

SOUTH CENTRAL WATERFRONT ADVISORY BOARD

PUBLIC INFRASTRUCTURE FINANCING MECHANISMS



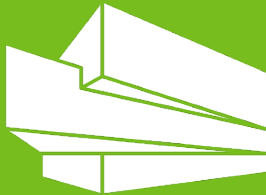
OCTOBER 16, 2017

AGENDA

- State of the Finance Landscape
 - Public Sector
 - Private Sector
- Partnership Mechanism
 - Public Improvement Districts
 - Tax Increment Reinvestment Zones
 - Local Government Corporation Chapter 380
 - Other Tools
- Questions & Answers

AUSTIN'S PROSPERITY ENGINE

The City of Austin's Economic Development Department (EDD) develops and leads innovative programs that increase the prosperity of all Austinites, our businesses, and our diverse communities.



Redevelopment

CITY OF AUSTIN
ECONOMIC
DEVELOPMENT

Public Perspective of Financing Infrastructure

- Increasing population places **greater demand** on existing infrastructure
- Current **condition** of public infrastructure not that great
- Public resources to replace, renovate or construct new public facilities face **funding constraints** (local, state, federal)
- Emphasis on “**resilient development**” – appropriate density, environmental stewardship and public amenities
- Up-tic** in backfilling, renovating and constructing new private real estate – both **residential and commercial** (sales tax and property tax revenues)

Source: ASCE, Texas Chapter (2017)

Grading Elements: capacity, condition, funding, future need operation/maintenance, public safety and resilience

Category	TEXAS				National
	2004	2008	2012	2017	
Aviation	C+	C+	C+	B-	D
Bridges	C-	B-	B-	B	C+
Dams	D-	D-	D-	D	D
Drinking Water	D	D	D-	D+	D
Energy	B+	B+	B+	-	D+
Flood Control	D-	D-	D	D	-
Hazardous Waste	C	C	-	-	D+
Inland Waterways	Not evaluated by ASCE Texas Section				D
Levees	Not evaluated by ASCE Texas Section				D
Ports (Navigable Waterways)	D	D	C	-	C+
Public Parks and Recreation	Not evaluated by ASCE Texas Section				D+
Rail	Not evaluated by ASCE Texas Section				B
Highways and Roads	C-	D	D	D	D
Schools	D-	D-	D-	-	D+
Solid Waste	B	B	B+	-	C+
Transit	C	C	C+	-	D-
Wastewater	C-	C-	C-	D	D+
GPA	C-	C-	C	C-	D+
Cost to Improve ¹					\$2.0T

Private Perspective for Financing Infrastructure

Highest risk

Hardest to fund with OPM

Upfront critical path

Revenue at the back end

OPM = other people's money

- **Debt (most risk averse):**

- Lenders lessen risk by requiring more equity, personal guarantees, signed contracts or leases
- Banks face regulatory constraints on the amount of construction lending

- **Equity (most expensive):**

- Greater equity requirements than pre-recession (30-40%)
- Most expensive source of funds for utilities that go in first with long term indirect payout
- Return is only from that development although public infrastructure wider benefit
- The market limits how much in rent, home prices, fees and taxes that can repay equity

Public-Private Partnerships through Development

- Public Improvement Districts (“PIDs”)
- Tax Increment Reinvestment Zones (“TIRZs”)
 - Spread risk
 - Align interests (control)
 - Lessen the total cost of capital
 - Capture created future value

SOUTH CENTRAL WATERFRONT COMMITTEE

PUBLIC IMPROVEMENT DISTRICTS

Public Improvement Districts

Authority: Local Government Code Chapter 372 (1987/ 2011 revisions)

Entity: City or County creates the District
District managed by governing board of jurisdiction

Type: Bonds: Upfront, Reimbursement (Development PID) OR
Pay-as-you-go (Operations PID)

Uses:

- Public safety and security services;
- **Streets and sidewalks;**
- Water, wastewater, health and sanitation, and drainage facilities;
- **Acquisition of rights-of-way;**
- **Art;**
- Creation of pedestrian malls; and,
- Erection of fountains.
- **Landscaping and other aesthetics;**
- Library facilities;
- Mass transit;
- **Park, recreation and cultural facilities;**
- Parking facilities; and,
- **Acquisition, renovation and/or construction of affordable housing.**

Dollars & Sense: Funding the Public Realm Vision



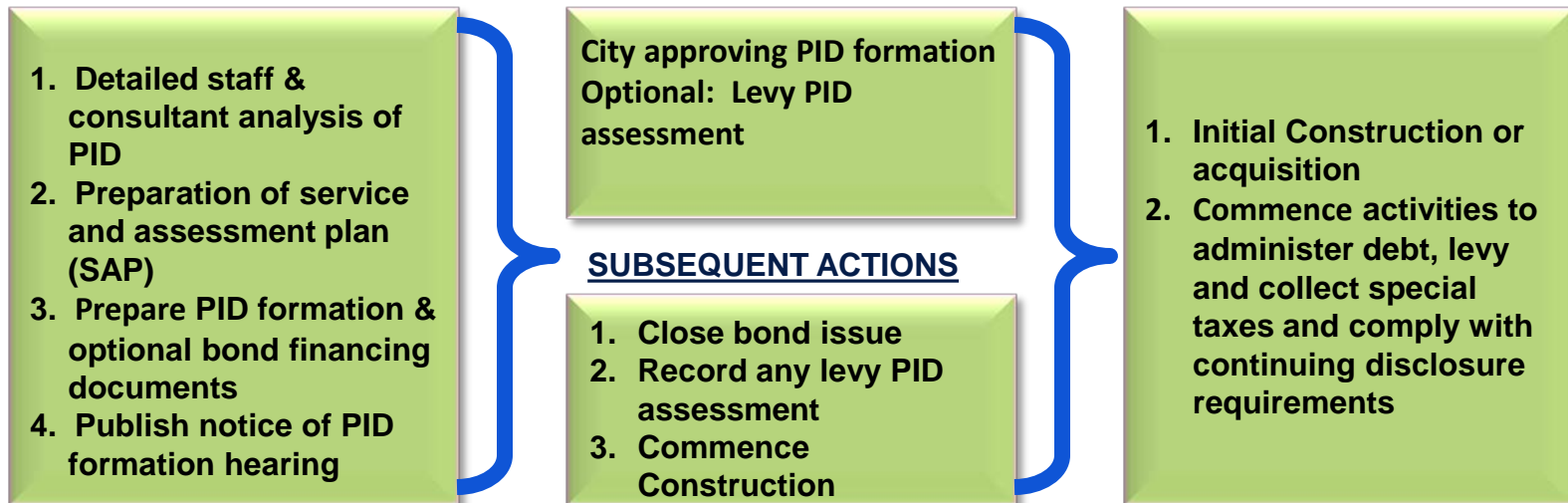
Public Improvement Districts (cont.)

Typical Steps in Formation

PETITIONED INITIATED PID



PUBLIC HEARING



Critical Need

Underway

City Action	Timeframe		Key Partners	
	0-1 yr	2+ yr	City	Other
Initiate Public Improvement District evaluation To evaluate the feasibility of a Public Improvement District, the City will need to engage property owners in a similar process to the tax increment study. The process should: <ul style="list-style-type: none"> Engage with private property owners and the Downtown Austin Alliance. Since part of the area is already within a PID, the City will need to 1) assess the benefits and costs of expanding the PID or creating new one. Identify potential PID eligible projects and programs and conduct detailed PID projections on project/program costs. Identify assessments required to achieve PID goals Complete the steps required for PID adoption, detailed in the Local Government Code Chapter 372. Improvement Districts in Municipalities and Counties (http://www.statutes.legis.state.tx.us/Docs/LG/htm/LG.372.htm) 	X		Economic Development, Finance	Coordinate with taxing jurisdictions, Downtown Austin Alliance. Potential consultant support
Initiate Development Corporation / Authority Evaluation <ul style="list-style-type: none"> Evaluate potential structures for a South Central Waterfront Development Authority 	X		Economic Development, Finance, Legal	Potential consultant support
Transfer of Development Rights. Evaluate the potential of a TDR ordinance that defines TDR areas and develops a sender and receiver structure. The structure would address among other factors: <ul style="list-style-type: none"> How to value development rights. How the development rights can be used by the receiving entity (e.g., more FAR and/ or height as well as other conditions such as possible affordable housing commitment either on site or a fee-in-lieu). Who is eligible to buy the rights (e.g., private property owners and developers, the City, non-profits). There are several possible "sender" properties. Three of these could include One Texas Center (related to affordable housing), the Cox properties (related to the waterfront park), and the Crockett properties (related to the plaza). 	X		Legal, CodeNEXT	Potential consultant support
Develop a Regulating Plan The City should aim to set up regulatory conditions that lead to changes in the entitlements to the area over time. <ul style="list-style-type: none"> Incorporate incentives and form-based code provisions to provide clarity for public realm and urban design intentions 		X	Coordinate with CodeNEXT staff and consultants	

SCW Plan
111

Public Improvement Districts

Two Types

Bond (Development)

- Construction Bonds – Up front proceeds secured by a lien on the benefitted land as is but entitled and improved with proposed public improvements
- Reimbursement Bonds – Secured by lien on the benefitted project at the time of bond issuance
- Debt service of the bonds paid through an assessment (not a tax!) allocated fairly across the benefitted property owners

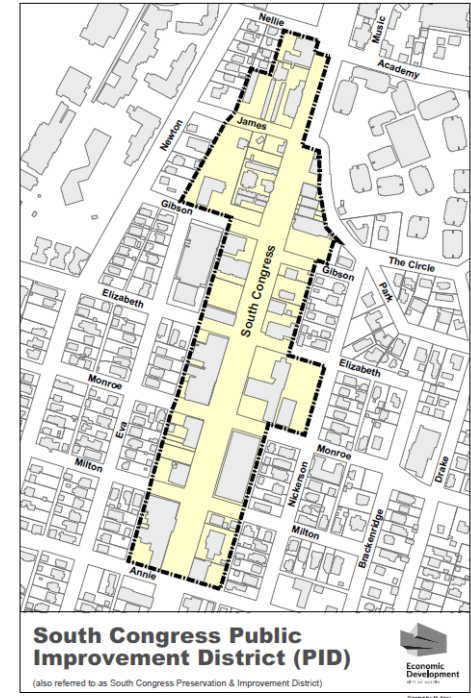
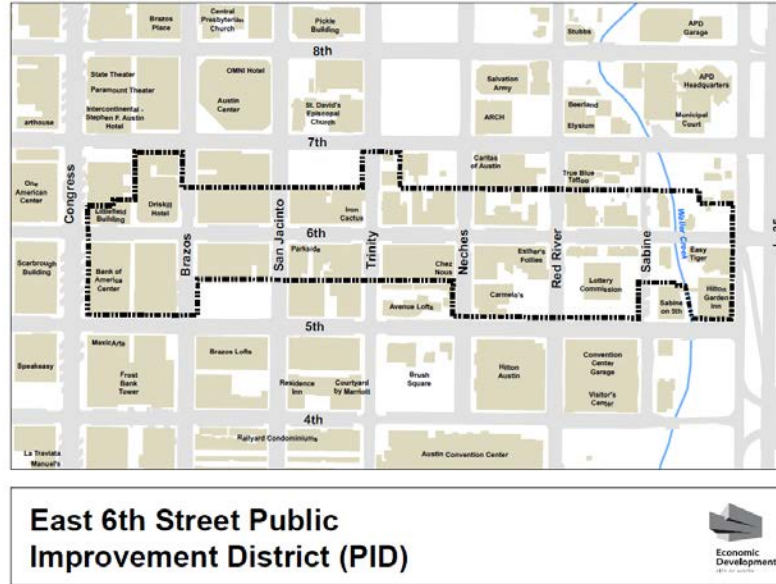
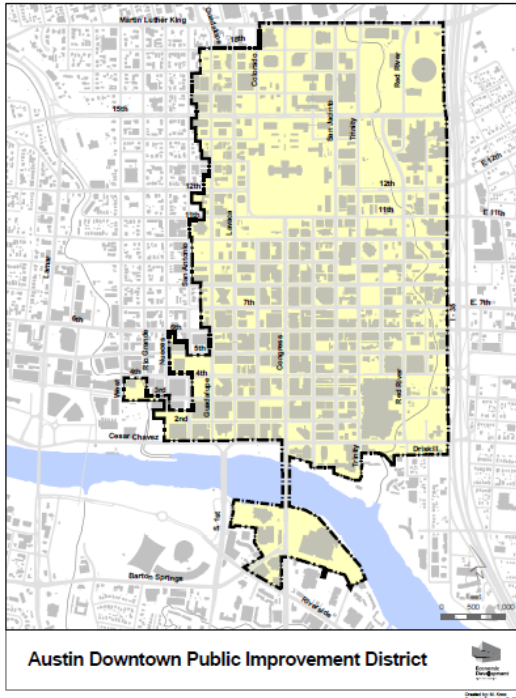
Pay-as-you-go (Operation)

- Assessment based on share of front foot, value or other
- Primarily for maintenance and beautification
- PID enters into contracts to carry out the work

Public Improvement Districts (cont.)

Existing Operations PIDs

Name	Established	Term (years)	FY 2018 Assessment		Renewal
			Rate (per \$100 in AV)	Revenue	
Downtown	1992	10	\$0.10	\$ 7,470,860	2022
E. Sixth Street	2004	5	\$0.19	\$ 124,380	2019
S. Congress	2014	5	\$0.20	\$ 140,332	2019



Public Improvement Districts (cont.)

Operations PID – Pay-as-you-go

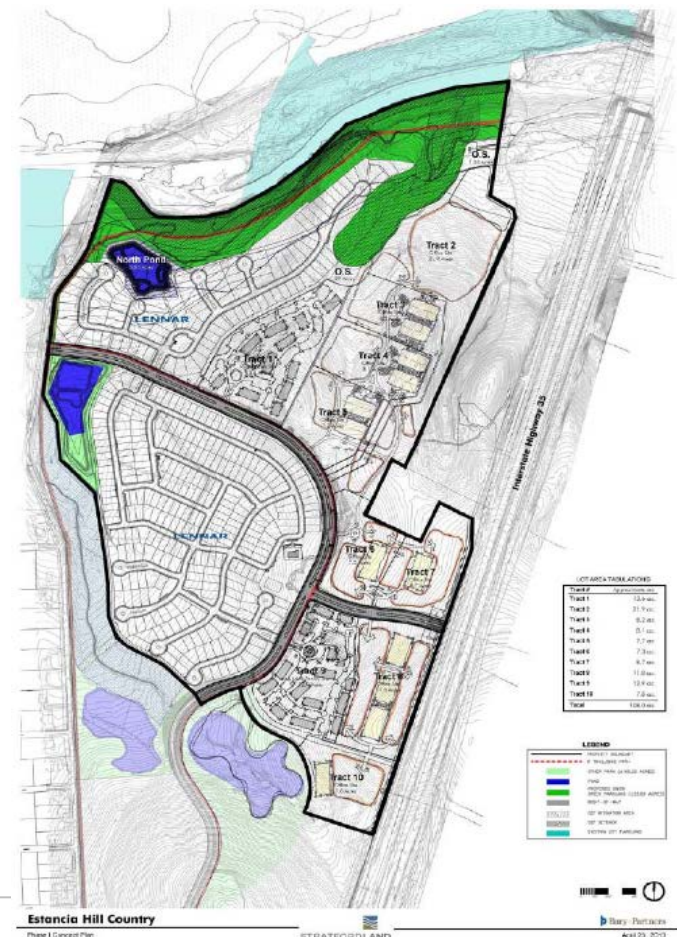
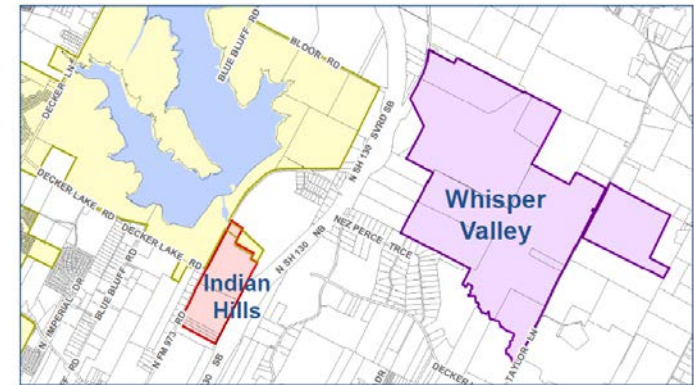
Risk:	■ Foreclosure on lien due to nonpayment of assessment
Control:	City appoints the Board, approves PID petition City oversight and Council approval of annual budget, assessment and service and assessment plan Management entity performs day-to-day tax of carrying out work on behalf of the City
Capital Cost:	Minimal ability to pay for significant upfront capital improvements Maintenance of public capital infrastructure
Value Capture:	Benefited property owner pays an assessment (not a tax)

Public Improvement Districts (cont.)

Existing Development (Bond) PIDs

Name	Established	Bond Amt.	Expire
Whisper Valley	2010	\$ 40,477,000	2041
Indian Hill	2010	\$ 2,860,000	2026
Estancia	2013	\$ 12,600,000	2028

- Whisper Valley PID (WV)**
 - 2,060 acres; Limited purpose annexation in the City's extraterritorial jurisdiction
 - Single family (2,800 units); Multi-Family (4,700 units); Office (1.3 mil sq. ft.); Commercial (1.3 mil sq. ft.) – PUD Zoning with Affordable housing
 - Extension of Braker Lane
 - Major extension of water infrastructure (48" and 24" water transmission mains)
 - Major wastewater interceptor and remote wastewater treatment facilities (up to 10 MGD)
 - 600-acre public park
- Indian Hills PID (IH)**
 - 240 acres; Limited purpose annexation in the City's extraterritorial jurisdiction
 - Multi-Family (1,500 units); Office (1.6 mil sq. ft.); Retail (60,000 sq. ft.); R&D (473,000 sq. ft.); Industrial (275,000 sq. ft.) – PUD Zoning with Affordable housing
 - Extension of Decker Lake Road
 - Major extension of water infrastructure (48" water transmission main)
- Estancia Hill Country**
 - 593 acres; Limited purpose annexation in the City's ETJ
 - Single family (386 units); Multi-family (440 units); Commercial (813,000 sq.ft.) – PID Zoning
 - Water/wastewater extensions
 - Major spine road construction
 - Relocation of TxDOT exit ramp



Public Improvement Districts (cont.)

Development PID - Bond Finance

Risk:	<ul style="list-style-type: none">■ Non-recourse to the Developer and City/County■ Conservatively underwritten (3:1 value to lien)■ Assessment lien (superior to mortgage) on the land – POLITICAL RISK■ No pledge needed for City/County to credit enhance bonds■ No reduction in City/County bonding capacity■ Only benefitted property owners pay assessment■ Magnitude of assessment fairly constant for property owner■ Assessment does not increase as value increases
Control:	City/County appoints the Board, approves PID petition and issuance of bonds No public bidding requirements
Capital Cost:	Tax-exempt bonds No pre-payment penalty for early pay off of assessments Can be combined with other economic development incentives
Value Capture:	Benefited property owner pays an assessment (not a tax)

Public Improvement Districts

Development PID - Bond Finance (cont.)

- Aligns Interests:
- The development area requiring the infrastructure pays for the infrastructure
 - Within the development area, only those that benefit from the improvements pay for the improvements
 - The more a property owner benefits, the more the property owner pays
 - The real estate is what benefits. Payments run with the land, not with the property owner.
 - Long-term utility assets are financed through long-term fix-rate financing
 - Up-front funds can be available to construct the upfront infrastructure
- Property Owner:
- Different types of property owners pay different amounts of assessment levy based on proportional amount of benefit (methodology)
 - Special assessment is in addition to other property taxes
 - As of July, Travis County will carry out City's PID assessment & collections
 - Nonpayment of special assessment treated link nonpayment of property tax
 - Delinquency and foreclosure from one property owner only impacts that property owner – no “area” default
 - Assessment amount does not change with property value

Public Improvement Districts

Development PID - Bond Finance (cont.)

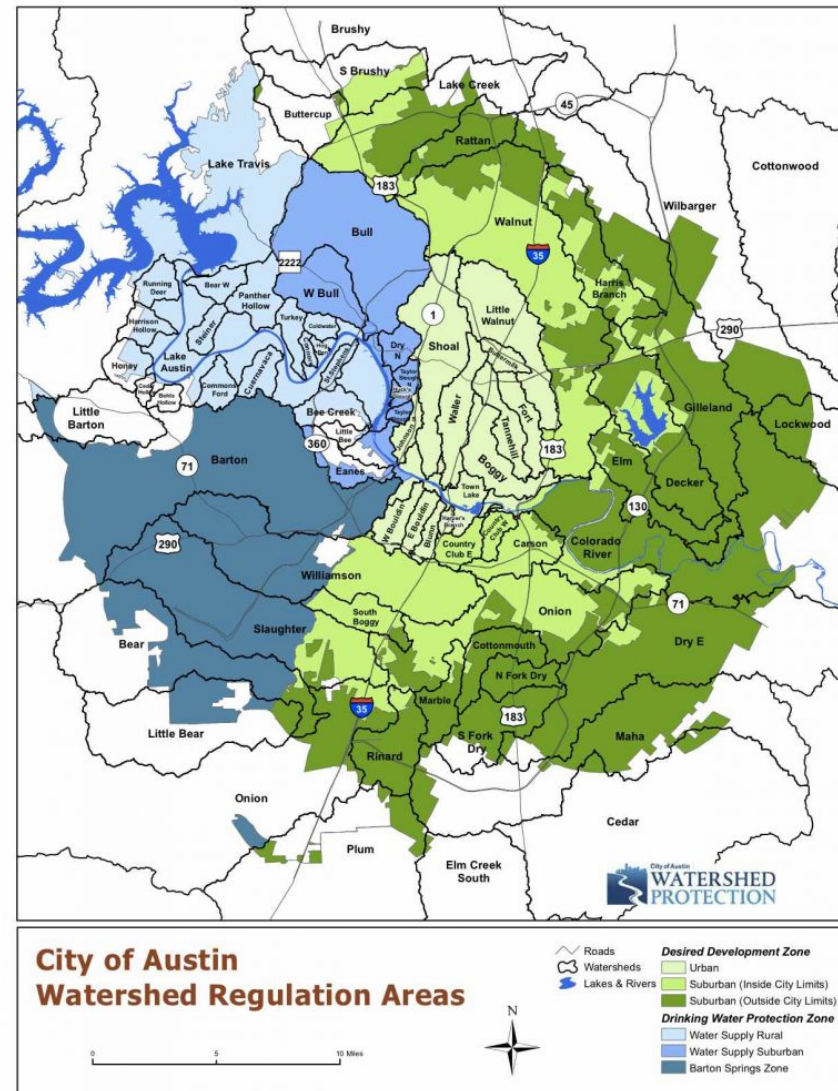
- Land as collateral (assessment lien)
- Appraised value as vacant by entitled
- Value-to-Lien about 3:1 (depends!!)
- Conservatively underwritten
 - What is the track record the developer?
 - What is the market demand for the land uses called for in the development program?
 - Can the market support the presence of special assessments in addition to property tax burden?
 - Does the deal make sense?

Bond Issuance Year	2015
Estimated Unimproved Land Value	\$ 17,571,876
Plus: City Funded Infrastructure	\$ 3,600,000
Net Construction Proceeds Funded	\$ 4,014,106
Estimated Post Bond Sale Valuation	\$ 25,185,982
Projected PID Gross Bond Amount/Assessment	\$ 5,955,000
Reserve Fund	\$ 595,500
Capitalized Interest	\$ 826,294
Underwriter Discount	\$ 119,100
Costs of Issuance	\$ 400,000
Infrastructure Bond Net Proceeds	\$ 4,014,106
Equivalent Tax Rate	\$ 0.1370
Projected Value to Lien Ratio	4.23
Total Qualified Construction Costs	\$ 8,597,011
City Funded Infrastructure	\$ 3,600,000
Total Non-Qualified Construction Costs	\$ -
Net Construction Proceeds	\$ 4,014,106
(Shortage)/Surplus	\$ (982,906)

Public Improvement Districts (cont.)

Current City Policy

- Resolution 20081218-069
- Follows Statute for Operating PIDs
- Outlines Council issues to consider for Development PIDs
 - Superior development
 - Extraordinary benefit
 - Desired Development Zone
 - Comply with Green Building Program
 - Accompanied by development agreement
 - Financially self-sustaining; and,
 - Petitioners should constitute 100% of the land owners of an “undeveloped land” PID
- City working team is drafting a **revised policy** for Council adoption



SOUTH CENTRAL WATERFRONT COMMITTEE

TAX INCREMENT REINVESTMENT ZONES

Tax Increment Reinvestment Zones

Authority: Tax Code Chapter 311

Entity: Created by City or County local government
Managed by Board of Directors

Uses:

- Purchase of land for public infrastructure
- Relocation of public utilities
- Water, wastewater, drainage systems
- Transit facilities
- Parks and landscape
- Public roads and buildings
- Façade improvements (public – easement or dedication)
- Environmental remediation
- Demolition of existing structures
- Debt service reserve, capitalized interest, cost of issuance
- Administration fees and marketing
- Affordable housing in or out of the zone (by agreement)

Provisions: New development or redevelopment
Proof of blight
“But for” or petition
Residential and appraised value limitations

Tax Increment Reinvestment Zones (cont.)

Types:	Upfront (bonds) – Increment pays for bond debt service Pay-as-you go – Increment pays for the cost when incurred
Bond Risk:	Collateral is the TIF Fund Increment not sufficient to pay debt service Change in City/County participation City/County pledges to pay if increment falls short
Reimb. Risk:	Increment not sufficient to pay as developer anticipates
Control:	City/County - appoints the Board, approves plan, delegates authority to Board, approves the issuance of bonds TIF Board – recommendations to City/County, carries out plan
Capital Cost:	Bonds: Tax-exempt bonds; Upfront bonds usually requires credit enhancement Pay-as-you-go: Interest rate (if any) and length of reimbursement period

Tax Increment Reinvestment Zones (cont.)

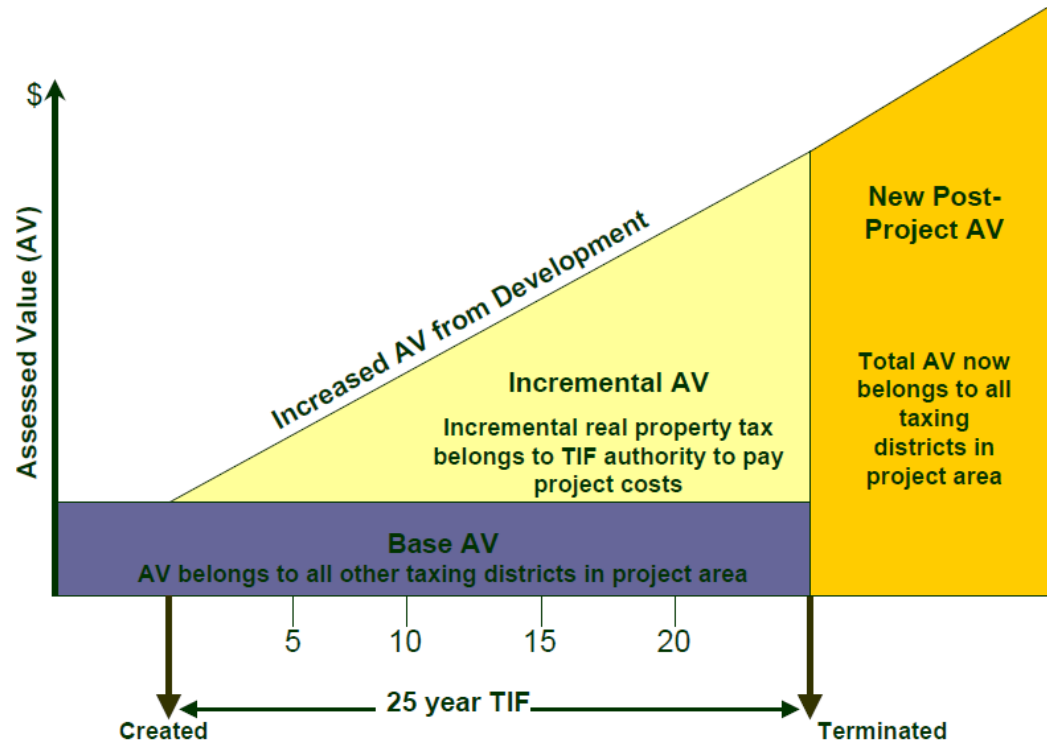
Formation

- Findings of facts
 - **But for** the TIRZ subsidy, economic development would not occur at proposed level solely from private investment in reasonably foreseeable future
 -
- Limitations on TIRZ impact
 - No more than 30% of zone total assessed value is residential, excluding publicly owned property
 - No more than 25% of tax base may be in the zone
- Initiated by City or by land owner petition
 - Petition: at least 50% of proposed TIRZ appraised value
- Council adoption of TIRZ boundaries, Project and Finance Plan, Public Hearing
- Council vests power and duties of TIRZ Board of Directors

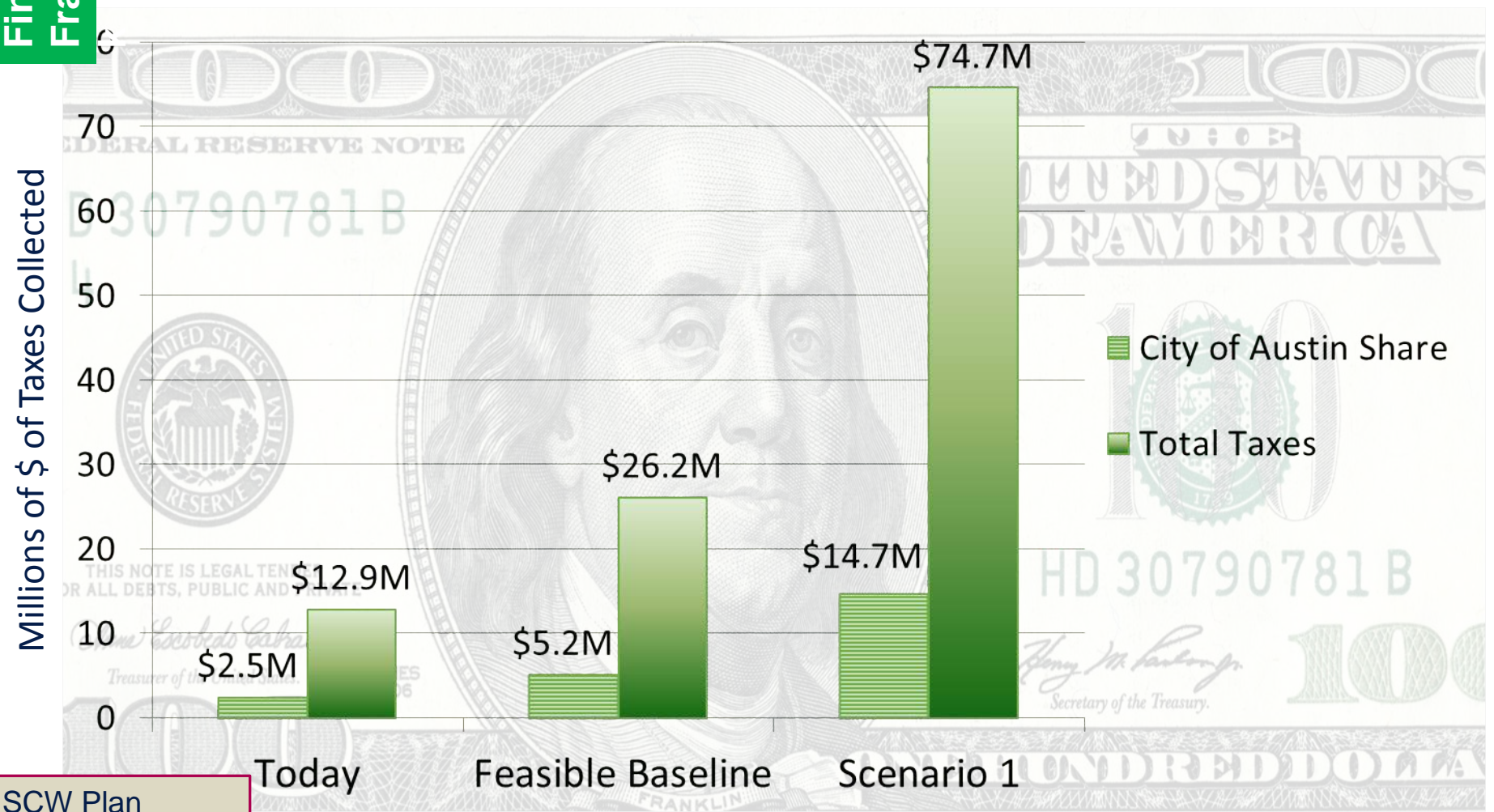
City Action	Timeframe		Key Partners	
	0-1 yr	2+ yr	City	Other
Evaluate the feasibility of Tax Increment Financing in the SCW Prepare a TIF/TIRZ feasibility study that builds on the preliminary projections in the SCW framework plan. <ul style="list-style-type: none"> clarify that the area meets statutory blight requirements assess projected absorption potential for varying product types factor in possible sales tax increment in addition to property tax evaluate alternative boundaries make assumptions about projects that may be tax-exempt identify desired TIF eligible projects and programs Additional information on the process to set up a TIRZ are summarized in the Local Economic Development Handbook.[1]	X		Transportation, Economic Development, Finance	Coordinate with taxing jurisdictions. Potential consultant support.
Evaluate the potential of a Parking Management District. The City should evaluate the potential for investment in district parking options that can provide public parking to support area uses.	X		Transportation, Economic Development, Finance	
Refine affordable housing implementation strategy This includes refining MFI target goals, identifying phased opportunities for site acquisition and implementation of various product types. Identify key partners and lead roles for each component of the toolkit.	X		NHCD, Real Estate	Potential affordable housing partners.
Initiate conversations with potential philanthropic donors. The City has had initial discussions with existing foundations and trusts such as The Trail Foundation, and the St. Davis Foundation about potential partnership. As part of continuing conversations, the City will discuss the feasibility of developing a South Waterfront Conservancy.	X	X	City Council, Departments TBD	

Tax Increment Reinvestment Zones (cont.)

- Value capture or increment
- Future real property tax revenue from zone assessed value growth in excess of zone base assessed value “frozen” at creation
- When zone term ends, all real property tax revenue (base + increment) returns to local government for its general purpose



Making Density Work: Testing Tax Increment



SCW Plan
99-103
Appendix
36-50

i.e. – Forecast in 15
years without the
SCW Plan

i.e. – Forecast in 15
years with the SCW
Plan

Tax Increment Reinvestment Zones (cont.)

Current City Policy

- Financial Policy approved in FY 1996
- TIF zones established where revenues will recover public cost of debt with adequate safety margin
- No more than 5% of City's tax base will be in TIF zones
 - To preserve City's tax base and General Fund revenue sources
 - Currently, 1% of assessed valuation in existing TIF zones
- Remainder of policy addresses Capital & Debt Management
 - Covers TIFs and Public Improvement Districts (PIDs)
 - All projects carefully evaluated for credit worthiness
 - Debt service coverage requirement and additional bonds test
 - Use PID/TIF bonds only after considering other options

Tax Increment Reinvestment Zones (cont.)

	Mueller (TIF #16)	Waller Creek (TIF #17)	Seaholm (TIF #18)
	<i>Redevelop 700 acres of former Airport site</i>	<i>Construct flood-control tunnel allowing for redevelopment of 28 acres</i>	<i>Preserve and redevelop Power Plant historic building and adjacent sites</i>
Base Year	2004	2007	2008
TIF Duration	Through 2032	Through 2038	Through 2042
Base Assessed Value (AV)	\$0	\$236.2 million	\$0
Current AV (Tax Yr 2012)	\$452.2 million	\$458.4 million	\$0
Projected AV at End of TIF	\$1.2 billion	\$3.0 billion	\$407 million
COA Capture %	100%	100%	100%
Other Entity Participation	n/a	Travis County @ 50%	n/a
Other Participation	Yes / Developer	Yes / Conservancy	Yes / Developer
Estimated Project Cost to be covered by TIF Debt	\$50 million	\$106 million	\$20 million
O&M to be covered by TIF	No	No	No

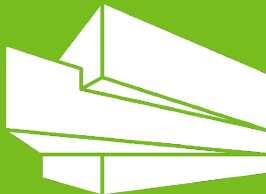
- TIF #15 provides \$100,000 annually for maintenance of Block 2 & 4 per contractual agreement with CSC (Base Year 2000)
- In compliance with City's Financial Policy – currently, 1% of AV in TIF zones
- All TIFs were initiated by the City

Other Public Financing Mechanisms

- Density bonuses
- Parking partnerships
- Other types of tax exempt development bonds
- Infrastructure participation agreements
- Federal grants (through public agency)
- Others Subject to City Council policy

Whatever it takes to fill the “gap” in the capital stack

Christine Maguire, AICP, EDFP
Redevelopment Division Manager
Economic Development Department
Christine.Maguire@austintexas.gov
512-974-7131



Redevelopment

CITY OF AUSTIN
ECONOMIC
DEVELOPMENT