

# Initial Financing Framework for Downtown Investments

*City Council  
August 29, 2017*

# February 9<sup>th</sup> Resolution

## *Resolution 20170209-033*

- Financial Needs Related to:
  - People experiencing homelessness
  - Waller Creek Linear Park
  - Convention Center
  - Cultural and Historic Sites
- Funding Tools
  - Tax Increment Financing
  - Hotel Occupancy Tax
  - Tourism Public Improvement District
- Overall economic assessment

### **RESOLUTION NO. 20170209-033**

**WHEREAS**, the Austin City Council adopted Resolution No., 20151112-033, directing the City Manager to return to council with options and information relating to the Austin Convention Center's Long-Range Master Plan, and staff have completed a body of responsive work; and

**WHEREAS**, the eastern area of downtown is home to a number of important landmarks and projects, including, but not limited to, the Neal Kocurek Memorial Convention Center, the Waller Creek Linear Park, the Austin Resource Center for the Homeless (ARCH), the Emma S. Barrientos Mexican-American Cultural Center (MACC), the Palm School and associated parkland, the East 6th Street District, the Innovation Zone, the redevelopment of the Brackenridge Hospital Site, the Dell Medical School, IH-35, and the Red River Cultural District; and

**WHEREAS**, the City Council has adopted goals and identified financial needs relative to many of the above resources and projects; and

**WHEREAS**, a number of financing opportunities exist that could assist Austin in realizing the above objectives and projects that would enhance the eastern area of downtown; and

**WHEREAS**, the City Council desires to identify a range of financial options that could achieve these objectives while minimizing the impact on taxpayers; and

# Downtown Investment Initiatives

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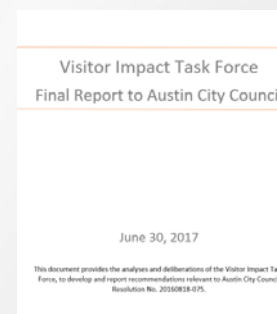
## Waller Creek Design Plan Sep 2010 – June 2013



## Convention Center Master Plan March 2014 – Nov 2015



## Visitor Impact Task Force August 2016 – August 2017



# Today's Discussion

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Economic Look at Downtown

Tax Increment Financing "101"

Waller Creek Area Financing

Convention Center Area Financing

Wrap-Up

# Downtowns: *Economics*

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## *Fundamentals*

- Mix of mutually reinforcing land uses is required
- Activity must be relatively constant and balanced – build on what already exists
- Key entertainment & cultural attractions must be authentic
- Public spaces are an important part of the mix, as is mobility and way-finding
- Walkability is crucial using design for connections
- Public infrastructure can have a catalytic impact



### Importance of Downtowns in the 21st Century

I do not know what the future of downtown is, but here is what I am certain of:

- If we are to have an effective environmental policy, downtowns are important.
- If we are to have an effective transportation policy, downtowns are important.
- If we are to have meaningful historic preservation, downtowns are important.
- If we want Smart Growth, downtowns are not only important but also irreplaceable.
- If a local official wants to claim the treasured mantle of fiscal responsibility, downtown revitalization is imperative.
- If we want to avoid Generica, downtown is essential to establish differentiation.
- If the community is trying to compete in economic globalization without being swallowed by cultural globalization, downtown revitalization has to be central to the strategy.
- If new businesses, innovative businesses, and creative businesses are going to be fostered and encouraged, a community will need a downtown where that can take place.
- If we are able to have buildings with meanings, buildings with value, buildings with values, they will be downtown.
- If we are to have public places of public expression, we need a downtown.
- If a community is going to embrace diversity instead of hide from it, celebrate diversity instead of deny it, then that has to take place downtown, it ain't gonna happen anywhere else.

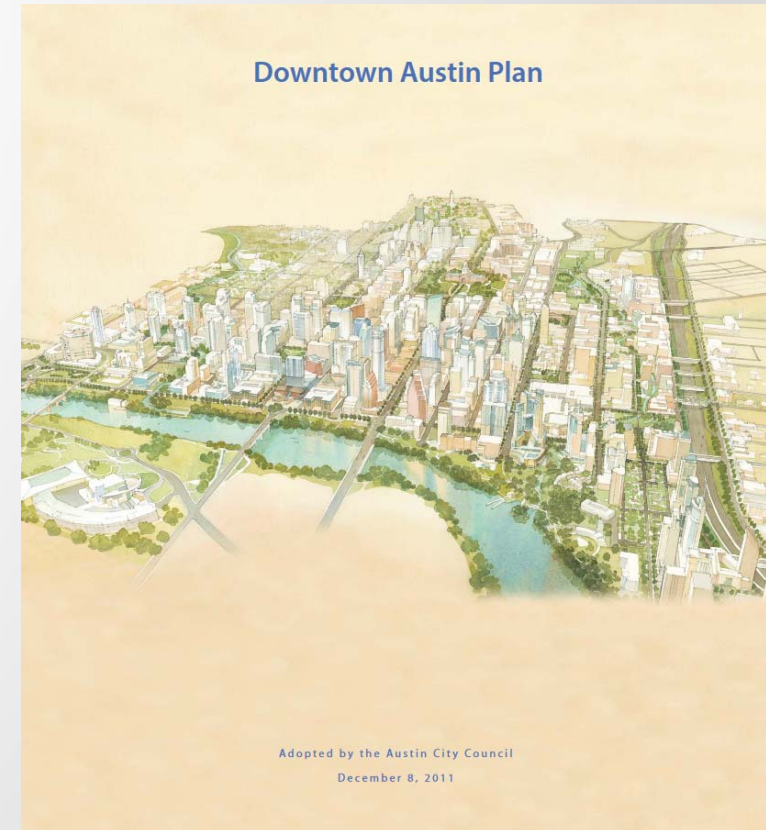
(Donovan Rypkema, *Journal of the American Planning Association*, Winter 2003.)



# Downtown: *Austin's Master Plan*

## *The Vision*

- A dense and livable pattern of development that supports a vibrant day and night-time environment
- Parks and public spaces that instill a unique sense of place and community
- A beloved fabric of historic places, buildings and landscapes
- A variety of districts and destinations that support the creative expression of its citizenry
- A “green” necklace of trails
- An array of innovative businesses – small and large – that are attracted to the Downtown by its rich human capital and unique sense of place



# Downtown: *Austin's Experience*

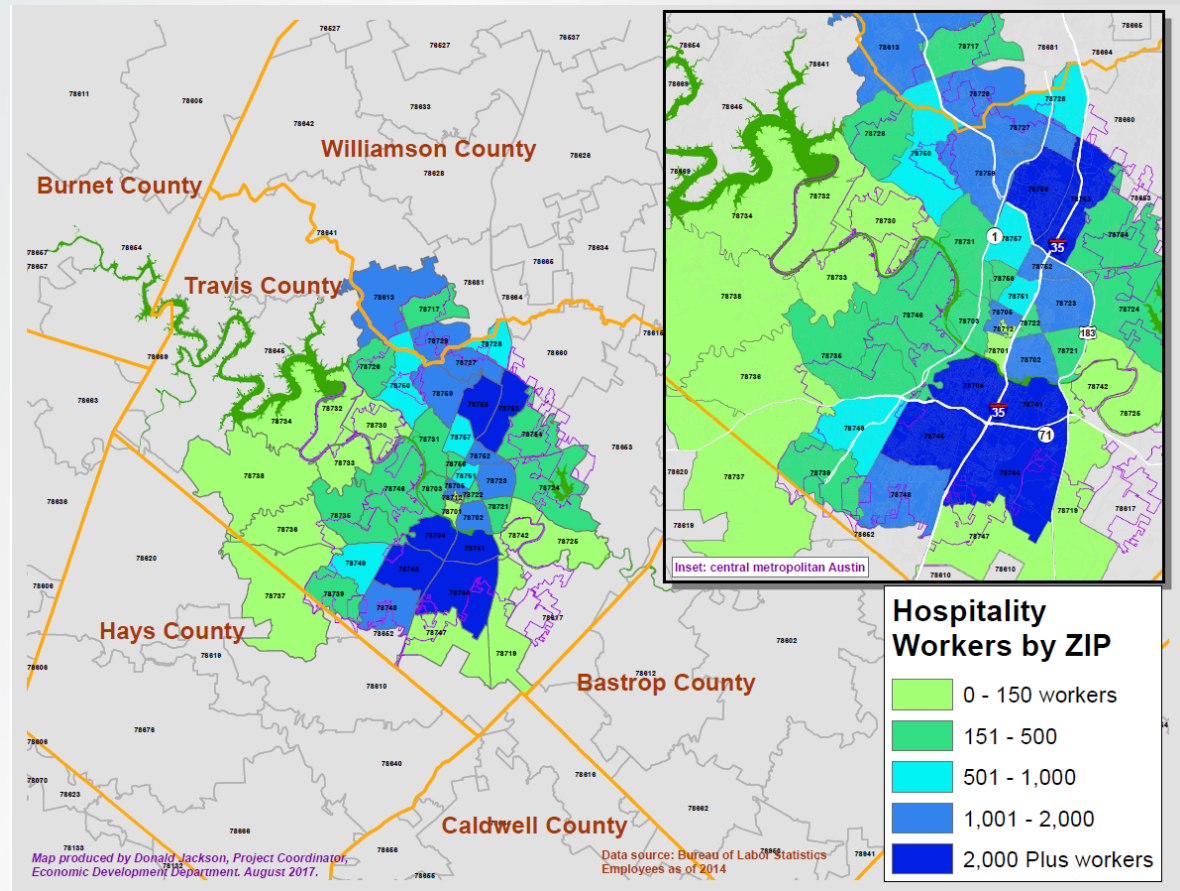
***Austin has a strong track record over last 15 years of investing in our Downtown ... throughout all the downtown districts***

- City has consciously fostered this growth through the regulatory environment, infrastructure spending, and investment in catalytic projects that all reinforce each other
  - City Hall / 2<sup>nd</sup> Street District
  - Convention Center Expansion / Hilton Hotel
  - Republic Square
  - Metro Rail
  - Sidewalks, Great Streets, Bikelanes
  - Opening up of Street Grid in Green & Seaholm Districts
  - Waller Creek Tunnel
  - Cultural Facilities: MACC, Blanton Museum, Bob Bullock Museum
- Significant increase in housing units in downtown
  - Total of 9,000, up 2,000 from 15 years ago
- Growth in office has been significant, +2.5 m square ft.



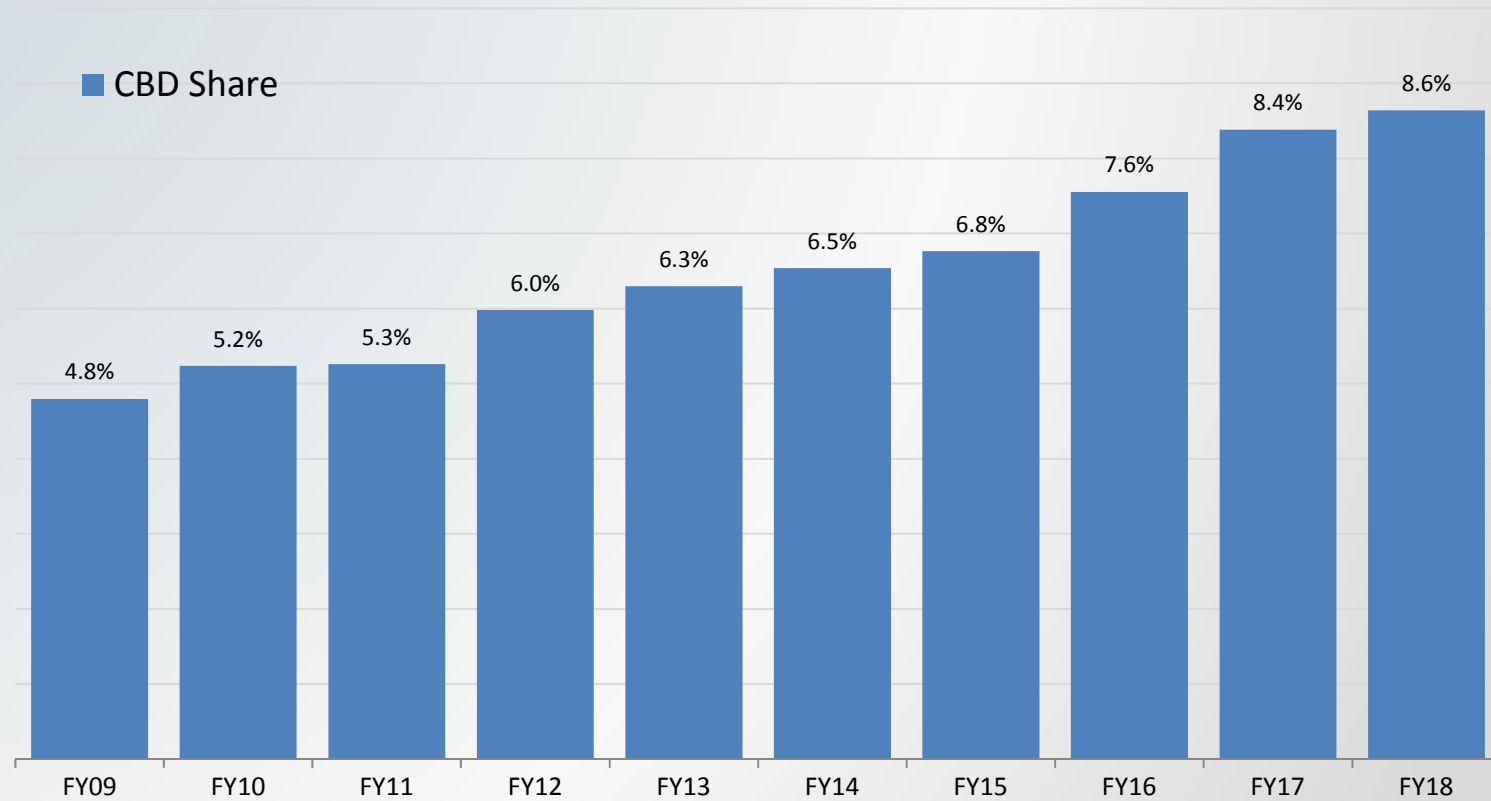
# Downtown: *Tourism*

- Leisure & Hospitality employment stands at 129,500 ... double what it was in 2002
- 3<sup>rd</sup> Largest employment sector in City
- Positive impact on construction sector
  - Recent Hilton renovation created + 700 on site jobs



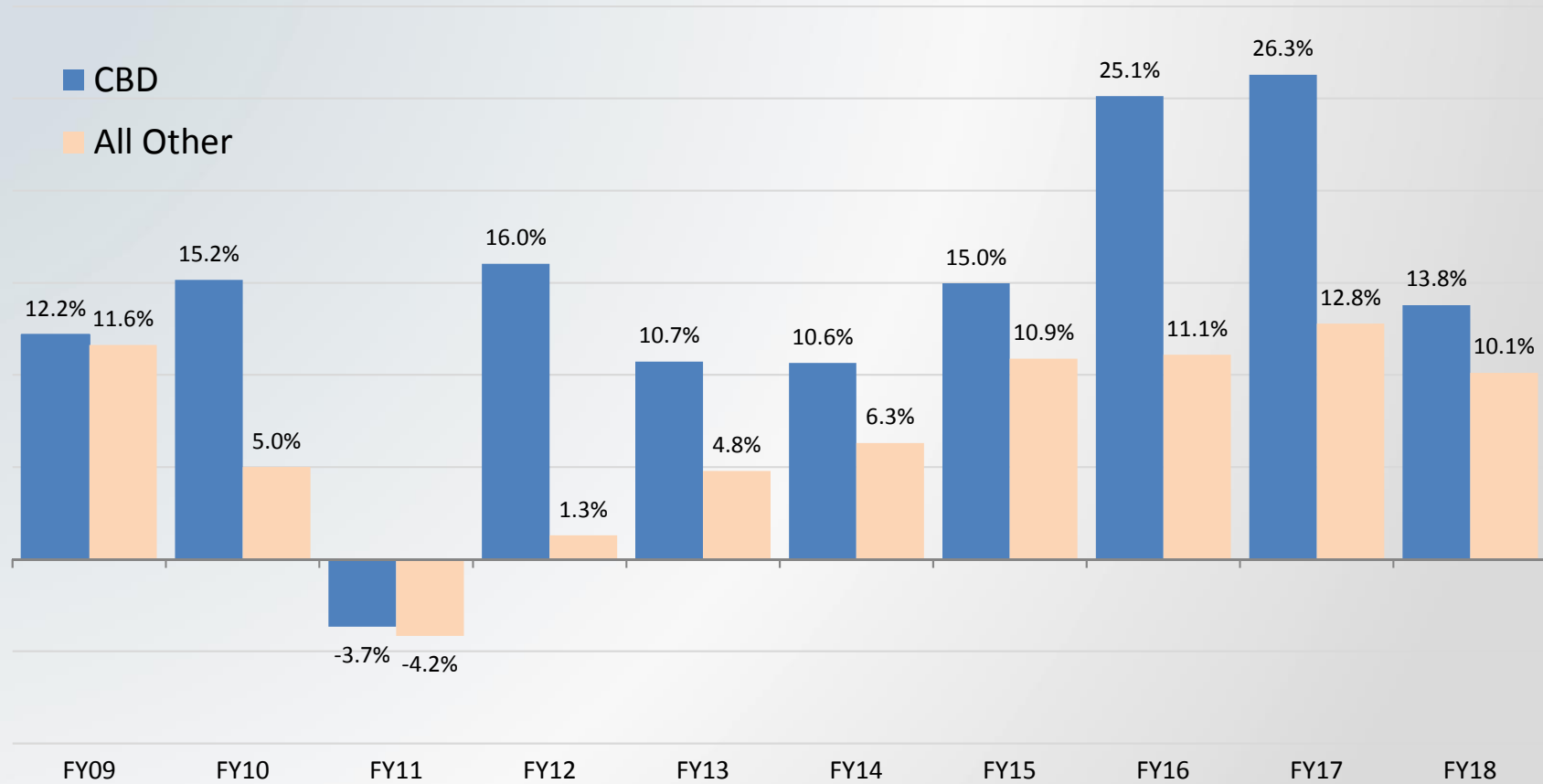


# Downtown: *CBD Share of Assessed Value*

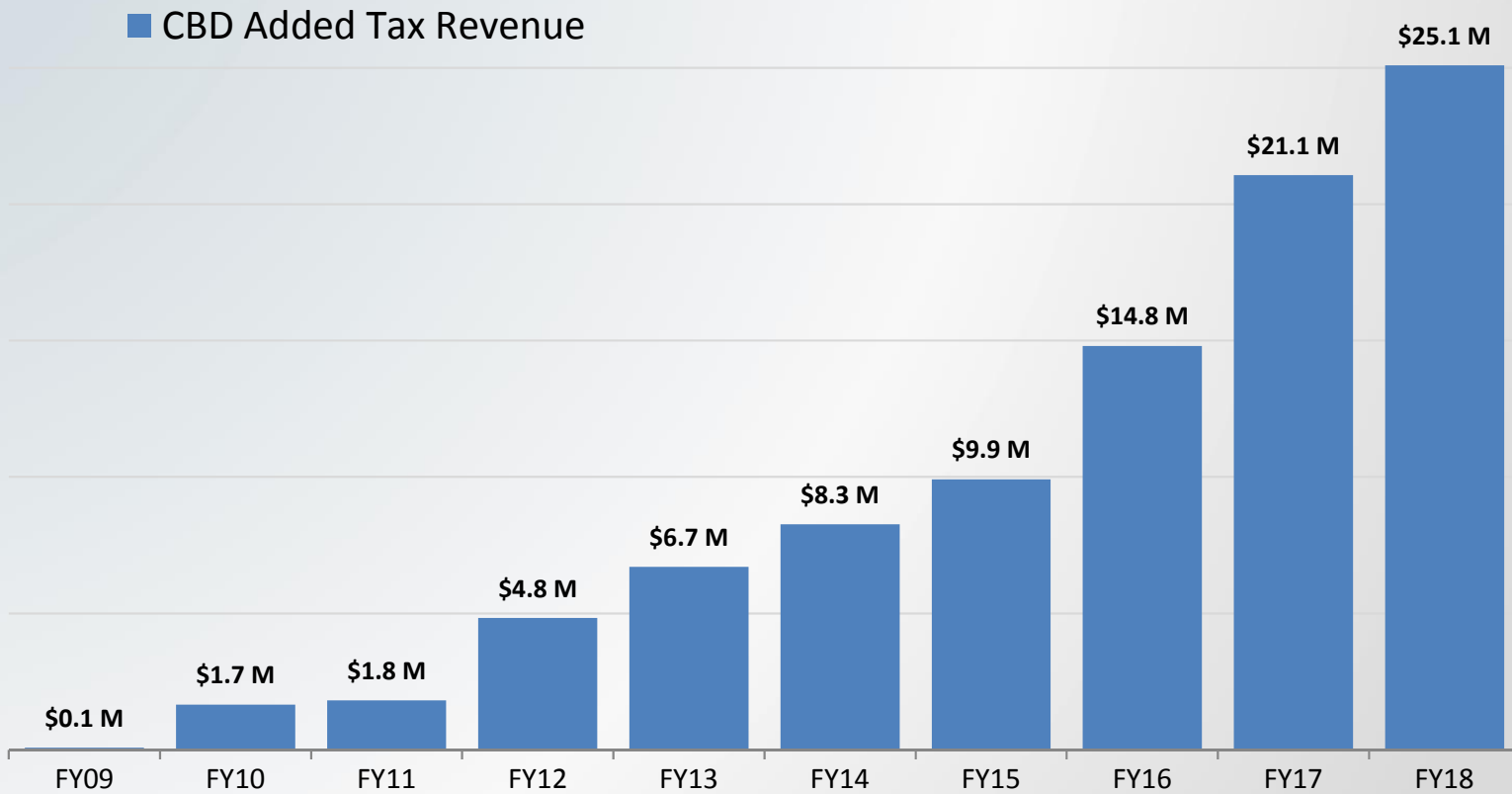


CBD "Central Business District"

# Downtown: *Assessed Valuation Growth*



# Downtown: *Influence on Tax Revenue*



# Downtown: *Influence on Tax Revenue*

- Growth in Central Business District (CBD) positively impacts property tax revenue and the tax rate
  - In 2008, annual growth in Assessed Valuation was similar CBD and non-CBD base; 12.3% vs. 13.7%
  - Since then, CBD values have increased 298%, vs 106% for non-CBD tax base
  - CBD values have grown at 13.8% over last 10 years vs 6.8% for non-CBD properties
  - CBD share of overall tax base has nearly doubled
- Higher tax revenue associated with this accelerated growth in CBD
  - If CBD had grown at same rate as non-CBD, City would have foregone \$94 million over the last decade
  - FY18 impact is \$25.1 million or over 2 cents on the tax rate
  - Other taxing entities also benefit from CBD growth



## TAX INCREMENT FINANCING “101”

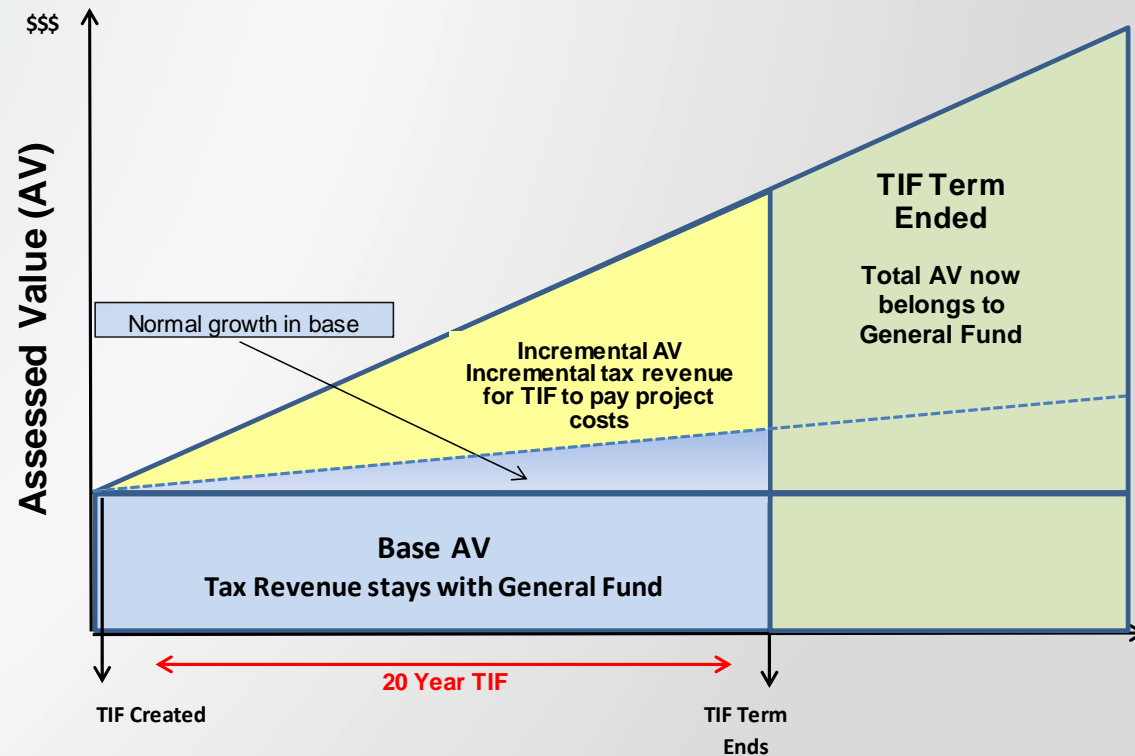
# Tax Increment Financing: a “101”

- Popular financing tool to encourage economic development within a defined geographic area or zone
- Various Texas Code sections allow reinvestment zones
  - TIRZ (Tax Increment Reinvestment Zone) - Texas Tax Code
- Purpose is to set aside property tax revenues due to assessed valuation growth in zone to use for specific purposes in zone
  - Usually public investments that stimulate economic development
- In Texas, a city or county may designate a reinvestment zone

# Tax Increment Financing: a “101”

- Value Capture or Increment
- Future real property tax revenue from zone assessed value growth in excess of zone base assessed value “frozen” at creation
- Use some or all increment to promote new private development in zone, typically by investing in public infrastructure
- When zone’s term ends, all real property tax revenue (base plus increment) returns to local government for its general purposes

TIF Assessed Value (AV) Over Project Life



# Tax Increment Financing: a “101”

## *“Pay as You Use”*

- Set aside tax increment revenue to pay debt service or up-front to kick start capital projects or for development costs
- TIF authority issues bonds to finance public infrastructure
- Developer finances project, then city reimburses (shifts debt risk to developer)

## *“Pay as You Go”*

- Set aside tax increment revenue for use when sufficient balance accumulates or until a time driven target is met
- Can be a slow process depending upon zone development



# Tax Increment Financing: *Legislation*

*Texas Enabling Legislation: Chapter 311 of the Tax Code*

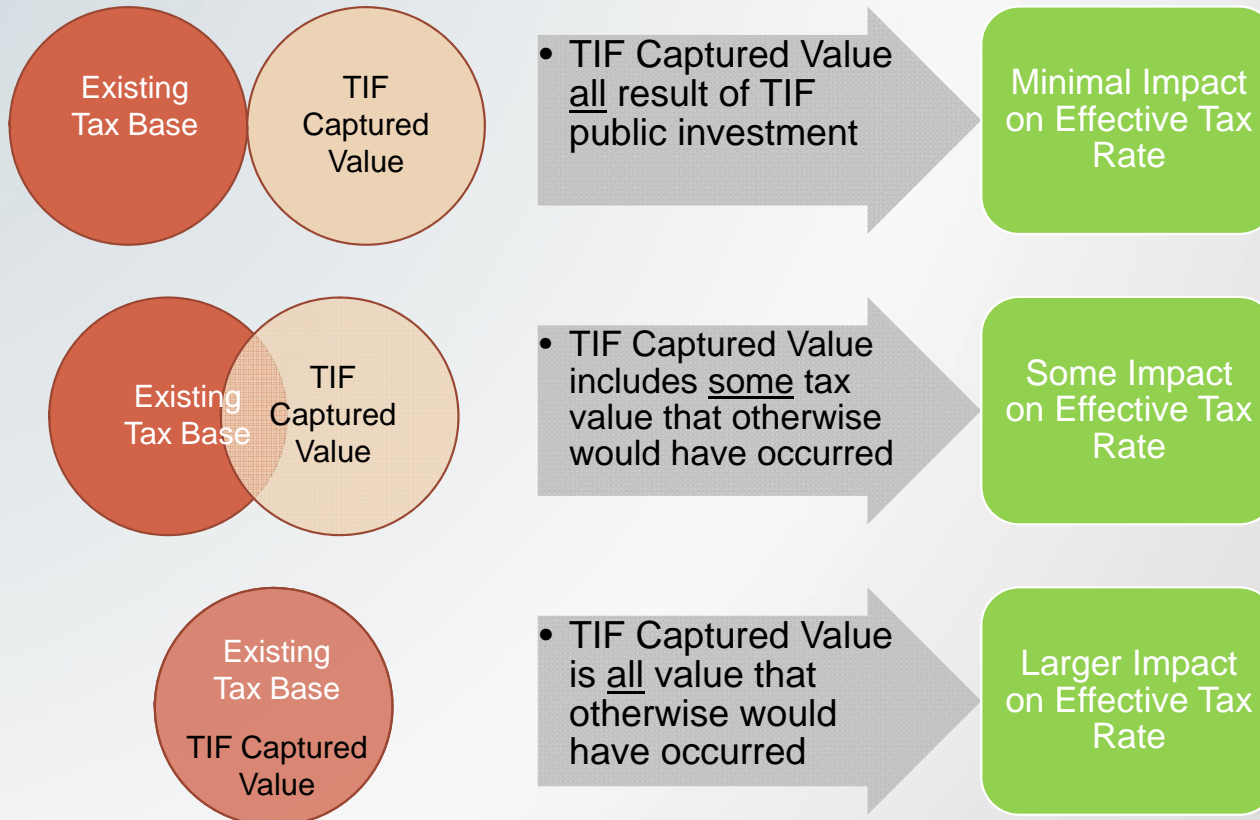
- TIF (Tax Increment Financing)
  - Tool for financing public improvements in blighted or underdeveloped areas identified as reinvestment zones
- TIRZ (Tax Increment Reinvestment Zone)
  - No more than 30% of zone total assessed value (AV) is residential, excluding publicly owned property
  - No more than 25% of tax base may be in zone
  - City or County authorized to designate
  - Request by landowners' petition (represent at least 50% of proposed TIRZ appraised value)
- Process for zone creation includes public participation
- **Requires TIRZ project plan and financing plan**
- Authority to pledge tax increment fund as security for bonds
- Powers and duties of TIRZ Board of Directors

# Tax Increment Financing: *the “But-For” Test*

- But For the TIF subsidy, economic development would not occur at proposed level solely from private investment in the reasonably foreseeable future
- Important safeguard for protecting local revenue sources
- Essential for property values to rise more than typical market driven growth
- Considerations
  - Forecast level and timing of private development does not occur as expected
  - Private developer’s financial capacity may weaken causing failure to produce projected development activity
  - Decline in assessed value – no increment

# Tax Increment Financing: *Tax Rate*

## "But- For" Scenarios



## WALLER CREEK AREA FINANCING



- Created in June 2007 to fund the design and construction of the Waller Creek Tunnel
  - Amended February 2011
  - Expires in 2028
- Existing Boundaries
- TIF contributions by jurisdiction
  - City: 100%
  - County: 50%
- Issued \$106 million in Certificates of Obligation (COs) supported by TIF revenues



# Waller Creek Conservancy: *Background*

- Founded in 2010 as a 501c3 non-profit
- Dedicated to restoring and improving the parks, trails, and public open spaces around Waller Creek between Lady Bird Lake and 15th Street
- Public-Private Partner with the City of Austin
- Directed a 2012 international design competition and extensive community engagement process that resulted in **Waller Creek Design Plan**
- Committed to creating parks and trails that are accessible and engaging for Austin's diverse and vibrant community



# Waller Creek: *A Chain of Parks*

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- A connected trail network with over 3 miles of trails
  - Accessible trails for park users of all ages and abilities
  - Off-street bike/ped infrastructure improving safety
- Improvement of existing parks and creation of new parks
  - more than 30 acres of public land into world-class parks
- Ecological restoration of creek and adjacent land
  - Restoration of failing creek infrastructure
  - Focus on sustainability and environmental restoration of creek ecology and habitat



# Waller Creek: *Community Benefits*

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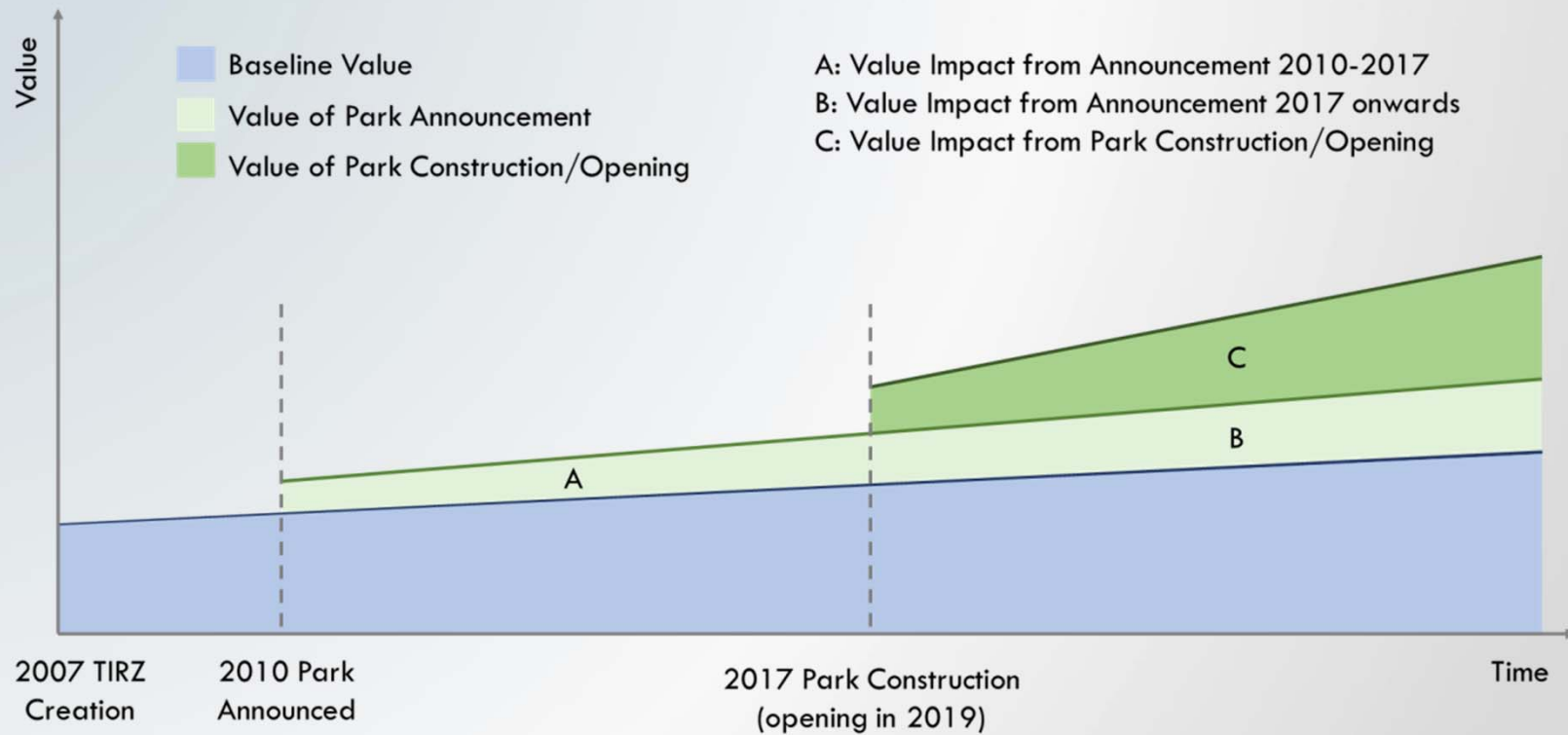
- A environmental restoration project
  - Waller Creek provides greater access to nature for all Austinites
  - Programs will engage families and children with green space; an area of need in our City
- A place to highlight Austin's diverse and vibrant culture
  - Waller Creek will be a place to feature dynamic cultural programs, connecting locals and visitors with the best of Austin's art, food, and entertainment
- Parks build community
  - Waller Creek will be a democratic space that is inviting to all residents, free and open to the public facilitating interaction and engagement





# Waller Creek: *Economic Benefits*

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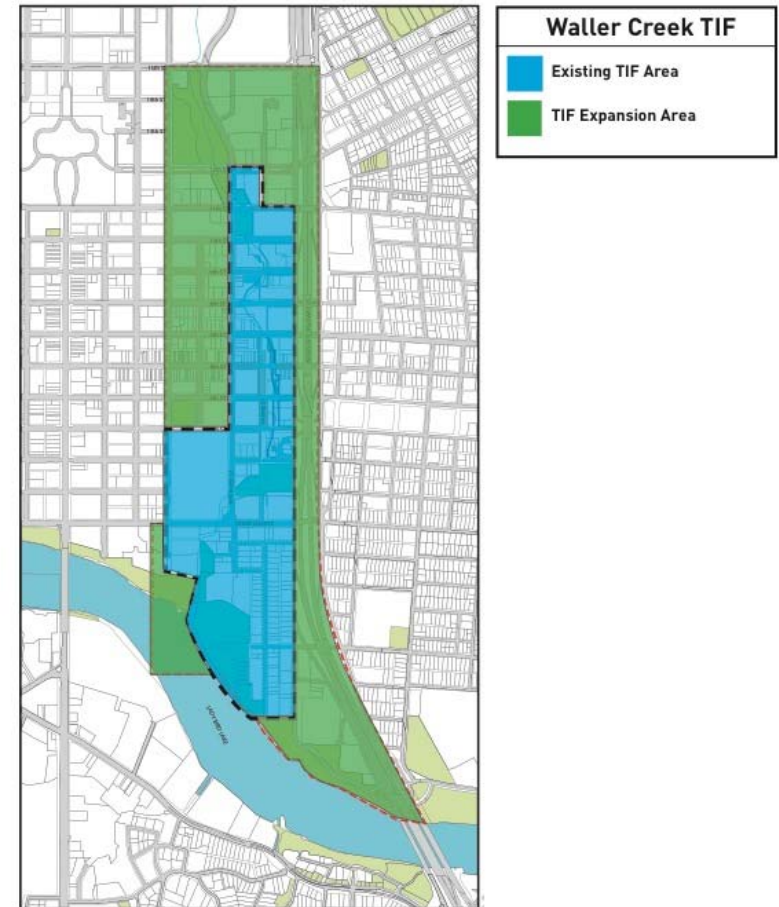


# Waller Creek: *Financing*

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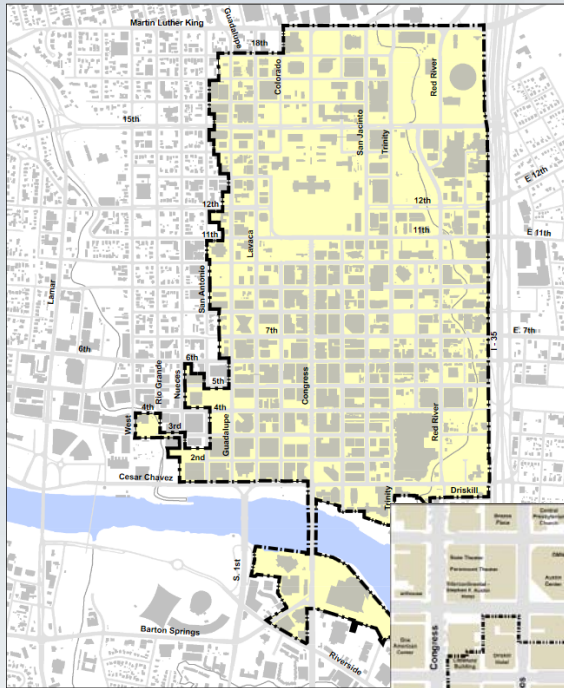
## Initial Financing Framework

- Generate additional \$140 million in capital from existing Tax Increment Reinvestment Zone #17
  - Extend revenue collection from 2029 to 2041
  - Expand boundaries west to Trinity/San Jacinto and North to 15<sup>th</sup> Street
- \$110 million capital for Waller Creek Design Plan – matched by private fundraising
- \$30 million capital for Homelessness Initiatives

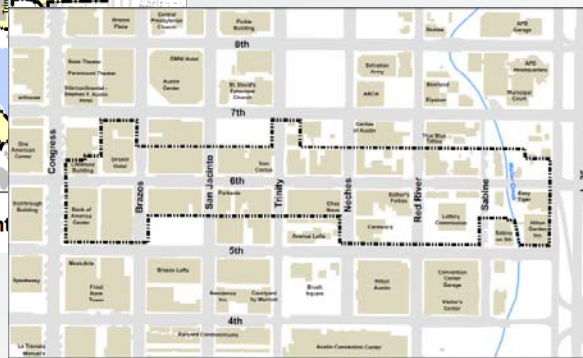


# Waller Creek: *Public Improvement District (PID)*

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Austin Downtown Public Improvement



East 6th Street Public  
Improvement District (PID)

- Currently there are two Downtown PIDs
- Downtown PID and East Sixth Street PID

## Initial Financing Framework

- \$1 million from assessment of nearby properties to support Waller Creek O&M
- Working with Downtown Austin Alliance

# Waller Creek: *Remaining Tasks*

- Update projections for Tax Increment Reinvestment Zone (TIRZ #17)
  - New tax year 2017 certified tax roll assessments
  - “But-for” of linear park improvements
  - Re-calculate debt financing – anticipate additional capacity for homeless initiatives
  - Evaluate use of TIF funds for Operations and Maintenance
- Can complete tasks by early November

## CONVENTION CENTER FINANCING

# Convention Center: *Operating Model*

- Conventions – and associated Room Blocks – are scheduled 3-5 years in advance
  - Contracts and associated rates are negotiated years in advance
  - 25-30% of Convention Center business is annually recurring
- Hotel meeting space & Convention Center space complement each other
- Coordinate calendar of events with Special Events
- Rates are not designed to recover all operating costs
  - This is the model used nationally
  - Goal is to maximize visitor spending and support local business and employment
- Use of Hotel Occupancy Tax (HOT) by Convention Center
  - Debt service, operations, maintenance and capital projects to ensure facility is well-maintained and viable throughout life of the bonds

# Convention Center: *Operating & Debt Reserves*

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Operating Reserves	Amount
Convention Center 180 day Operating Reserve	\$18.0 million
Convention Center Capital Reserve	\$4.5 million
<b>Total</b>	<b>\$22.5 million</b>

Debt Reserves	Amount
Series 2008	\$8.5 million
Series 2012	\$1.8 million
<b>Total</b>	<b>\$10.3 million</b>



# Convention Center: *Capital Investments*

- The facility – and its condition – is key to attracting business
- Continued upkeep and investment of facility is a bond-holder expectation
- Over the course of a 5-Year CIP Plan, there are various types of improvement projects required
  - Structural repairs
  - Technology upgrades – fiber optics, WIFI
  - Roof replacements
  - Sound & Lighting upgrades
  - Flooring upgrades
  - Elevators & Escalators

# Convention Center: *Capital Investments*

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## Austin Convention Center Improvement Project FY 2018 Summary Projections

Description	Convention Center	Venue (north side)	Total
Available Funds (Current + FY18 Appropriation)	\$87.3 million	\$40.5 million	\$127.8 million
Project Spending (Underway + Planned)	(\$62.1 million)	(\$6.9 million)	(\$69.0 million)
Funds available for future projects or early debt repayment	\$25.2 million	\$33.6 million	\$58.8 million

# Convention Center: *Expansion Financing*

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- Pledged revenue includes:
  - 4.5% HOT (Ch. 351): Convention Center current allocation
  - 2.0% Add'l HOT (Ch. 351): Increase in Assessment allowed for expansion of an existing convention center
  - 2.0% HOT Venue (Ch. 334): for 2002 Expansion, in place until current debt paid off
  - Convention Center Facility Revenue
- Project budget:
  - 2.0% Add'l HOT (Ch. 351): provides for estimated \$215M
  - 4.5% HOT (Ch. 351): provides for additional capacity upon current debt retirement
- Additional Ch. 351 HOT funding available for:
  - Historic Preservation: up to 15% of the 9% Ch. 351 Assessment
  - Music: up to 15% of the Add'l 2% HOT (current Arts funding of 15% of 7% Ch. 351 remains)

# Convention Center: *Expansion*

- Key Facts

- 5 Criteria Considered by Meeting/Convention Planners
  - Facility, Hotels, Transportation, Safety, Amenities
- Oldest and smallest among competitive set
- Facility's mix of event space is inhibiting performance
- Losing current customers as they outgrow space (Dell)
- Potential new business lost due to size or unavailability (up to 50%; could fill expansion)
- Age of current building becoming an issue (inability to make significant changes due to structure and current business)
- Financial projections indicate recommended expansion provides overall highest/optimal combination of incremental room night increase, utilization, revenues

# Convention Center: *TPID*

- Tourism Public Improvement District (TPID)
  - Authorized under Chapter 372 of the Texas Local Government Code (Public Improvement District Act)
  - Multi-year assessment, with renewal option at end of each term
  - Assessment on certain hotel stays (follows Hotel Occupancy Tax guidelines)
  - % and use of funds set out in TPID service plan
  - Approval from City Council and Hoteliers
  - Recommended by Visitor Impact Task Force

## Initial Financing Framework

- 1%-2% assessment
- City 40% share generates as high as \$9.2 million annually in first 10 years

# Convention Center: *Scenarios*

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Scenario	Expansion	CIP Investment	TPID	Other Area Projects
<i>Scenario A</i>		✓		
<i>Scenario B</i>	✓ @ \$560 M	✓	✓	✓
<i>Scenario C</i>	✓ P3 @ \$400 M	✓	✓	✓

# Convention Center: *Scenario HOT allocations*

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Hotel Occupancy Tax				
	Chapter	Assessment	Cents	%
<b>Scenario A - 4.5 7 HOT; 2 Venue; CC Facility Revenue</b>				
Convention Center	351	7%	4.5	64.29%
Historic Preservation	351	7%	< 1.05	< 15%
Music	N/A	N/A	N/A	N/A
Homeless Initiatives	N/A	N/A	N/A	N/A
Other Area Projects	N/A	N/A	N/A	N/A
Tourism and Promotion	351	7%	1.45	15%
Cultural Arts Funding	351	7%	1.05	20.71%
Venue	334	2%	2	100.0%

Hotel Occupancy Tax				
	Chapter	Assessment	Cents	%
<b>Scenario B - 4.5 7 HOT; 2 Add'l HOT; 2 Venue; CC Facility Revenue</b>				
Convention Center	351	9%	6.5	72.22%*
Historic Preservation	351	9%	< 1.05	< 15%
Music	351	2%	1.05	15%
Homeless Initiatives	TPID	1%-2%		
Other Area Projects	351		CIP	
Tourism and Promotion	351	7%	1.45	15%
Cultural Arts Funding	351	7%	1.05	20.71%
Venue	334	2%	2	100.0%

\* 4.5 of 7% and Add'l 2

Hotel Occupancy Tax				
	Chapter	Assessment	Cents	%
<b>Scenario C - 4.5 7 HOT; 2 Add'l HOT; 2 Venue; CC Facility Revenue</b>				
Convention Center	351	9%	6.5	72.22%*
Historic Preservation	351	9%	1.05	15%
Music	351	2%	1.05	15%
Homeless Initiatives	TPID	1%-2%		
Other Area Projects	351		CIP	
Tourism and Promotion	351	7%	1.45	15%
Cultural Arts Funding	351	7%	1.05	20.71%
Venue	334	2%	2	100.0%

\* 4.5 of 7% and Add'l 2



# Convention Center: *Scenario Outcomes*

	<u>YR1</u>	<u>YR2</u>	<u>YR3</u>	<u>YR4</u>	<u>YR5</u>	<u>YR6</u>	<u>YR7</u>	<u>YR8</u>	<u>YR9</u>	<u>YR10</u>	<u>10 YR Total</u>
<b>Scenario A</b>											
Historic Preservation	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$12.8	\$13.2	\$13.6	\$14.0	\$14.4	\$68.0
Music	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Homeless Initiatives	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Area Projects	CIP										\$0.0
											<b>\$68.0 million</b>

<b>Scenario B</b>											
Historic Preservation	\$1.8	\$3.3	\$3.7	\$3.2	\$4.7	\$6.0	\$7.9	\$10.6	\$12.2	\$13.9	\$67.3
Music	\$3.1	\$3.2	\$3.3	\$3.4	\$3.5	\$3.7	\$4.0	\$4.0	\$4.0	\$4.1	\$36.3
Homeless Initiatives	\$3.5	\$3.6	\$3.7	\$3.8	\$7.9	\$8.2	\$8.4	\$8.7	\$8.9	\$9.2	\$65.9
Other Area Projects	CIP										\$59.0
											<b>\$228.5 million</b>

<b>Scenario C</b>											
Historic Preservation *	\$13.9	\$14.5	\$15.1	\$15.5	\$16.0	\$16.4	\$17.0	\$17.4	\$18.0	\$18.5	\$162.3
Music	\$3.1	\$3.2	\$3.3	\$3.4	\$3.5	\$3.7	\$4.0	\$4.0	\$4.0	\$4.1	\$36.3
Homeless Initiatives	\$3.5	\$3.6	\$3.7	\$3.8	\$7.9	\$8.2	\$8.4	\$8.7	\$8.9	\$9.2	\$65.9
Other Area Projects *	CIP										\$59.0
											<b>\$323.5 million</b>

**\* Based on allocation of 15%;**

**\* If changed to 10%, total 10 YR Funding for Historic Preservation is \$108 M, and funding for Other Allowable Area Projects increases by \$50 M**

# Convention Center: *Scenario Outcomes*

## Initial Financing Framework (Revised for P3)

- Expanded Convention Center
  - As recommended by Convention Center Master Plan
  - As recommended by Visitor Impact Task Force
  - Utilizing a Public Private Partnership (P3) Model
- Tourism Public Improvement District
- Generates \$323.5 million over 10 years for other initiatives
  - Historic Preservation
  - Music
  - Homelessness
  - Other Area Projects

# Convention Center: *Future Opportunity*

- 2% Hotel Occupancy *Venue* Tax (Ch. 334)
  - Aggressive Pay Down On Debt is built into financing model
    - Venue funds can only be used in the defined Venue
  - Allows City/County flexibility on a new venue – such as Expo Center, upon debt repayment in 2021
    - Expo Center Master Plan relies on new Convention Center expansion to generate HOT revenue needed for a new Chapter 334 venue
- “This report assumes that an expansion of the ACC [Austin Convention Center] will take place for all projection and impact analyses.” (pg. 4 TCEC Market & Planning Study, July 2016)*
- City continues its work – Parks & Recreation / Economic Development Department – on planning for Walter E. Long District Park

# Convention Center: *Future Opportunity*

- Scenario C also allows the future consideration of the redevelopment of the existing 6 Blocks that the Convention Center currently occupies



## WRAP UP

# Wrap Up

- Investment in Downtown creates an on-going dividend payment for entire City
  - Public & Private investment of all types reinforce each other
- Initial Financing Framework
  - Re-affirms recommendation for Convention Center expansion
  - Allows for funding for other initiatives
  - Allows for implementation of Council Approved Waller Creek Design Plan

## QUESTIONS