



City of
Friendswood
Texas

COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE

The FM 528 Strategy Final Report

October 3, 2013

This report will discuss the background, commercial significance, and suggested objectives for Friendswood's FM 528 business corridor.

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EXECUTIVE SUMMARY

The Strategy

“The FM 528 corridor through Friendswood is currently the city’s prime commercial real estate. Records show that this property generates a substantial portion of Friendswood’s property and sales tax. After visiting with commercial developers and retailers, it was made more apparent that this real estate is the most sought-after and likely to be developed. Currently and for the foreseeable future this section of Friendswood real estate is its greatest commercial asset.

The main goal should be to deter, or minimize, further development along this corridor that does not have the potential for increased city revenue. Additionally, it is recommended that when financial resources become available, preferential consideration be given for infrastructure improvement, beautification, and attracting desired development.”

On February 4th, 2013 at 4:30PM Friendswood City Council accepted this strategic development plan as presented.

“Without a balanced commercial tax base, city elected officials would eventually be faced with tax increases on residents.” Vision 2020

Strategy Background

Vision 2020 – a key study created by the City in 1998 forecasts that without a balanced commercial tax base, City elected officials would eventually be faced with tax increases on residents. In the June 2013 Citizen Survey, Friendswood residents continue to see having a diversified tax base as the most important issue continuing to face the community.

Businesses are essential to any community as they provide jobs, shopping, dining, medical services, and promote a live and work environment for a whole life community. Businesses also generate more taxes and typically use less community services than residential as they pay taxes on land, building, business personal property, inventory, and collect sales taxes on consumable items. Whereas residents pay taxes on their land and homes. Vision 2020 set the goal of an 80 percent residential, 20 percent commercial land use plan in order to achieve a balanced tax base and to maintain the quality of life important to Friendswood residents. While residential growth has been easy, commercial growth has

“In any community, residents consume more city services than the taxes that they pay. This is typically offset by taxes collected from businesses and industries, who pay more in taxes than they consume.” Vision 2020

proven more challenging due to competing localities that are more conducive to commercial development, primarily the I-45 retail corridor. With real estate corridors for commercial development limited, city officials have established key commercial zones along prime traffic corridors that would allow the city just enough prime real estate to reach its 80/20 (residential/commercial) goal. In addition, targeted businesses’ SIC/NAICS codes were identified that best fit in the community.

IMPLEMENTATION

The FM 528 corridor will be the City's primary development focus with a sense of urgency established around three primary objectives: 1) Promotion, 2) Protection, and 3) Development.

- 1) **Promotion** – Targeted marketing, awareness and incentive programs will be prioritized with the primary focus on the FM 528 commercially zoned properties. Close relationships with property owners and developers will be established with a goal to work together to promote and secure commercial opportunities.
- 2) **Protection** – Raise awareness and deter downzoning of valuable commercially zoned properties that may cause the city to raise taxes in the future due to its loss of valuable commercial property. Provide an eye of caution to city officials, residents, developers and special interest groups that threaten future city revenues when non-commercial development applications are put forth requesting zone changes.
- 3) **Development** – Work closely with all parties that when financial resources become available, preferential consideration is given for infrastructure improvement, beautification, and attracting desired development.

COMMUNICATION

During the meetings with landowners and potential commercial developers, they expressed hearing mixed messages regarding whether the city desires commercial development. This can partially be attributed to the predominance and continued demand for residential development in the community – developers believe the city wants and needs more of the same. Overall, a resolution of commitment for economic development and the FM 528 Strategy will help initiate a communication strategy in moving forward.

The CEDC recommends the City launch a public awareness campaign to help communicate the FM 528 Strategy and the overall importance to diversify the tax base. A uniform message is needed that delivers a pro development image to attract commercial developers and brokers to the city. This can be done via the Public, Educational, and Governmental Access channel, website, and social media. Special ads and op ed pieces can be written and distributed to the local media. Packets of the final report should be made available to HOAs, landowners, developers, retailers, and local organizations such as the Friendswood Chamber and Rotary. Board and committees also expressed their desire to stay informed as well as Friendswood residents. A video of the Mayor with a pro development message can be produced and accessed on the City's website.

PROPERTY OWNERS INPUT

There are currently 71 separate lots that total 1,348 acres of undeveloped commercial property abutting FM 528 within the city limits of Friendswood, with an assessed value of \$22 million.

Between February 13th and June 19th, 2013, eighteen of the commercial property owners and/or their representatives were visited by members of CEDC. Those eighteen property owners account for ninety five (95%) of the 1,348 acres. All property owners were contacted and half were not readily available or

Agenda of meetings with property owners:

- Intended use of property (hold, develop or sell)
- Asking price (if applicable)
- Types of prospective buyers and end users
- Infrastructure needs
- Convey strategy and seek opinion
- Opinion of city and development within the city
- What can the city do to help

willing to meet. All the meetings were voluntary and most were conducted at Friendswood City Hall. Most of the property owners do not live within the city.

The feedback received was very forthcoming with a wide range of opinions and ideas. There was also a lot of misinformation, for example this statement was made numerous times “I thought the city prefers residential development and does not like commercial development.”

Property Owners’ Makeup

The vast majority of the property owners are individuals looking to sell their property to the highest bidder. Only two of the property owners are established developers, the largest of which does not intend to develop their property within the next five years.

Intended Use of Property

Only one property owner expressed their intent to install infrastructure, subdivide and sell their property. Two property owners expressed their intent to leave their property undeveloped and hold. All the other property owners are actively seeking to sell their property.

Asking Price

The asking price of those property owners looking to sell ranges from \$.80 to \$25 per square foot. The closer to the intersection of FM 528 and FM 518, the higher the asking price.

Types of Prospective Buyers and End Users

Residential, retirement communities, and religious assemblies are the three top entities that have expressed the most interest in purchasing the available commercial property.

Infrastructure

Sanitary sewer, water, and storm sewer infrastructure are the utilities property owners lack the most. Several properties do not have any utilities.

Convey Strategy and Seek Opinion

The property owners unanimously agreed with

Opinions of property owners why the strategy will not be adhered to:

- City has a reputation of residential neighborhoods fighting commercial development which drives off retailers and developers
- City Council caves in to residential neighbors who object to commercial development
- City Council caves in to residential neighbors who want noncommercial rezoning
- City Council is inconsistent and can be misleading
- City has negative stigma as not being developer friendly
- Severe lack of infrastructure
- City missed the boat and let too many commercial opportunities walk away that will never return

Property owners’ concerns:

- Neighborhood objections deter future development
- Noncommercial development has devalued their land and made it less attractive to developers (school, religious assemblies, animal shelter, water tower, etc.).
- City Council is not business friendly and caters to special interest groups.
- High property taxes on undeveloped land
- Planning and zoning process is too slow

the strategy. Numerous opinions were given about why they believe the strategy will not be adhered to.

Opinion of City and Development Within the City

There are two different sets of thought. Group one believes the city is not developer friendly, hard to deal with, and slow. Group two believes the city is very friendly, accommodating, proactive and easy to deal with, and better than most cities they deal with on a daily basis. Group one consists mostly of regional property owners and small developers. Group two consists mostly of experienced property developers and brokers.

What Can the City Do To Help?

This question did not generate a lot of response or insight. The most common answer was “send me prospective buyers” and “improve infrastructure.”

Property owners’ compliments:

- Change in alcohol ordinance was good for city
- City staff are very friendly and helpful
- Very progressive of city to reach out to property owners

In conclusion, the majority of the undeveloped land along FM 528 is owned by individuals who do not intend to develop it themselves, and they are willing to sell to whoever can afford their asking price. There is a lot of misinformation being conveyed to prospective buyers and end users about Friendswood’s development preferences. Property owners are not likely to

help or hinder development. Therefore, the city needs to consider what development will attract other desired developments, what development will have the opposite effect, and finally have the resolve to adhere to that strategy.

INPUT FROM CITY COUNCIL, CITY COMMITTEES, AND BOARDS

On February 4th, 2013, the CEDC met with Friendswood City Council to discuss the FM 528 Strategy and City Council accepted the strategic development plan as presented. City Council recognized this to be an important issue for the community.

Meeting	Accepted Strategy
City Council	Yes
Planning and Zoning Commission	Yes
Parks Board	Yes
Keep Friendswood Beautiful	Yes

important issue for the community.

CEDC also met with the Planning and Zoning Commission, Parks Board, and Keep Friendswood Beautiful. There was consensus regarding the strategy, its purpose to diversify the tax base, and the overall goal to minimize the downzoning of properties, particularly along FM 528. The CEDC received concerns expressed

by city boards and committees regarding their desire to limit future non-revenue uses along FM 528. There were also questions and concerns regarding what downzoning will do to the city’s tax base and whether the FM 528 properties were primarily locally-owned. In conclusion, the city committees and boards would like to be kept informed regarding any recommendations, implementation, and progress pertaining to the strategy.

PRIME (OPTIMUM) DEVELOPMENT

City Wide Target Industry List Updated March 9, 2011	
NAICS Code	Short Title
Construction	
233	Building, Developing and General Contracting
234	Heavy Construction
235	Special Trade Contractors
Manufacturing	
325412	Pharmaceutical Manufacturing
334	Computer & Electronic Product Manufacturing or Assembly
3364	Aerospace Products and Parts Manufacturing
3391	Medical Equipment and Supplies Manufacturing
Wholesale Trade	
42	Wholesalers
Retail Trade	
442	Furniture and Home Furnishing stores
443	Electronics and Appliance stores
448	Clothing and Clothing Accessory stores
451	Sporting Goods, Hobby, Book, and Music Stores
452	General Merchandise stores
Information	
513	Broadcasting and Telecommunications
514	Information Services and Data Processing Services
Finance and Insurance	
52	Finance & Insurance (Corporate Headquarters Only)
Real Estate and Rental and Leasing	
531120	Banquet and Event Centers
Professional, Scientific & Technical Services	
54	Professional, Scientific & Technical Services
Management of Companies and Enterprises	
55	Management of Companies and Enterprises
Health Care	
621	Ambulatory Health Care Services
622	Hospitals
Arts, Entertainment, and Recreation	
71	Arts, Entertainment, and Recreation
Food Service	
72210	Full-service Restaurants – dine-in only with no drive-through lane, pay after you eat
Public Administration	
927	Space Research and Technology

CEDC and City Council adopted a Target Market List in 2008 which was most recently updated in 2011. Friendswood’s target markets are defined as those identified in Vision 2020: professional office, retail, commercial, and light industrial uses in keeping with zoning and the permitted use table. CEDC only targets businesses that are approved uses by P&Z and City Council within the Permitted Use Table which are defined as P= Permitted Uses. Businesses that require a Specific Use Permit S are not targeted by the CEDC. Master-planned sites are encouraged for properties that are mixed-use or that are converting a portion of a larger tract from residential to commercial.

Retail studies have shown that an unmet retail demand exists in Friendswood. Retail businesses not only provide the most revenue to a city, but also provide shopping and dining opportunities, and consumable items that help prevent leakage of local expendable income. Since sales taxes are received from consumers who are a combination of residents, workers, and visitors, this helps diversify the city’s tax base from local property taxes that are paid primarily by Friendswood homeowners.

The FM 528 corridor has the most potential to attract retail businesses due to its location and traffic counts of 31,000 cars per day on a highly traveled seven-lane road. However, at a minimum, the city’s main goal should be to deter, or minimize, further development along the FM 528 corridor that does not have the potential for increased city revenue.

SUBPRIME (NON-OPTIMUM) DEVELOPMENTS

As the City of Friendswood approaches its projected “build-out” sometime within the next decade, its increasing reliance on homeowner property taxes will force city leaders to make difficult budget decisions. The FM 528 corridor will need to be optimally utilized to help shift a portion of the tax

burden from homeowners to businesses. City leaders (City Council, P&Z, CEDC, and City staff) will need to work cohesively to deter “non-optimal” developments along the commercial frontage of FM 528.

What should be considered as “Non-Optimum” Developments? Any development that does not produce revenue at its “highest and best use.”

Developments that will not add to the property tax base and/or bring in additional revenue through sales taxes should be deterred from absorbing valuable commercial tracts abutting the FM 528 corridor. This is not a policy saying religious assemblies, parks, schools, etc. are not welcomed in the city, as these types of developments are crucial in developing a “whole life community,” but rather

Types of Subprime Developments (Tax Exempt Properties)

- Places of religious assembly
- Parks
- Schools
- City facilities

Risk of Subprime Developments

- Deters future commercial developments
- Loss of tax revenue for the city
- Future incompatibly issues (i.e. restaurants locating next to a school or religious assembly)
- City facilities interfering with the marketability of adjacent tracts

it’s a policy that should be used to guide non-revenue developments to less optimum land within the city.

In conclusion, the FM 528 corridor represents the most viable and valuable commercial land within the city. The addition of subprime developments will deter future commercial growth and inhibit diversification of the city’s tax base.

TAX EXEMPTION

Tax exempt development in Friendswood is on the rise and, if not curtailed and offset by additional retail and commercial development, will put undue burden on residential property tax payers.

Commercial and retail developments generate property, sales, and inventory tax. Residential developments generate property tax, less 20% homestead exemption. Nonprofit organizations and tax exempt entities like the city, county, state, and federal development generate no tax.

Nonprofit property examples in Friendswood:

- 32 religious assemblies
- 5 medical/family services
- 4 independent schools
- 2 apartment complexes
- 1 nursing home

The use of prime commercial real estate for tax exempt development is shortsighted and detrimental to the financial future of any city. Furthermore, tax exempt development typically deters neighboring property from retail and commercial development as parking, alcohol, and other restrictions make development more problematic.

Recent tax exempt use of commercial real estate:

- Friendswood Health Care Center
- Calvary Chapel Houston
- Friendswood Community Church
- Galloway School
- Friendswood Square Shopping Center

The conversion of tax paying commercially developed property to tax exempt status is also a trend on the rise in Friendswood. The most recent examples of this are the two separate strip centers currently occupied by Calvary Chapel and New Hope Church.

Other property development such as subsidized housing have a propensity to convert to tax exempt status at a later date. Tax exempt property seldom reverts back to tax paying.

Although a community receives the benefit of nonprofit entities that cannot be quantified in dollars and cents, an overabundance of tax exempt entities has the potential to cause

Property at risk of applying for tax exempt status on FM 528:

- Gardens at Friendswood Lakes

Preventative measures to consider:

- Modify specific use table (zoning restrictions)
- Separate permitted use table for prime real estate
- Consideration or incentives to relocate tax exempt development to other property within the city
- Encourage payment in lieu of taxes (PILOT)

significant stress on city finances and services (police, fire, schools, etc.). Even fallow land generates more tax revenue than tax exempt property.

In conclusion, preventing or regulating tax exempt development on privately owned real estate can be extremely sensitive and challenging, especially property owned by nonprofit organizations. Tax exemption exists in all cities. The strategic location of tax exempt development and forecasting its impact is the responsibility of city leaders.

RECOUP CITY EXPENSES ASSOCIATED WITH TAX EXEMPT PROPERTY

There are two groups of tax exempt properties such as public schools, parks, and other city and county property; and property owned by nonprofit organizations such as private schools and religious assemblies. The amount of property tax revenue lost due to nonprofit property within the City of Friendswood is estimated to be between \$1,000,000 and \$1,600,000 annually. The amount of sales tax

Appraised value of tax exempt property in Friendswood:

- Galveston County \$86 M
- Harris County \$150 M
- \$236 M

*Includes tax exempt and nonprofit property within city limits.

Appraised value of nonprofit property examples in Friendswood:

- 32 religious assemblies \$74 M
- 5 medical/family services \$2 M
- 4 independent schools \$7 M
- 2 apartment complexes \$15 M
- 1 nursing home \$2 M

*List does not include all nonprofit property within city limits

revenue lost due to nonprofit development is too speculative to quantify.

Nonprofit properties still receive the benefit of vital services (police, fire, EMS, schools, roads, library, etc.). The cost of which cannot be quantified as the demand upon vital services differs greatly between the types of tax exempt properties, apartment complexes and nursing homes being the most demanding.

The only known way for a city to recoup city expenses from nonprofit and tax exempt property is a voluntary program called

“Payment in lieu of taxes” PILOT or PILT. This is a program most commonly participated in by the Federal Government to offset losses in property tax due to non-taxable federal land such as military



installations, national parks, federal water projects, etc. The government sees this as its way of fulfilling its role of being a good neighbor to local communities.

Some cities have been successful in having nonprofit organizations voluntarily participate in a PILOT program; however Friendswood does not have any participants in a program.

In conclusion, PILOT programs are strictly voluntary and cannot be enforced, and there are no other legal means for a city to recoup expenses associated with tax exempt property. It behooves a city to negotiate a PILOT program prior to the commencement of a tax exempt development, especially if the entity is going to be demanding upon vital services.

DOWNZONING

When there are references to downzoning in this report, the term is more specifically defined as the rezoning of commercially-zoned property to any residential-type use (single-family, multi-family apartments, assisted living facilities and nursing homes) as these residential uses have tenants which demand essential city services, i.e. fire, EMS, police, library, and parks that most commercial enterprises do not require.

In 1998, Vision 2020 recommended that the city follow an 80/20 residential-commercial land use plan. Vision 2020 also forewarned that as the city builds out and runs out of residential-zoned land, there will be pressure for city officials to rezone commercial land to residential to meet market demand. In addition, as land becomes scarce, the value of land will rise and place pressure on the city to allow higher density residential development in order to support the higher land prices. The committee does not feel that rezoning commercial property along high traffic, prime commercial corridors, particularly FM 528, FM 2351, and FM 518 coincides with the City's long-term goals for developing the tax base or is in the best interest of the city.

"As the City builds out and runs out of residential zoned land, there will be pressure to rezone commercial land to meet market demand." Vision 2020

At City Council's request, the CEDC discussed and reviewed council's idea to require a fiscal or economic impact analysis for zone change requests. The CEDC recommends the following factors be considered when a downzoning request is received: current zoning, future land use map, highest and best use, economic/fiscal impact to the property, city services and the tax base, and how the proposed zone change would positively/negatively impact surrounding properties. Since there are many factors to consider with downzoning requests, the CEDC recommends that an economic/fiscal impact analysis be prepared and submitted to the city for all downzonings or zone change requests from commercial to any type of residential use, including residential planned unit developments.

In moving forward, the CEDC believes there is no economic benefit for the city to approve rezoning requests that change the land use from commercial to any type of residential use. If City Council determines that a specific type of development would benefit the city, then special consideration should be given whether this project has already been identified as a strong need

in the community and whether an alternative site could be found to accommodate the use instead of a highly visible and high traffic corridor (prime commercial real estate.)

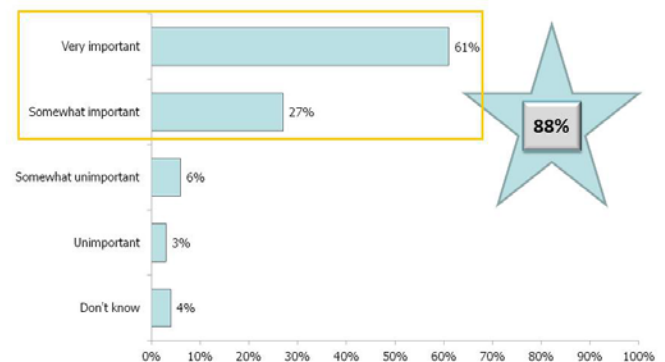
CITIZEN SURVEY

The results of the citizen survey that was conducted in June 2013 indicated that Friendswood residents stated the most important issue facing Friendswood today is taxes/diversifying the tax base. Regarding commercial development, almost half of the residents weren't aware that Friendswood's sales tax was lower than in surrounding communities. Eighty-eight percent of respondents said it is important to attract businesses to Friendswood and the types of businesses preferred are restaurants, retail, hotels, recreational facilities, and small independent businesses.

Most Important Issues Facing Friendswood Today	
Taxes, Diversify Tax Base	13%
Too much growth, growing too fast, planning for growth	12%
Crime, safety	10%
Quality, maintaining education	10%
Need more businesses, restaurants	10%
Traffic	6%
Budgeting, expenditures	6%
Repair, maintenance, planning, construction or roadways	5%

Preferred Commercial Development	
Restaurants	38%
Retail shopping	21%
Hotels, recreational facilities, etc.	12%
Small, independent businesses	6%
Industrial, manufacturing, commercial	5%
Large, franchise businesses	5%
Professional	3%
Office parks	3%
Discount stores (Target, Wal-Mart)	3%
Medical	3%
Grocery stores	3%
Base: Total Sample	400

How Important It Is to Attract Businesses to Friendswood



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RESOURCES AND INCENTIVES TO ATTRACT COMMERCIAL DEVELOPMENT

After considerable research, the following list was created as a resource guide of possible incentives, grants, and financing mechanisms to assist with commercial development attraction and retention in the city.

Reimbursements, Grants, and Loans

Developer reimbursement agreements - a written contract between the city and one or more developers providing for a full or partial reimbursement to the developer for the construction of public street, water, sewer or storm drain facilities.

Chapter 380 Agreements - Chapter 380 of the Local Government Code allows cities to make loans and grants of public money and providing personnel and services of the municipality, to promote local economic development and to stimulate business and commercial activity in the municipality.

Municipal Sales Tax Agreements (Municipal Sales Tax Rebates) – an agreement to rebate a portion of the local city sales tax to a business entity for a designated period of time

Special Financing Districts

Tax Increment Financing District (TIF) - Chapter 311 of the Tax Code allows local governments to publicly finance needed structural improvements and infrastructure in a defined area. These improvements usually are undertaken to promote the viability of existing business and to attract new commercial enterprises to the area. A TIF uses the additional tax revenue generated by new development to pay for development costs such as infrastructure, land acquisition and site improvements. The difference between the taxes before the development occurs and after its completion is referred to as the "increment." The increment revenue is set aside in a special fund to pay for the new improvements.

Each taxing unit within the city can choose to dedicate all, a portion of, or none of the increment tax revenue from the development project.

MUD	MMD/PID	TIF
<ul style="list-style-type: none"> ✓ Water ✓ Sewer ✓ Drainage/detention ✓ Broader service Garbage collection Parks construction 	<ul style="list-style-type: none"> ✓ Landscaping & Fountains ✓ Distinctive Lighting ✓ Signs ✓ Sidewalks & Streets ✓ Pedestrian Malls & Art ✓ Off-Street Parking ✓ Transit facilities ✓ Water, Sewer & Drainage ✓ Parks/Recreation ✓ Promotion & Advertising ✓ Public Safety & Security 	<ul style="list-style-type: none"> ✓ Paving ✓ Water, Sewer, Drainage ✓ Property Acquisition ✓ Environmental ✓ Public Buildings ✓ Land Acquisition ✓ Public Beautification ✓ Parks/Recreation ✓ Financing Costs

Public Improvement

Districts (PID) – Chapter 372 of the Local Government Code allows cities to levy and collect a special assessment on property that is within the city to pay for eligible public improvements that include landscaping, fountains, lighting, signs, construction of sidewalks, streets, installation of art, construct or improvement of libraries, off-street parking facilities, mass transportation facilities, water, wastewater, or drainage improvements, park improvements, land acquisition, advertising and promoting of services and amenities in the district.

Municipal Utility Districts (MUD) - Municipal Utility Districts (MUDs) are political subdivisions authorized under the Texas constitution, Chapter 54 of the Water Code, to levy taxes, charge for services and issue debt for infrastructure such as water, sewer and drainage, within limited geographically defined areas. The Texas Commission on Environmental Quality (TCEQ) regulates and provides ongoing supervision of MUDs and other special purpose districts.

Municipal Management Districts (MMD) – Under Chapter 375 of the Local Government Code, an MMD allows commercial property owners to enhance a defined business area. The district is usually created within an existing commercial area to finance facilities, infrastructure and services beyond those already provided by individual property owners by the municipality. The improvements may be paid for by a combination of self-imposed property taxes, special assessments, and impact fees by property owners within the district. Eligible improvements include landscaping, lighting, banners, signs, streets and sidewalks, pedestrian skywalks or crosswalks, seawalls, marinas, drainage and navigation improvements, pedestrian malls, solid waste, water, sewer, and power facilities, parks, plazas, lakes, rivers, bayous,



ponds, and recreation and scenic areas, historic areas, works of art, off-street parking facilities, transit facilities, theatres, exhibition halls, demolition costs in connection with improvements. The creation of an MMD must be submitted to the TCEQ.

Municipal Development District - Chapter 377 of the Local Government Code allows cities to

MUD	MMD/PID	TIF
<ul style="list-style-type: none"> ✓ A tax is levied to repay the capital costs of infrastructure and to defray some of the costs of maintenance and operations ✓ Debt is issued as authorized by voters and is secured by the pledge of a tax 	<ul style="list-style-type: none"> ✓ An assessment to repay costs of improvements is established annually with a public hearing or set once without increase ✓ Debt is issued as allowed by the City 	<ul style="list-style-type: none"> ✓ No additional tax or assessment authority exists ✓ Debt is issued as allowed by the City

establish a district within a city’s boundaries or ETJ and impose an additional sales tax if approved by the city’s voters within the district not to exceed the local 2% sales tax cap as allowed by the state. The funding may be used similar to the economic development Type A and B sales tax.

Local Property Tax Incentives

Property Tax Abatement – Chapter 312 of the Tax Code allows municipalities to enter into an agreement with a business and abate/forgo up to 100% for a period not to exceed ten years of city property taxes on the increment in value added to a particular property by a specific development proposal, which meets the economic goals and objectives of the city. The tax abatement shall not apply to any portion of the inventory or land value of the project. Tax abatement may be offered on improvements to real property owned by the applicant and/or on new personal property brought to the site by the applicant.

Freeport Tax Exemption – The City of Friendswood can exempt personal property consisting of goods, wares, merchandise or ores other than oil, natural gas, and petroleum. Under Tax Code, Section 11.251, eligible property must be transported out of the state within 175 days of acquisition, but must first be assembled, stored, manufactured, processed, or fabricated locally.

Other Funding Mechanisms

Neighborhood Empowerment Zone – Chapter 378 of the Local Government Code allows cities to create a zone within their municipal boundaries to promote/increase economic development within the zone, affordable housing, and social services, education, or public safety of the zone. A municipality may create more than one zone and may include an area in more than one zone. A municipality may grant one or more of the following within the zone: waive or adopt fees related to the construction of buildings in the zone, including fees related to inspection of the building and impact fees; enter into agreements, for a period of not more than 10 years, for the purpose of benefiting the zone, for refunds of municipal sales tax on sales made in the zone; enter into tax abatement agreements subject to the duration and limits under Chapter 312, and set baseline performance standards, such as Energy Star Program as developed by the Department of Energy, to encourage the use of alternative building materials that address concerns relating to the environment or to the building costs, maintenance, or energy consumption.

Type B Economic Development Sales Tax – A city is eligible to adopt a Type B sales tax, with voter approval, if the new combined local sales tax rate would not exceed 2%. 361 cities in Texas have passed the Type B tax. Some of the eligible projects for funding include all of Type A projects that promote or develop new or expanded business enterprises that create or retain primary jobs, and also Type B infrastructure improvements including streets, water, and sewer improvements for economic



development, public parks, civic centers, entertainment, tourist, and convention facilities, professional and amateur sports and athletic facilities, public safety facilities, drainage and related improvements, water supply facilities, and general municipally owned improvements. Downtown improvements including burying overhead power lines and pedestrian improvements are also eligible uses.

Hotel Occupancy Tax – Under Chapter 351 of the Tax Code, a city may adopt a hotel occupancy tax rate of up to 7%. The state of Texas imposes a 6% rate that applies throughout the state. The hotel tax revenues must be used locally to pay for tourism-related promotion of a city including improvements or maintenance of convention/civic center facilities, administrative costs for convention registration, programs that enhance the arts, historical restoration or preservation, costs to hold sporting events, and signage to attractions, funding transportation systems for tourists.

In conclusion, if funding for capital improvement projects that will encourage business development is not available, the city should consider other funding mechanisms that have been successfully used in many cities, counties, and states such as developer reimbursements, sales tax refunds, special financing districts, grants, and incentives. Most CIP infrastructure projects that benefit economic development are large and are planned, prioritized and implemented on a proactive basis in cities, however funding is typically limited since there are many competing needs and demands throughout the city. Special financing districts, grants, and incentives are typically considered when a development proposal is presented. The CEDC recommends that City Council seek CEDC’s input and recommendation on the use of special financing districts, grants, and incentives for any commercial project development proposal or incentive application.

INFRASTRUCTURE

The majority of the FM 528 corridor significantly lacks infrastructure and impedes commercial development. The further south from intersection FM 528 and FM 518, the greater the need is for infrastructure.

The infrastructure that exists on FM 528 has been funded primarily by state, county, and private development. Very little has been funded by the city.

Infrastructure funding ideas:

- Higher impact fees
- Capital improvement budget
- Grants
- Type “B” sales tax
- Special improvement districts
- Tax increment financing
- Betterments

Sanitary sewer is the most absent utility. Less than 20% of the undeveloped commercial land along FM 528 has sanitary sewer on site.

Water service is the second most absent utility. Approximately 40% of undeveloped commercial land along FM 528 has adequate water service.

Infrastructure lacking on FM 528:

- Sanitary sewer
- Water
- Storm Sewer
- Natural gas
- Pedestrian mobility
- Electricity
- Roads

*In order of greatest demand and priority.

Storm sewer piping and inlets exist north of Sunset Drive on FM 528. Everything south of Sunset Drive is an open ditch system.

Commercial property developers are required to use a prorated portion of their real estate for onsite storm water detention. Developments less than five (5) acres have the option to buy into an offsite

storm water detention pond in lieu of building a detention pond on site. Currently only the Galveston County Consolidated Drainage District has an offsite detention pond that developers can buy into. That detention pond is at less than 50% capacity. The offsite storm water detention option provides a significant benefit to developers as they can make full use of their prime real estate.

Infrastructure improvement ideas:

- Restrict offsite detention participation to prime development on FM 528
- Additional offsite detention facilities
- Oversize new private infrastructure for future development
- Opportunistic improvements
- Off-site mitigation for large new developments

The city's master utility, drainage, and major thoroughfare plans have addressed the infrastructure needs along FM 528. However, the city does not have any funding (Capital

Improvement Plan) scheduled within the next five years.

In conclusion, a more concerted effort needs to be put into improving infrastructure on south FM 528 as it is impeding prime development. The City has a plan for the required infrastructure but does not have a schedule or funding strategy.

Infrastructure improvement strategy:

- Prioritize infrastructure needs
- Implement funding strategy(s)
- Set a timetable (schedule)

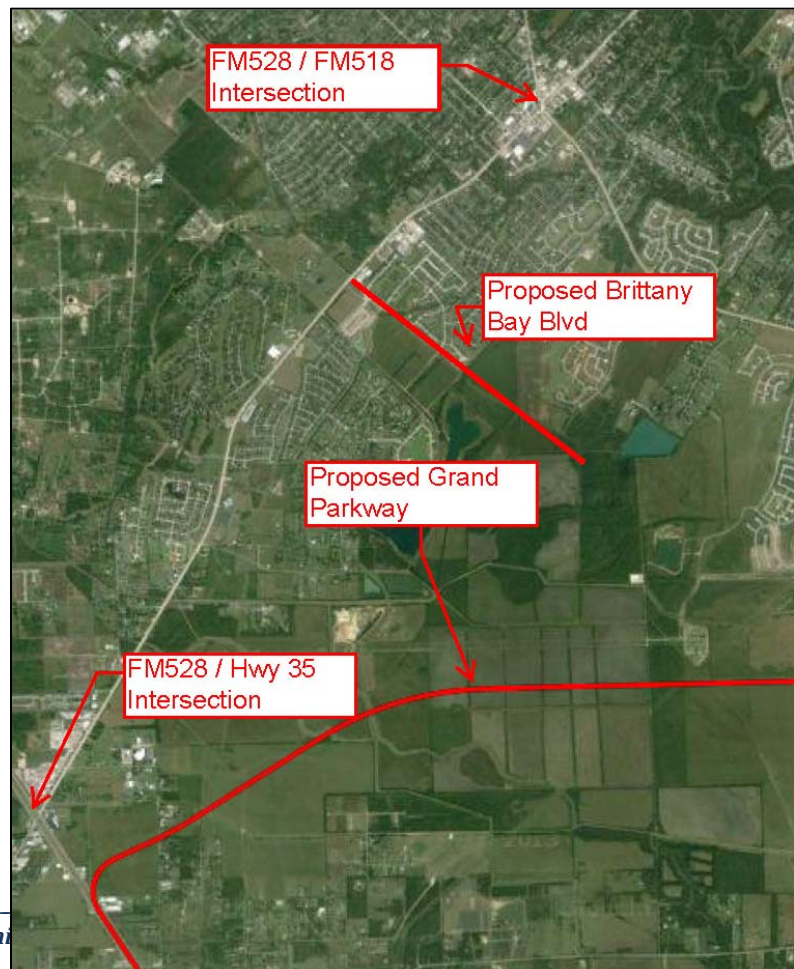
TXDOT, STREETS, and DRAINAGE

TXDOT

As the city and surrounding areas grow in population, TXDOT and City of Friendswood will continue to expand and improve the transportation infrastructure. A portion of TXDOT's proposed 180+ mile circumferential highway will be constructed just south of FM 528; and the proposed Brittany Bay Boulevard will intersect FM 528. These two large transportation projects will only enhance the commercial development potential along the FM 528 corridor. The Brittany Bay Blvd project, in the long-term, should increase the traffic flow along FM 528 corridor and thereby entice prospective retail and commercial developers to the area.

RETAINING EXISTING DEVELOPMENT

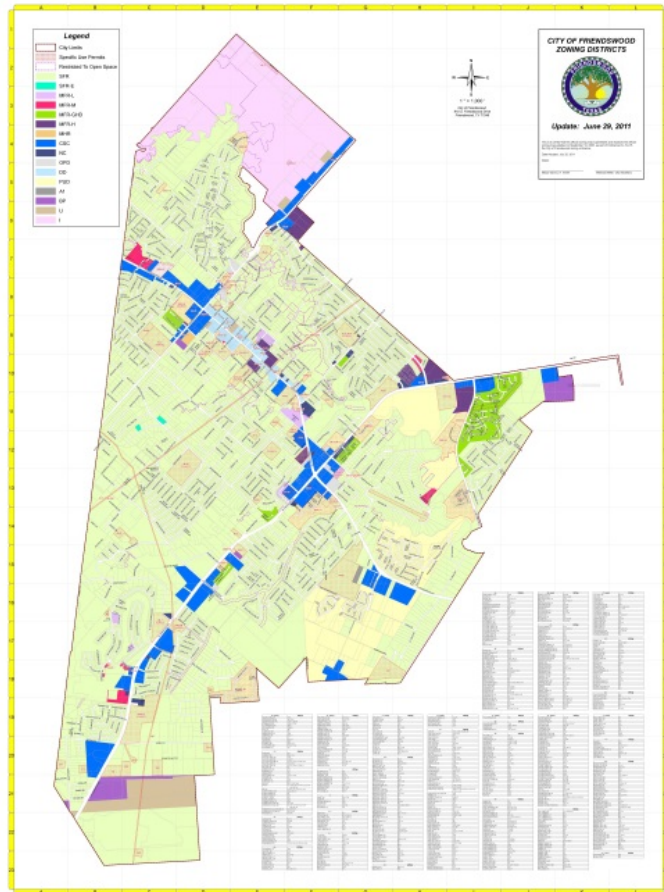
As a business grows and matures, it provides possibilities for expansion within the community. There are many factors that an existing business considers when they are considering to expand within a city, the primary being the cost and availability of land,



building, utilities as well as taxes, business climate, and being recognized or appreciated in the community. While city services, i.e. safety, are important many other factors can lead a business to stay or leave. Due to the city’s high occupancy rate of office space, development of new spec office space is in demand. The city should continue its “Live Here Work Here” campaign which has been a great success. Having contact with the city staff and officials opens up dialogue and provides the business an opportunity to share their possible future expansion plans or business needs. There are many resources including the Friendswood Chamber of Commerce and Galveston County Small Business Development Center that can help with networking, loans, marketing plans, and business plan assistance.

THE FUTURE OF FM 528

The FM 528 corridor provides more opportunities for future commercial development, particularly for retail businesses, than any other place in the city. Retail businesses’ preferred location is usually influenced by high traffic areas, corner sites, pedestrian foot traffic, neighboring retailers nearby, and community demographics. FM 528 is linked to I-45 with great visibility and physical attributes of being a seven-lane road that carries more than 31,000 cars per day. There are large commercial tracts available along the corridor. That being said, there is a strong demand for one to five-acre tracts along FM 528 at FM 518 that are not available. The city’s zoning ordinance provides adequate buffering between residential and commercial uses and the permitted use table defines which uses are appropriate in the city’s various commercial zones. The majority of undeveloped land along FM 528 is either currently zoned commercial or is in the Future Land Use Map as commercial use. At the pace of current development in the city, residential will build out first in the city leaving undeveloped commercial land. City Council should encourage commercial development and protect this prime real estate against downzoning to residential use. Since all zone change requests must



FM 528 Traffic Counts	
1985	13,700
1990	21,000
1995	21,000
2000	33,000
2005	35,400
2010	33,000

come before the Planning and Zoning Commission for their consideration and recommendation, and then on to City Council for approval, these decisions on rezoning and development proposals can affect the community and its tax base for many years.

In conclusion, the city can either stay focused on diversifying the tax base or squander its only opportunity to diversify before build-out occurs. Once Friendswood is built out, there may be little or no redevelopment opportunities. Some steps the city can consider in the future are to: proactively rezone properties that are designated as future commercial use in

the Future Land Use Map; provide infrastructure to tracts; and work with commercial developers to master plan larger tracts so that smaller parcels may be available for end users.

CONCLUSION

The FM 528 Business Corridor represents Friendswood's greatest commercial potential to diversify its "residential-heavy" property tax base. It has been quite evident that the free-market has made the area the target designation for commercial development. Due to the highest traffic counts within the city, commercial developers and retail merchants want to locate along the FM 528 corridor.

"From 1998 to 2007, there was a widening gap between residential and commercial assessed property values in Friendswood, driven by rapid growth in the assessed value of residential property and slower growth in commercial property value. The City of Friendswood now relies much more heavily on residential property values as a source for tax revenue than in 1998." Vision 2020 Update, Jason E. Murasko, PhD, October 3, 2007

Summary of Recommendations

Communication:

The city launches a public awareness campaign to help communicate the FM 528 Strategy and the overall importance to diversify the tax base.

Property Owners' Input:

The city should consider what developments will attract other desired development, what development will have the opposite effect, and finally have the resolve to adhere to that strategy along the FM 528 Corridor.

Input From City Council, Boards, and Committees:

The City Boards and Committees would like to be kept informed regarding the FM 528 Strategy's recommendations, implementation, and progress.

Prime (Optimum) Development:

The city's main goal should be to deter, or minimize, further development along the FM 528 corridor that does not have the potential for increased city revenue.

Subprime (Non-Optimum) Developments:

A policy should be implemented to guide subprime developments from FM 528 to less valuable commercial land within the city.

Tax Exemption:

Preventing or regulating tax exempt development on privately owned real-estate can be extremely sensitive and challenging, especially property owned by nonprofit organizations. The strategic location of tax exempt development and forecasting its impact is the responsibility of city leaders.

Recouping Cost of City Services from Tax Exempt Properties:

City should consider negotiating a PILOT program prior to the commencement of future tax exempt developments, especially if the entity is going to be demanding upon vital services.

Downzoning:

There is no economic benefit for the city to approve zone change requests along the FM 528 Corridor that change the land use from commercial to any type of residential use. If City Council determines that a specific type of development would benefit the city, then special consideration should be given whether the project has already been identified as a strong need in the community and whether an alternative site could be found to accommodate the use instead of a highly visible and high traffic corridor (prime commercial real estate).

Resources & Incentives to Attract Commercial Developments:

CEDC recommends that City Council seek CEDC’s input and recommendation on the use of special financing districts, grants, and incentives for any commercial project development proposal or incentive application.

Infrastructure:

A more concerted effort needs to be put into improving infrastructure on south FM 528 as it is impeding prime development.

The Future of FM 528

Some proactive steps the city can consider are to proactively rezone properties that are designated as future commercial use in the Future Land Use Map, provide infrastructure to tracts, and work with commercial developers to master plan larger tracts so that smaller parcels may be available for end users.

As the city runs out of residentially zoned real estate, there will be ever mounting pressure to rezone commercial property to residential. The city cannot keep chipping away at the remaining commercially zoned real estate, especially the prime FM 528 commercial real estate, and expect to meet future financial demands without raising property tax rates. Commercial developments generate significantly more tax revenue and consume a fraction of the city services. Now is the time to adopt this strategy and implement it across all facets of the city.



MAP OF FM 528



FUTURE LAND USE PLAN MAP