




## MEMORANDUM

**TO:** Mayor and Council Members

**FROM:** Rosie Truelove, Director, Neighborhood Housing and Community Development Department

**DATE:** July 27, 2018

**SUBJECT:** Report to Council on Resolution 20170928-050: Neighborhood Empowerment Zone (NEZ) Recommendations



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The purpose of this memorandum is to provide staff's recommendations in response to Resolution No. [20170928-050](#), regarding the development of a multi-family property tax exemption program available for multi-family and manufactured home park property owners who agree to set aside a portion of their units for families who meet certain eligibility criteria.

City staff have worked with numerous stakeholder groups including the Austin Apartment Association, Real Estate Council of Austin, the Austin Tenants' Council, affordability advocacy and neighborhood groups, impacted tenants, and others over the past several months to collect feedback and insight to inform the attached report, which serves as the final report to Council.

It is recommended that the City of Austin consider pursuing a pilot NEZ Program that allocates a finite amount of funding over a fixed period of time. This pilot program could be incorporated into the City's FY 2019-2020 budget. For example, a sum of \$1,000,000 over a five-year period would provide sufficient information to assess the efficiency of a pilot to consider potential expansion.

Should you have any questions, please do not hesitate to contact me at 512-974-3064.

**cc:** Spencer Cronk, City Manager  
Joe Pantalio, Interim Assistant City Manager

## **Neighborhood Empowerment Zone (NEZ) Report**

*Responsive to Council Resolution 20170928-050*

The purpose of this report is to provide recommendations responsive to [Council Resolution 20170928-050](#), regarding Neighborhood Empowerment Zones (NEZ) and the potential to develop a multifamily property tax exemption program that would be available for multifamily and manufactured home park property owners who agree to set aside a portion of their units for families who meet certain eligibility criteria.

### **Resolution Direction**

The Resolution directs staff to work with Austin Apartment Association, Real Estate Council of Austin, affordability advocacy groups, neighborhood groups, the Austin Tenants' Council, impacted tenants, and other relevant stakeholders to formulate the program's characteristics and eligibility criteria.

The City Manager is directed to report back to City Council regarding the estimated impact of the proposed exemption on the General Fund, as well as options for structuring the program in such a way as to balance the financial impact.

### **Public Input**

Responsive to the Resolution, staff sent invitations to the Austin Apartment Association, Real Estate Council of Austin (RECA), affordability advocacy groups, neighborhood groups, the Austin Tenants' Council, subscribers to the City of Austin Housing News emails, and mailed invitations to all manufactured home park property owners based on ownership information available through the Travis County Appraisal District (TCAD). Notices included the option of providing feedback via email in-lieu of attending the public input sessions held on February 22, 2018 and March 28, 2018.

### **Supporting Research**

Neighborhood Empowerment Zones (NEZs) are allowed under Texas Local Government Code Chapter 378. A zone can be created to:

- Promote the creation of affordable housing, including manufactured housing
- Promote the rehabilitation of affordable housing in the zone
- Increase economic development
- Increase the quality of social services, education, or public safety provided to residents of the zone

Research identified Fort Worth as the only city in Texas that has deployed NEZs. Although the housing market fundamentals and affordability challenges are different in Austin; the program design in accordance with the Texas Local Government Code and its track record of nearly two decades make it an option for the City of Austin to consider.

Fort Worth has 20 active NEZs, the first one created in 2001. The eligibility criteria for their program is as follows:

- The proposed NEZ must promote creation or rehabilitation of affordable housing; increase in economic development; or increase in the quality of social services, education, or public safety provided to residents in the zone
- At least 75% of the NEZ is located in CDBG-eligible areas or the "Central City"
- Bounded by clearly defined boundaries (streets, railroads, creeks or other logical boundaries)
- No more than 6,000 people at the time of designation. If more than 6,000 people, the geographic area cannot be larger than 1.5 square miles
- Meeting criteria for Reinvestment Zone

- If a proposed NEZ boundary includes an urban village as defined in the 2002 Comprehensive Plan, a logical, defensible area of the urban village as determined by the City of Fort Worth must be zoned mixed-use. Eligible mixed-use zoning classifications include: “MU-1” Low Intensity Mixed-Use District, “MU-2” High Intensity Mixed-Use District, and a compatible “PD” Planned Development District as defined in the City of Fort Worth Zoning Ordinance.

Priority will be given to areas within or which include:

- State or federal designated enterprise or empowerment zones;
- Mixed-use growth centers, as defined and identified by the proposed City’s Comprehensive Plan;
- Existing Model Blocks or special target areas recognized by the City;
- A high priority commercial corridor; or
- U.S. Department of Housing and Urban Development (HUD)-eligible areas.

Municipal Property Tax Abatements are available for the following properties:

- Residential properties located in a NEZ – 100% abatement of City property taxes for 5-years;
- Multi-family development located in a NEZ – 100% abatement of City property taxes for 5-years;
- Commercial, industrial or community facilities development projects located in a NEZ – 100% abatement of City property taxes for 5-years;
- Mixed-use development projects located in a NEZ – 100% abatement of City property taxes for 5 - years.

The City of Fort Worth also waives development and impact fees for qualified developments and releases city liens.

Based on information obtained from Sarah Odle, Fort Worth NEZ Program Manager since the program’s inception in 2001, the city has abated \$4,931,017 in taxes and waived \$5,741,457 in fees. These amounts combined are less than what has been generated in municipal tax revenues from investment in the NEZ areas, due in part to the program’s incentives.

### **Recommendations**

The following recommendations were developed with public input and are not intended to present the level of detail required for program design and/or potential program guidelines for future administration. Should policy recommendations lead to program design, additional stakeholder meetings should be conducted. It is recommended that a pilot program be developed first to assess and document the program’s success and to incorporate improvements before a wider roll out of the program.

#### ***Program Purpose***

The Program should aim to help meet the affordable housing goals in the Austin Strategic Housing Blueprint adopted in 2017 by offering a property tax exemption (from the City of Austin and potentially Travis County) to existing properties, mobile home parks, new developments and accessory dwelling units, and potentially waive some development fees based on the level of affordability offered.

#### ***Eligibility***

Properties must be located in at least one of the following geographic boundaries:

- Areas designated as high opportunity (City and County Participation)
- Areas identified as gentrifying by the City of Austin (City only)
- Areas previously identified as Homestead Preservation Districts (HPDs) (City only)

All properties should be screened for code enforcement violations, and should meet federally-defined basic housing quality standards (HQS) required to participate in the Housing Choice Voucher (HCV) program.

Properties with expiring affordable housing subsidies, such as low income housing tax credits (LIHTC) or rental housing development assistance (RHDA) should also be eligible to participate in the NEZ program provided they are within the geographic program boundaries and meet all other program requirements.

Properties currently receiving affordable housing subsidies should not be able to count housing units already receiving a subsidy as affordable to receive tax abatements under NEZ. These properties may be eligible if the property owners are converting additional market rate units within the property to income-restricted affordable units, provided they are within the geographic program boundaries and meet all other program requirements.

Participants in the City's S.M.A.R.T. Housing Program should be eligible to participate in the NEZ Program provided they are within the geographic program boundaries and meet all other program requirements. S.M.A.R.T. Housing participants may have to include additional income-restricted affordable housing units, or include longer affordability periods to be eligible for the property tax exemptions available under the NEZ Program.

#### ***Priority***

Priority should be given to properties near bus stops, grocery stores, employment centers, under-enrolled public schools, and medical facilities. Priority should also be given to properties offering more housing units with two or more bedrooms.

#### ***Requirements of Affordable Units***

Housing units should be affordable at or below 60% median family income (MFI) depending on both the number of units and the amount in foregone property taxes. Income-restricted affordable housing units must accept all housing vouchers and may not discriminate based on source of income. Units must have reasonable screening criteria with regard to criminal background, eviction history, and credit. Affirmative fair marketing plans are encouraged, or properties can work with external entities to conduct outreach.

#### ***Level of Property Tax Abatement***

The value of the tax exemption should be up to 100% of municipal property taxes for a period of no more than 5 years. The City of Austin should also partner with Travis County to abate up to 100% of county property taxes for a period of no more than 5 years. The combination of the two taxing entities offers a greater incentive which could enable a deeper level of affordability, or a greater number of units. The City should consider allowing applicants in good standing to reapply and continue participating in the program after the 5 year period.

The amount of the municipal and county property taxes abated can be quantified each year based on the property appraisal and property taxes paid. These amounts would need to be submitted each year over the 5-year tax abatement period. Participating property owners would need to submit documentation on the difference between market rate rents and the income restricted housing units offered.

Based on discussions, Travis County is interested in participating in such a program if it results in income -restricted affordable housing units; particularly in areas designated as high opportunity where affordable housing units are lacking.

***Fee Waivers***

Fee waivers are already available through the City's S.M.A.R.T. Housing Program. If S.M.A.R.T. Housing participants wish to participate in the NEZ Program, they may have to include additional units or longer affordability periods to be eligible for the property tax exemptions available under the NEZ Program.

***Financial Impact***

It is recommended that Council allocate a finite amount of funding to a pilot NEZ program over a fixed period of time. For example, a sum of \$1,000,000 over a 5-year period would provide sufficient information to monitor the effectiveness of a pilot to consider potential expansion.

***Compliance/Monitoring***

It is recommended that participating properties be required to submit annual documentation of income eligible tenants. Failure to do so will result in the requirement to pay back taxes and removal from eligibility.

**Next Steps**

If Council decides to move forward, the next step would be to allocate financial resources, after which program guidelines and monitoring standards can be developed for a pilot program.