



TO: Mayor and City Council

FROM: Elaine Hart, Chief Financial Officer *EH*

DATE: December 10, 2014

SUBJECT: Fiscal Note for 12/11/14 Item from Council Regarding Lone Star Rail District

Item 131 on the December 11th City Council agenda directs the City Manager to “execute an amendment to [the existing Interlocal] Agreement [with Lone Star Rail District] to set to City’s percent increment participation level for the Transportation Infrastructure Zone funding at 50%.”

In December 2013, the City Council established a Transportation Infrastructure Zone (TIZ) for seven planned Lone Star Rail District station areas within the City limits, setting the base year as 2013 and the percent increment participation level at 0%. This would provide funding for the City’s half of 1/3 funding for the Lone Star operating and maintenance expenses once the rail project is operational. Lone Star anticipates that the remaining half will be funded by Travis County. The other 2/3 funding would come from other government entities north of Austin to Georgetown and south of Austin to San Antonio. To date, only the cities of San Marcos and Kyle and the Austin Community College have funding agreements with Lone Star Rail District to cover operating expenses.

At this time, we are not able to provide a precise fiscal impact of the proposed amendment to the interlocal agreement increasing the tax increment participation level from 0% to 50%. However, working with the Travis County Appraisal District (TCAD), we were able to estimate that a 50% value capture for the TIZ would result in a reduction in current FY 2015 General Fund property tax revenue in the range of \$1.0 to \$1.3 million. This value capture incremental revenue is purely a result of the current market conditions, and is not increment that can be attributed to Lone Star’s planned project. Additional property tax revenue loss would be expected in future years.

Further analysis is needed to independently validate the parcels included in each of the seven station areas in the TIZ, and work with TCAD to ensure that the correct property types are being captured. I have conferred with the City Manager, to let him know that this work will take approximately 90 days and the estimated impact on the General Fund current year budget. If this resolution is approved, we would bring back a General Fund budget amendment to reduce anticipated current year property tax revenue, and if needed, a plan to reduce General Fund expenditures by a similar amount.

It should be noted that unlike Tax Increment Reinvestment Zone’s (TIRZ), the tax rate calculation does not allow lost revenue attributable to a TIZ to be made up by increasing the tax rate. Instead, General Fund expenditures need to be reduced to account for lower revenue.

I am available if you have any further questions.

xc: **Marc A. Ott, City Manager**
 Michael McDonald, Deputy City Manger
 Robert Goode, Assistant City Manager
 Greg Canally, Deputy Chief Financial Officer
 Ed Van Eenoo, Deputy Chief Financial Officer