



MEMORANDUM

TO: Mayor and City Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer *EW*

DATE: August 16, 2019

SUBJECT: August 20, 2019 Work Session Item B4 – Discussion about the fiscal year 2019-2020 proposed budget and related policies

August 20 is the first of three planned work sessions on the fiscal year 2019-20 proposed budget and related policies. Since the August 20 work session will include three other briefings in addition to discussion of the August 22 Council meeting agenda, we are proposing only one budget discussion topic for this work session pertaining to proposed changes to the City's financial policies. For your reference, the two other budget work sessions are scheduled for 9 a.m. on August 29 and September 4.

On June 25, 2019, the Audit and Finance Committee reviewed staff's recommended changes to the City's financial policies for fiscal year 2019-20. The Committee unanimously supported changing the source of funding for landfill monitoring and closure to Austin Resource Recovery's operating fund and formalizing an existing practice of maintaining a 10% reserve within the Employee Benefits Fund in the event that medical benefits costs exceed budget. Staff also presented proposed changes to the City's Tax Increment Financing (TIF) policy in accordance with Resolution 20180301-023, which directed the City Manager to update the City's TIF policy to support the creation or incentivizing of more affordable housing. The Committee unanimously supported advancing the proposed changes to the TIF policy to the full City Council for further consideration.

For your convenience, I am attaching Resolution 20180301-023, staff's response to the resolution (initially sent to Council March 29, 2019), and the Audit and Finance committee presentation. The archived Audit and Finance Committee meeting can be watched at <http://austintx.swagit.com/play/06252019-777>.

If you have any questions in advance of the work session, please do not hesitate to contact me.

xc: Spencer Cronk, City Manager
Elaine Hart, Deputy City Manager

Attachments: Resolution 20180301-023
Memo to Council re: Response to Resolution 20180301-023
Proposed Financial Policy Changes, Presentation to Audit and Finance Committee

RESOLUTION NO. 20180301-023

WHEREAS, tax increment financing (TIF) can be used to fund or to incentivize the construction of affordable housing;

WHEREAS, Austin's Housing Trust Fund currently receives incremental tax revenues from former publicly owned land, but these revenues are not captured by a formal TIF;

WHEREAS, the City of Austin's current TIF Policy allows up to 5% of the City's tax base to be in a TIF zone; but less than this assessed valuation is currently in existing TIF zones;

WHEREAS, Austin has successfully used a TIF to create 1,248 units of affordable housing, with a total of 1,550 units at completion, in the Mueller Redevelopment TIF;

WHEREAS, other cities in Texas, such as San Antonio and Dallas, and cities through the country, such as Atlanta and Portland, have succeeded in using TIFs to create affordable housing;

WHEREAS, Austin City Council created a Homestead Preservation Reinvestment Zone (HPRZ) for Homestead Preservation District A, and created three new Homestead Preservation Districts in December 2015 to fund affordable housing, but Texas state statutes prohibit Austin from financing the newly formed districts directly through a HPRZ, but Texas state statutes leave open the possibility of creating affordable housing through TIFs;

WHEREAS, the future development of Austin's Mobility Corridors creates an opportunity to leverage approximately \$483 million in planned investment, and the contract

with the voters for the 2016 Mobility Bond commits the City to pursuing affordable housing opportunities along the corridors;

WHEREAS, the Housing and Planning Committee at its January 23, 2018, meeting voted unanimously to recommend to the full Council the study and proposal of potential updates to the City's TIF policy and aligning the TIF policy with the Strategic Housing Blueprint and mobility bond goals; **NOW, THEREFORE**,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

The City Manager is directed to bring back recommendations examining the use of TIFs for affordable housing, whether through direct subsidy or by other means, and offer options to update Austin's TIF Policy to create or incentivize more affordable housing, focusing on the unfunded Homestead Preservation Districts and along the mobility corridors identified in the 2016 Mobility Bond. The recommendations shall consider at least the following:

- An overall assessment of the City's existing TIF Policy;
- General Fund revenue and requirements;
- Financial analysis of how use of TIFs impact future general fund needs;
- Determination of how or if TIFs that support affordable housing stimulates economic development;
- Use of TIF supported debt for housing;
- Use of TIF funds or debt to support the infrastructure required for affordable housing;
- Legislative perspective;

- Other potential uses for TIFs;
- Review of financial and legal frameworks; and
- Development of goals and programs in line with the Austin Strategic Housing Blueprint.

ADOPTED: March 1, 2018 ATTEST: Jannette S. Goodall
Jannette S. Goodall
City Clerk



MEMORANDUM

TO: Mayor and Council

FROM: Erik Nelson, Budget Manager *EN*

THROUGH: Ed Van Eenoo, Deputy Chief Financial Officer *EV*

DATE: March 29, 2019

SUBJECT: Response to Resolution 20180301-023

Introduction

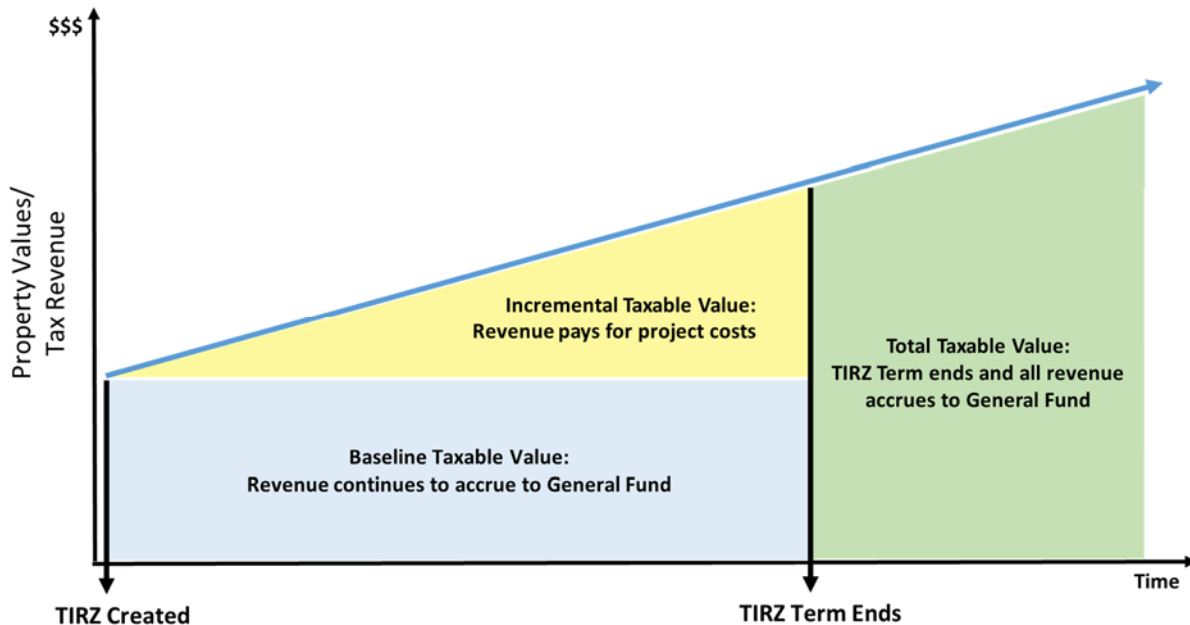
This report serves as a response to Council Resolution No. 20180301-023, which directed the City Manager to develop recommendations regarding the use of tax increment financing (TIF) and tax increment reinvestment zones (TIRZs) for affordable housing and options for updating the City's financial policy regarding TIF/TIRZs to support the creation or incentivizing of more affordable housing, particularly with regard to Homestead Preservation Districts and to the mobility corridors identified in the 2016 Mobility Bond. More specifically, the resolution directed the City Manager to review the legal and financial frameworks associated with TIFs/TIRZs including: an overall assessment of the City's existing TIF policy; analysis of the impact to General Fund revenue and future needs associated with expanded use of TIFs/TIRZs; a determination of how or if TIFs/TIRZs' that support affordable housing stimulate economic development; an investigation of the possibility of using TIF-supported funds or debt issuances for affordable housing or for the infrastructure to support this housing; consideration of other potential uses for TIFs/TIRZs; an assessment of the legislative perspective with respect to TIFs/TIRZs; and consideration of the use of TIFs/TIRZs in association with the development of goals and programs in line with the Strategic Housing Blueprint.

Overview of Tax Increment Reinvestment Zones and Tax Increment Financing

Tax increment financing is a tool authorized by State law to spur economic growth in an area—designated as a Tax Increment Reinvestment Zone—in which development or redevelopment is unlikely to occur without public investment. At the creation of the zone, the baseline value of property within the zone is

frozen, and some or all of the tax revenue resulting from future growth in property value within the zone—the tax increment—is collected within a dedicated fund to pay for the costs of the investments that are anticipated to spur this growth. Project expenses may be funded on a pay-as-you-go basis, with projects funded as incremental revenue begins to accrue in the Zone’s TIF Fund or, for certain types of allowable expenses, the City may issue bonds backed in whole or in part by future incremental property tax revenues expected to be generated within the Zone. Once all project costs have been paid or the debt associated with the TIRZ has been retired and the term of the TIRZ ends, all property tax revenue returns to the City for general purposes. Figure 1 illustrates this dynamic:

Figure 1



The City’s current Tax Increment Financing Financial Policy, established in fiscal year 1995-96, primarily encompasses various provisions aimed at ensuring that revenue generated within the TIRZ will be sufficient to cover the cost of any debt issuances and project costs. The Financial Policy also requires that not more than 5% of the City’s tax base be in TIRZs. As of the 2018 certified tax roll, 4.6% of the City’s tax base was contained within established reinvestment zones. State law mandates that no more than 25% of a city’s taxable property value may fall within the boundaries of reinvestment zones. In the Recommendations section at the conclusion of this report, staff recommend increasing the City’s limit to 10%, to balance the need to preserve local property taxes for general governmental purposes with the City Council’s expressed interest in increasing the use of tax increment financing to incentivize affordable housing. Furthermore, staff recommend a new policy requiring any new TIF project plans with a housing component to set aside at least 20% of those units as affordable to households earning at or below 60% of median family income for rental housing and 80% of the median family income for ownership housing for a period not less than the duration of the TIF project plan. For comparison, the required affordability period for rental developments with subsidy from the City through the Austin Housing Finance Corporation is currently 40 years.

At present, the City has four Tax Increment Reinvestment Zones: Waller Creek, Mueller, Seaholm, and Second Street.

- The Mueller Tax Increment Reinvestment Zone was created in December 2004. Incremental property tax revenue generated within the Zone is used for debt service and associated costs for bonds issued to finance the redevelopment of the former 700-acre site of the Robert Mueller Airport. The TIRZ is one piece of financing, in addition to developer financing, that supports the overall, competitively procured Master Development Agreement. City funding supports the creation of the infrastructure necessary to support a wider redevelopment effort that includes single- and multi-family housing, of which 25% has been designated as affordable, as well as commercial, retail, and medical buildings. This TIRZ is set to end on December 31, 2045, or when the debt is retired. With a base taxable value of \$0, due to the airport site having been city-owned, the Zone now encompasses \$1.4 billion in taxable value, all of which is captured for purposes of the TIRZ.
- The Waller Creek Tax Increment Reinvestment Zone was created in June 2007. The original project and financing plan for this TIRZ applied the incremental property tax revenue generated within the Zone to the debt service and associated costs for bonds issued to develop the Waller Creek Tunnel, as well as for tunnel operations and maintenance costs during the term of the TIRZ. In May 2018, the City Council amended the project and financing plan to include funding for surface-level improvements for a chain of parks running parallel to the tunnel and extended the end-date for the TIRZ to September 2041. With a base taxable value of \$237 million, the Zone now encompasses over \$1.3 billion in taxable value, of which \$1.1 billion is captured for purposes of the TIRZ. Travis County also participates in this TIRZ, contributing 50% of the incremental property tax revenue it generates within the TIRZ boundaries. However, Travis County opted not to participate in the recent extension of the TIRZ and its contributions will cease in 2028.
- The Seaholm Tax Increment Reinvestment Zone was created in December 2008. Incremental property tax revenue generated within the Zone is used for debt service and associated costs for bonds issued to finance public improvements associated with redevelopment of the former Seaholm Power Plant. The project plan for the TIRZ includes repurposing the historic generator building, constructing a public plaza, and adding bike, pedestrian, street, and utility infrastructure. This TIRZ is set to end in 2043, or whenever all project costs, including debt service, have been paid. With a base taxable value of \$6.6 million, the Zone now encompasses over \$309 million in taxable value, of which nearly \$303 million is captured for purposes of the TIRZ.
- The Second Street Tax Increment Reinvestment Zone was created in October 2000, to account for a portion of the property tax revenue that is collected in the area immediately surrounding Austin City Hall. Unlike the other TIRZs, revenue from incremental property value growth within the TIRZ is not deposited into the TIRZ Fund. Instead, under the terms of this TIRZ's project and financing plan, the General Fund contributes a fixed \$100,000 annually to the TIRZ Fund to defray the costs of maintaining the plazas, streetscapes, and other public improvements constructed and installed by the City within the Zone. With a base taxable value of \$0, due to the land within the Zone being city-owned, the Zone now encompasses nearly \$72 million in taxable value, all of which is

technically captured for purposes of the TIRZ although it does not drive the revenue transfer. This TIRZ is set to end in 2029.

The City also has one Homestead Preservation Reinvestment Zone, which was established in December, 2015. For tax year 2018, 10% of the incremental property tax revenue generated within the Zone is deposited into the Zone's Fund to be used for efforts aimed at increasing home ownership, providing affordable housing, preventing the involuntary loss of homesteads by existing low- and moderate-income homeowners living in the Zone, and for providing the City with a means to expand and protect the homestead interests of low- and moderate-income families living with the Zone. With a base taxable value of \$2.3 billion, the Zone encompassed nearly \$3.9 billion in taxable value in tax year 2018, meaning a net \$1.5 billion was captured for purposes of the Zone.

As will be discussed in greater detail below, Homestead Preservation Reinvestment Zones are distinct from TIRZs in many significant ways and are authorized by their own chapter of State law. However, per State law, the value encompassed by Homestead Preservation Reinvestment Zones does count against the 25% limit on the total amount of the City's taxable property value that may be contained within the boundaries of reinvestment zones. The table below displays the total amount of taxable value contained within the reinvestment zones as a percentage of total City taxable value in tax year 2018. As the table illustrates, the City is approaching the 5% cap on taxable value contained within reinvestment zones mandated by the current financial policy.

Reinvestment Zone	Taxable Value (in millions)
Mueller	\$1,406
Waller Creek	\$1,349
Seaholm	\$309
Second Street	\$72
Homestead Preservation Reinvestment Zone #1	\$3,873
TOTAL	\$7,010
 Total City Taxable Value	 \$152,666
 Value within Reinvestment Zones as % of Total Value	 4.6%

Legal Framework

Criteria for Creation of Tax Increment Reinvestment Zones

Chapter 311 of the State of Texas Tax Code governs the creation of tax increment reinvestment zones and the use of tax increment financing. In order to create a reinvestment zone within the City of Austin, the primary legal considerations are identification of a contiguous or non-contiguous geographical area in which *development or redevelopment would not occur solely through private investment in the reasonably*

foreseeable future and to create a project and financing plan for funding improvements in the zone that will *significantly enhance the value of all the taxable real property in the zone*.

More specifically, the condition of the properties or land within the area of a prospective reinvestment zone must:

- “substantially arrest or impair the sound growth of the municipality or county designating the zone, retard the provision of housing accommodations, or constitute an economic or social liability and be a menace to the public health, safety, morals, or welfare in its present condition and use because of the presence of:
 - a substantial number of substandard, slum, deteriorated, or deteriorating structures;
 - the predominance of defective or inadequate sidewalk or street layout;
 - faulty lot layout in relation to size, adequacy, accessibility, or usefulness;
 - unsanitary or unsafe conditions;
 - the deterioration of site or other improvements;
 - tax or special assessment delinquency exceeding the fair value of the land;
 - defective or unusual conditions of title;
 - conditions than endanger life or property by fire or other causes; or
 - structures, other than single-family residential structures, less than 10 percent of the square footage of which has been used for commercial, industrial, or residential purposes during the preceding 12 years;”
- “be predominantly open or undeveloped and, because of obsolete platting, deterioration of structures or site improvements, or other factors, substantially impair or arrest the sound growth of the municipality or county;”
- “be in a federally assisted new community located in the municipality or county or in an area immediately adjacent to a federally assisted new community;” or,
- “be an area described in a petition requesting that the area be designated as a reinvestment zone, if the petition is submitted to the governing body of the municipality or county by the owners of property constituting at least 50 percent of the appraised value of the property in the area according to the most recent certified appraisal roll for the county in which the area is located.”
- Notwithstanding the criteria enumerated above, reinvestment zones may also be created if the zone will include the use of land for or will create structures or facilities that are necessary, useful, or beneficial to a regional rail system.

Finally, a zone may not be created if more than 30% of the taxable property value in the proposed zone is used for residential purposes (defined as homes having fewer than five living units) or, as mentioned previously, if creating the zone would lead the total taxable value of property in the proposed zone and in existing reinvestment zones to exceed 25% of the total taxable value of property in the City as a whole.

Use of Tax Increment Reinvestment Zones for Affordable Housing

Once an area meeting these legal criteria is identified and the reinvestment zone is created, affordable housing is specifically designated in State law as an allowable project cost expense. The City can use pay-as-you-go financing in support of affordable housing projects within TIRZs. However, because spending in support of affordable housing is classified in State law as economic development, it is not permissible to

issue non-voter-approved debt to support the direct construction of affordable housing itself. It is, however, possible to enter into agreements with developers receiving funding through a TIRZ to require that any housing constructed maintains a certain number or percentage of units as affordable. The City has in fact already used this model to spur the creation of affordable housing through the Mueller Tax Increment Reinvestment Zone. The project and financing plan for the Mueller TIRZ directs that the City will reimburse developers for the cost of certain infrastructure, using debt issuances backed by incremental property tax revenue generated in the TIRZ. In addition to other policy objectives, the Master Development Agreement requires the developer to include a portion (25%) of the newly developed housing units to be set aside as affordable.

State law also provides that agreements and contracts associated with the project and financing plan may dedicate revenue from a tax increment fund to pay the costs of providing affordable housing inside or outside of the zone to support the broader goals of the overall redevelopment project. For instance, the City of Dallas's TIF policy generally requires that 20% of units in all housing developments receiving TIF funding must be set aside as affordable. However, the policy contains an exception for two particular Zones, in which this affordable units goal was not met solely through projects occurring within the boundaries of the Zones themselves. Instead, for these two Zones, Dallas's policy includes an exception allowing 10% of the property tax increment generated within the Zones to be used to support the provision of affordable housing in other areas of the city, which is aimed at ensuring that these TIRZs will generate a meaningful number of affordable housing units on a citywide basis, if not within the boundaries of the TIRZ itself.

Legislative Perspective on Homestead Preservation Zones and Tax Increment Reinvestment Zones

The City currently has one Homestead Preservation Zone, located in East Austin. Homestead Preservation Zones are only authorized to be established in uniform state service regions with fewer than 550,000 occupied housing units, and the service region to which Austin belongs now exceeds this number. No new Homestead Preservation Zones may therefore be created unless State law is amended; however, legislation that would have allowed Austin to continue to qualify for the creation of new Homestead Preservation Zones was vetoed by Governor Abbott in 2017.

Homestead Preservation Zones operate with a similar financing model to TIRZs, in that incremental property tax revenue generated within the boundaries of the zone is deposited into a tax increment fund to be used to fund improvements within the zone. Homestead Preservation Zones and TIRZs differ significantly, however, with respect to the criteria that must be met for their creation and the limitations on the use of tax increment funds. Specifically:

- The criteria for the creation of a Homestead Preservation Zone concern population, poverty, and income levels, as opposed to those for TIRZs, which generally concern the condition of property and the stimulation of economic activity within the proposed zone.
- State law governing Homestead Preservation Zones allows for a more expansive use of tax increment funds for the creation and preservation of affordable housing than is permitted by the law governing TIRZs.

- Because Homestead Preservation Zones are focused on residential property, the City cannot simply use a TIRZ to achieve the same results, since it is likely that areas targeted for creation as a Homestead Preservation Zone will exceed the 30% limit on the share of property value within a TIRZ that may be used for residential purposes. For instance, single-family homes comprise nearly 46% of the City's existing Homestead Preservation Zone's total taxable value.

As a result of these factors, tax increment financing under Chapter 311 of the Tax Code cannot be used as a substitute funding source for achieving the affordable housing objectives of a Homestead Preservation Zone.

The City originally contributed 10% of the tax increment captured within its Homestead Preservation Zone to the Zone's tax increment fund and the City Council recently approved increasing this percentage to 20% to generate additional funding for affordable housing, although use of this funding is restricted to the boundaries of the Zone. As of fiscal year 2018-19, each additional 10% of the tax increment that the City chose to contribute to the Fund would lead to a \$0.7 million loss in General Fund revenue, or alternatively, if the Council were to choose to increase the property tax rate in order to hold General Fund revenue harmless, a \$1.35 annual increase in the property tax bill for a typical homeowner.

Mobility Corridors

With respect to mobility corridors identified in the 2016 Mobility Bond, nothing would prevent the City from establishing TIRZs along these corridors, as long as areas were identified and project plans developed that met the criteria necessary for designation as a reinvestment zone. Precisely because of the infusion of City investment in infrastructure along these corridors, however, it may prove difficult to identify areas where development or redevelopment would not occur solely through private investment in the reasonably foreseeable future. Tax increment financing would also be an option to consider, as opposed to traditional general obligation bond issuances, to fund improvements along underdeveloped or blighted corridors in the future, and these improvements could encompass an affordable housing element.

Financial Framework: Impact of TIRZs on General Fund Revenue and Taxpayers

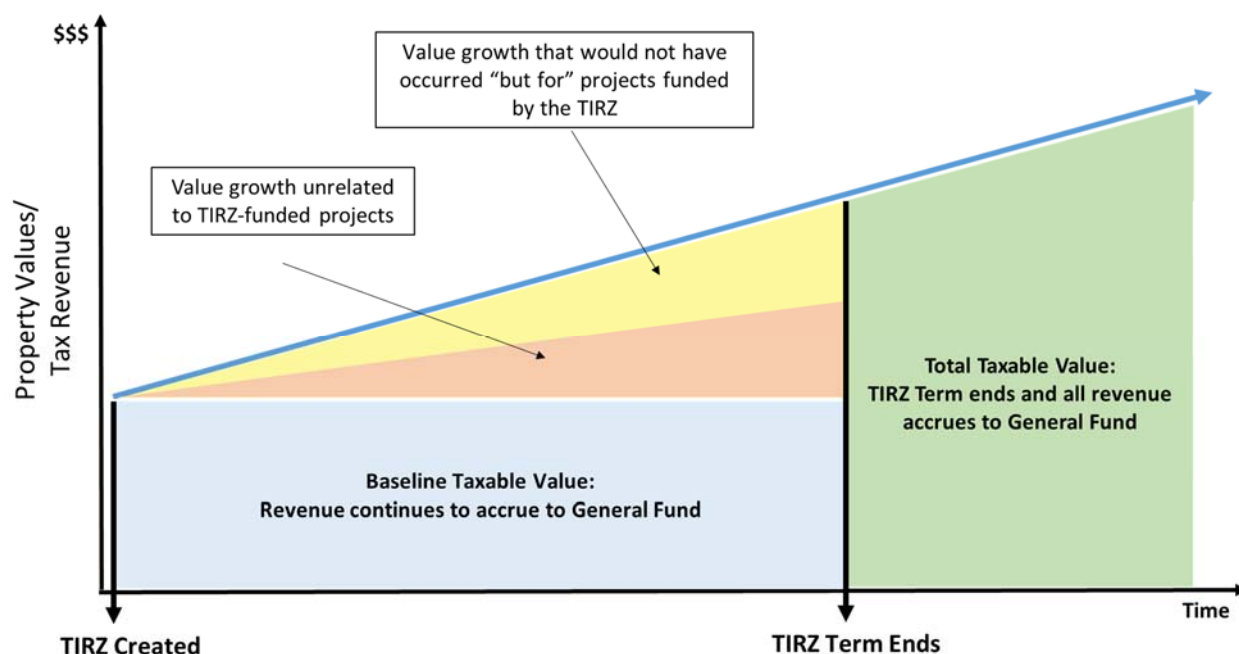
The crucial factor in analyzing a prospective TIRZ's financial viability, effect on General Fund revenue, and impact to the Austin's property taxpayers is verifying the existence and extent of a clear and significant "but-for" criterion. Both a legal requirement under State law and a financial best practice, the "but-for" criterion simply means that the development or redevelopment within the TIRZ could not reasonably be expected to occur within the foreseeable future without the public investment. As illustrated in Figure 1 on page two of this report, tax increment financing requires that a city establish a fixed baseline level of property value and determine contributions to the TIRZ Fund based on the increase in property value above this baseline. Essentially, this tax increment financing model assumes a largely theoretical scenario where 100% of the incremental taxable property value in the TIRZ would not have been created "but for" the direct effect of investments funded by the TIRZ. In other words, it assumes that were it not for the creation of the TIRZ, existing property in the zone would not appreciate in value at all. In practice, a more likely scenario is that some of the incremental taxable property value growth within a TIRZ will occur

without any public investment. Especially in Austin's current economic environment, baseline taxable values generally would not remain flat over time even if there were no public investment through projects funded through tax increment financing.

There is broad consensus that tax increment-funded projects—including affordable housing-related projects—spur economic development through their infusion of public investment. A more complicated question, however, is the extent to which these projects generate meaningful additional economic growth above and beyond what would have been generated through private investment alone. For instance, a 2018 report by the Lincoln Institute of Land Policy found that within cities, “most often TIF has been used in areas that were already moderately successful, and it has done little to stimulate growth in the most depressed areas.” The report concluded that “[r]ecent findings show that TIF does little to deliver economic growth and sometimes simply relocates economic activity that would have occurred elsewhere without TIF.” In light of this uncertainty as to their efficacy, and to ensure compliance with State law, it is essential that every prospective TIRZ undergo a rigorous evaluation process that verifies the existence of a robust “but for” criterion by comparing projected economic development and property value growth attributable to planned tax increment-funded projects in comparison with projections for the area if the TIRZ were not created.

The impact a TIRZ has on General Fund revenue and individual taxpayers is largely determined by the degree to which it satisfies such a “but for” test. The greater the increase in taxable value attributable to projects funded through tax increment financing relative to the increase in taxable value that would have occurred without these projects, the stronger the “but-for” criterion and the less impact a TIRZ has on general tax revenues and taxpayers. The lower the increase in taxable value attributable to TIF-funded projects relative to the increase in taxable value that would have occurred without these projects, the weaker the “but-for” criterion and the greater the impact a TIRZ has on general tax revenues and taxpayers. At one extreme, in a situation in which baseline taxable values in the TIRZ would not have increased at all without the public investment (this is the scenario illustrated in Figure 1 on page two), then there is no impact on City General Fund revenue nor is there any impact on what owners of existing properties pay in taxes because the TIRZ is capturing property tax revenue that would not have otherwise been generated. At the other extreme, where 100% of the incremental increase in taxable values would have occurred without any TIF-funded investment, the TIRZ would have the largest impact on General Fund tax revenue because, at any given tax rate, the TIRZ would be capturing property tax dollars that otherwise would have accrued to the General Fund. In practice, the impact of TIF-funded investments with respect to a “but-for” test will tend to fall between these two extremes (see Figure 1A, on the following page). As a result of this dynamic, and to ensure compliance with State law, staff is recommending a new financial policy that explicitly requires the project plans of all prospective TIRZs to undergo a rigorous financial analysis to verify that the overwhelming share of projected property value growth within the prospective zone would not occur “but for” the planned investments, in addition to ensuring that the TIRZ would be projected to generate revenue sufficient to fund these investments over its planned duration.

Figure 1A



State law governing the effective and rollback property tax rate calculations holds cities harmless with respect to their property tax rates for the impact of property value and revenue captured by tax increment financing funds. In practice this means that General Fund property tax revenue at the rollback rate will not be affected by the amount of revenue captured by TIRZ Funds. However, to the extent to which the City's TIRZs fail to satisfy the "but for" test and instead are merely capturing increases in property value that would have been generated without any tax increment-funded investment, the presence of TIRZs will drive the rollback rate upward, increasing the burden on the City's property taxpayers necessary to generate a given level of General Fund revenue.

Finally, with respect to General Fund expenditures, an often overlooked consideration pertaining to TIRZs is that the growth in development, property values, and population that may be spurred by tax increment reinvestment generates increased demand for General Fund services. While development within a TIRZ may reasonably be expected to prove a net positive to the City when this property is returned to the citywide tax roll at the conclusion of the TIRZ's term, it is important to remember that, for the duration of the TIRZ, the General Fund is receiving no property tax revenue from this area despite needing to provide it with the full range of public services.

Staff Recommendations

In light of the foregoing analysis, financial staff recommend the following actions with respect to the City of Austin's usage and consideration of reinvestment zones:

1. Adopt a revised financial policy pertaining to Tax Increment Financing. Copies of the existing financial policy and the recommended revised policy are attached to this report. The primary revisions to the policy include:
 - Increasing the cap on the percentage of City taxable value that may be included within reinvestment zones from 5% to 10%. The City currently has 4.6% of its taxable value contained within reinvestment zones. This percentage increased markedly with the creation in 2015 of the Homestead Preservation Reinvestment Zone, which by itself encompasses 2.5% of the City's total taxable value. Because well-designed TIRZs have a limited impact on General Fund revenue, have no adverse effect on the City's credit rating, and represent an option for funding future economic development, including affordable housing, staff are recommending an increase in the cap so that future TIRZs can be considered.
 - Requiring that all future prospective TIRZs will undergo a rigorous "but for" analysis demonstrating that development or redevelopment within the zone would not occur solely through private investment in the reasonably foreseeable future and that improvements in the zone will significantly enhance the value of all taxable property in the zone above that which could reasonably be expected to occur without the investment of public funds. The City is currently performing similar analyses when considering the creation or expansion of TIRZs, but formalizing the requirement will ensure both that the City remains in compliance with State law and that future TIRZs will have minimal adverse impact on General Fund revenue and on taxpayers.
 - Mandating that any housing development that is related to a TIRZ project plan must provide at least 20% of the units at rates affordable to households earning at or below 60% of median family income for rental housing and 80% of median family income for ownership housing and remain affordable for a period not less than the duration of the TIRZ. This provision creates a balance between ensuring that development within TIRZs is consistent with the City's broader housing affordability goals, particularly as outlined in the Austin Strategic Housing Blueprint, and maintaining the feasibility of private sector participation in future TIRZ agreements.
 - Creating a separate financial policy governing the use of Public Improvement Districts (PID). Staff is currently formulating a revised PID policy, which will be delivered to Council later this year.

2. Make securing necessary changes to State law that would allow for the creation of additional Homestead Preservation Zones a high-priority item on the City's legislative agenda. While TIRZs can potentially result in the creation of additional affordable housing units, this is not their primary function. Homestead Preservation Zones, on the other hand, were explicitly designed to allow the direct reinvestment of incremental tax revenue within particularly vulnerable neighborhoods solely for the purpose of maintaining or creating affordable housing. Especially in an environment of looming revenue caps, restoring this alternative funding tool should be a high priority.
3. Discontinue the Second Street Reinvestment Zone. As noted above, unlike in the City's other TIRZs, revenue from incremental property value growth within the TIRZ is not deposited into the TIRZ Fund, but rather the General Fund contributes a fixed \$100,000 annually to the TIRZ Fund. If the TIRZ is discontinued, it is recommended this funding continue to be provided. Discontinuation of this TIRZ would therefore have no net impact to the General Fund, while eliminating the legal, administrative, and financial reporting burdens associated with maintaining it.

xc: City Manager
Assistant City Managers
Chief Financial Officer
Deputy Chief Financial Officers
Director of Neighborhood Housing and Community Development



Proposed Financial Policy Changes

Audit and Finance Committee



Austin Resource Recovery

The Austin Resource Recovery Fund shall ~~establish and fund a reserve to~~ provide for the closure, ~~and monitoring~~ monitoring, and all post-closure care of the City's landfills in compliance with Federal and State regulations.

~~*Note: ARR uses CIP and operating budgets.*~~





Employee Benefits Fund (EBF) Reserves

An individual-specific stop-loss policy shall be maintained for the City Health Plan. In addition, the Employee Benefits Fund will maintain ~~a stop-loss reserve in an amount recommended by the City's actuary. Further, the Employee Benefits Fund will maintain a~~ a reserve equal to 10% of the cost of employee and retiree medical benefits and a cash balance equal to anticipated end-of-year claims incurred but not paid and other current liabilities.

Summary of Tax-Increment Financing (TIF) Policy Changes

- ✓ Increase the cap on the percentage of City taxable value that may be included within reinvestment zones from 5% to 10%
- ✓ Formalize current practice of requiring that all tax increment reinvestment zones (TIRZ) undergo a rigorous “but for” analysis
- ✓ Mandate that any housing development related to a TIRZ project plan provide at least 20% of the units at rates affordable to households earning at or below 60% of MFI for rental, 80% for ownership
- ✓ Creating a separate financial policy governing the use of Public Improvement Districts (*Anticipate policy change coming to Council by the end of the calendar year*)



THANK YOU

More information available at:

- austintexas.gov/financeonline/
- austintexas.gov/budget/
- budget.austintexas.gov