stabilized.

The WEDC began work in this area in 2011 with a Performance Agreement to provide median improvements and remove overhead utilities for the development of Wylie Medical Plaza. At 60,000 square feet, Wylie Medical is currently 78% leased with an appraised value of \$10.3 mm

State Highway 78 at Cooper Drive

As referenced above, the WEDC closed on the sale of a 1.53-acre lot to Chick-fil-a in 2017. Preceding the sale in 2017, the WEDC completed \$525,000 in site work to support the 5-acre development consisting of two deceleration lanes, median improvements, a mutual access drive, and utility improvements. Also received in 2017 was a Certificate of Completion from the TCEQ through the Voluntary Cleanup Program for impacted soils identified in the development process. Total expenses to date for the project are \$5.4 mm with revenue generated of \$1.95 mm.

The WEDC is currently under contract to sell approximately half of the remaining 3 acres for the development of a 10,000 square foot multi-tenant building. Within the contract, a requirement is in place that at least 53% of the space is to be leased to restaurant users with financial penalties in place should the buyer fall short. A national-credit user has already committed to take 25% of the space with construction to begin in 2018.

Scheduled to close in March/April of 2018, proceeds from the sale will pay off the remaining \$620,000 in debt associated with the project. The market value of the remaining 1.5-acre pad and net proceeds from the above sale will equal approximately \$2 mm.

544 Gateway Project

In 2016 the WEDC and City began the process of assembling approximately 13 acres for redevelopment. Fronting 544 just west of 78, the City has a 5-acre tract acquired through a tax foreclosure which previously had Superfund status. The remaining 8 acres was acquired by the WEDC from 2 property owners with frontage on 544 and Commerce Street.

In 2017 the WEDC completed a study on the City site that removed approximately 2 acres from the flood plain. The WEDC also in 2017 completed a grading plan and brought in significant fill which will greatly reduce costs associated with future development. Demolition of existing buildings were underway in 2017 and will continue through February 2018. A remaining structure will stay in place at the north end of the property until which time the existing business completes a WEDC-assisted relocation/expansion to a site within Regency Business Park.

Throughout 2017, the WEDC pursued a Certificate of Completion from the TCEQ via the Voluntary Cleanup Program for its 8-acre tract. With all required remediation completed, the TCEQ is in the final stages of review before issuing a Certificate which should be done in February 2018.

Jackson Street

The WEDC continues to market its 1-acre property at the northeast corner of Jackson & Oak for a mixed-use development. While interest in the project has been soft, recent activity has been spurred by developers looking to benefit from the Collin College campus.

The WEDC closed on a 0.26-acre tract near the northwest corner of Jackson & Oak in August of 2017. The WEDC had been negotiating with the property owner for over 2 years to acquire the lot. Prior to closing, the 1940's family homestead which was beyond repair had to be demolished.

Prior to closing, a local developer approached the WEDC and entered into an agreement in concept to build a 5,000 square foot office building on the lot. The WEDC Board believes the office project will promote further investment in the downtown area. It is anticipated that the sale will close in January 2018 with construction to begin no later than June 2018.

Regency & F.M. 544

Under two separate Performance Agreements, 2017 saw the redevelopment of a six-acre tract at 544 and Regency resulting in 3 fast casual concepts, a multi-tenant building, and a compounding pharmacy. McClure Partners provided a great service to the community in master planning and cleaning up 4 separate properties. Over 50 jobs were created and \$4 mm in investment was undertaken.

Commercial & Industrial Expansions/Relocations

In 2017, the WEDC executed seven Performance Agreements totaling 100,000 square feet of new construction, facilitated \$18.7 mm in new investment, and created/retained 123 jobs. In January of 2018, two Performance Agreements will be executed securing 10,000 square feet in new construction, \$1.2 mm in new value, and 10 new jobs.

With acquisition of property for business park development a continuing objective, the WEDC has had great historical success in attracting investment and primary jobs via the development of business parks. Between the development of Premier Business Park, 544 Industrial Park, and Premier Business Park South, the WEDC facilitated the development of 862,000 square feet of new construction, over 800 new/retained jobs, and currently \$97,677,000 in taxable value - on only 70 acres.

2018 Goals & Objectives

While WEDC activities can be reactive to the extreme, proactive efforts in 2018 must address the following:

1. Status of Peddicord Center
 - Find a temporary (12 – 24 months) use or demolish.
2. Partner with City to complete water line improvements on 544.
 - The 544 Gateway property water service is not looped properly. WEDC & City staff need to determine if Public Works can install the improvements should the WEDC purchases the necessary materials.
3. VCP on 544 Gateway Property
 - While the issuance of a Certificate of Completion is imminent from the TCEQ, WEDC staff and consultant need to continue pressing the issue.
4. Masterplan 544 Gateway property
 - Joint work session between Council and WEDC Board needs take to place so that specific direction can be provided to WEDC staff pertaining to desirable uses and infrastructure requirement to support the same.
5. Business Park Development
 - Opportunities exist on Alanis and Steel Road for the development of new, light industrial business parks. With land and infrastructure costs only increasing, the WEDC needs to take immediate action to secure property and allocate resources for infrastructure improvements.