

Audit Report

Effectiveness of Financing Tools for Economic Development

January 2020



The City's use of tax increment financing in four zones has had positive benefits, including increased tax revenues, redevelopment of disused property, removal of land from a floodplain, and more housing. We found that almost all community goals for these zones have either been achieved or are in progress. The City recently adopted new, more specific policies that could enhance the benefits the City realizes from the use of tax increment financing.

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Objective

Are the City's tax increment financing districts effectively achieving the goals of the community?

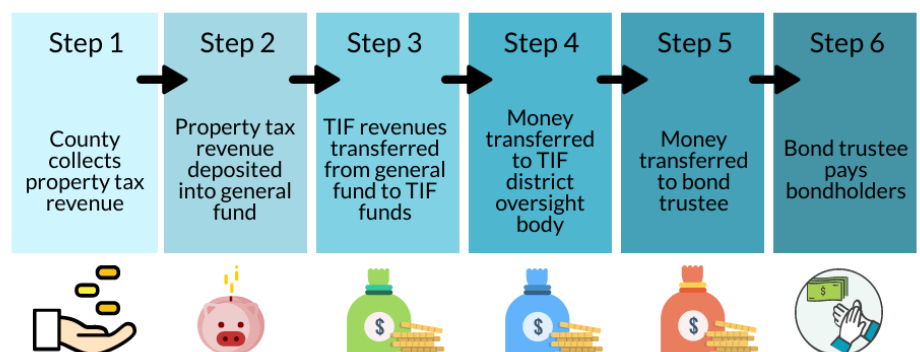
Background

The City has opted to use "tax increment financing" as a financial tool to attract development and fund infrastructure improvements. State law governs how cities may use tax increment financing. The City has designated specific areas as tax increment financing (TIF) districts. State law regulates how cities create TIF districts.

Tax increment financing is a tool available for cities to encourage development where it would not happen otherwise. Reasons that a city might select an area for tax increment financing include a desire to mitigate environmental hazards, remediate inadequate or outdated infrastructure, or eliminate blighted conditions. Once an area has been selected, the city must create a TIF district. When a TIF district is created, the value of properties within that district is frozen at the "base value." Taxes paid on the base value continue to contribute to the city's general fund. Any tax revenue above the base value (the "tax increment") goes to a TIF fund. Money in the TIF fund is used to pay for improvements within the TIF district, either directly or through bonds sold earlier. As with any other property, properties in the TIF pay taxes to the County Tax Assessor/Collector, and the County sends the money to the City. The City then transfers the funds internally before making bond payments. Exhibit 1 below depicts this process.

Tax increment financing is also called "tax increment reinvestment financing" in Texas. TIF districts are also known as tax increment reinvestment zones (TIRZ).

Exhibit 1: Flow-through of funds from TIF districts



SOURCE: OCA analysis of City documents and interviews with City staff, October 2019

What We Found

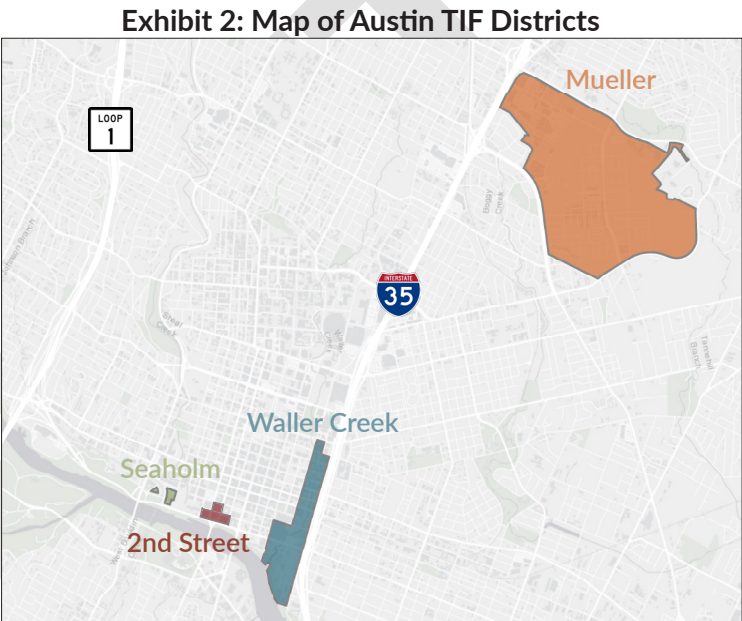
Summary

The City’s use of tax increment financing in four TIF districts has had positive benefits, including increased tax revenues, redevelopment of disused property, removal of land from a floodplain, and more housing. We found that almost all community goals for these zones have either been achieved or are in progress. The City recently adopted new, more specific policies that could enhance the benefits the City realizes from the use of tax increment financing.

Finding

The City’s TIF districts have mostly achieved, or are on track to achieve, the majority of the established community goals relating to the TIF districts.

The City’s TIF districts have achieved, or are on track to achieve, the majority of the established community goals relating to the TIF districts. Austin has four active TIF districts. Each has a main purpose.



NOTE: 2nd Street TIF district boundaries are approximate
SOURCE: OCA Analysis of Travis County Central Appraisal District records, November 2019

Exhibit 3: Information about Austin’s TIF Districts

TIF District	Base year/ Expires*	Main purpose
Mueller	2004 / 2045 (41 years)	Redevelop disused airport property and construct infrastructure
Waller Creek	2007 / 2041 (34 years)	Construct flood tunnel & improve surface parks
Seaholm	2008 / 2043 (35 years)	Preserve disused 1950s power plant building
Second Street	1999 / 2029 (30 years)	Maintain plazas and streetscapes in certain blocks downtown

* Or until debt is paid off, whichever comes first
SOURCE: OCA Analysis of City of Austin Records, August 2019

Exhibit 4: Property tax revenues and values in three of Austin's Tax Increment Financing districts

TIF District*	Base value	2019 Captured value**	FY2019 Property tax revenues to TIF fund
Mueller	\$0	\$1.41 billion	\$6.22 million
Waller Creek	\$236 million	\$1.05 billion	\$4.63 million
Seaholm	\$0 (2008 original) \$6.65 million (2012 amendment)	\$334 million	\$1.47 million

* Data for the Second Street TIF is not presented because this is not a traditional TIF

** As of April 11, 2019

SOURCE: OCA Analysis of Travis Central Appraisal District and City of Austin records, August 2019

In addition to increasing the tax base of the City, each of Austin's TIF districts has goals which were determined through community input. We evaluated each TIF district to see if these goals were achieved. Below, we summarize goals associated with the Mueller, Seaholm, and Waller Creek TIF districts that have been achieved or are on track to be achieved.

Exhibit 5: Summary of goal achievement in the Mueller TIF district

Goals achieved or on track	Goals not achieved
Mixed-use community with about 1.1 million sq ft of office space, 790,000 sq ft of retail, and 1.2 million sq ft of institutional uses (schools, parks, open space)	Extension of light rail system through district (2014 bond failed)
About 4,900 housing units with 25% reserved as affordable	
Infrastructure investments including roadways, sidewalks, utility lines, and demolition of airport structures	
Various environmental goals	
Various transportation goals, including pedestrian and bicycle infrastructure	

SOURCE: OCA Analysis of City documents and staff interviews, 2019

Exhibit 6: Summary of goal achievement in the Seaholm TIF district

Goals achieved or on track	Goals not achieved
Preservation of 1950s power plant building	Intermodal transit facility accommodating buses and train service (2014 bond failed)
Open spaces including pedestrian plaza	Pedestrian underpass at Bowie Street (negotiations incomplete for right of way)
Infrastructure investments including roadways, sidewalks, and utility lines	
Mixed-use district including retail, office, and residential properties	

SOURCE: OCA Analysis of City documents and staff interviews, 2019

Exhibit 7: Summary of goal achievement in the Waller Creek TIF district

Goals achieved or on track	Goals not achieved
Construct tunnel to mitigate a 100-year storm event	
Reduction in floodplain of about 28 acres	
Parkland improvements and trail construction	

SOURCE: OCA Analysis of City documents and staff interviews, 2019

**Additional
Observation 1**

The City has adopted new TIF policies that could enhance the benefits the City realizes from future TIFs.

The City’s fiscal year 2020 budget includes updated financial policies for future TIF districts. Updates to the policies include raising the maximum amount of the City’s tax base that may be located within a TIF district. Before, the maximum amount was 5%, but in fiscal year 2020 it was increased to 10%. Also, there is now an explicit rule that, when creating a TIF district, the City must include an analysis to show that development would not happen without creation of the TIF district. Another new requirement is that any housing development included in a TIF project plan must include affordable housing. Specifically, for at least the duration of the TIF district, at least 20% of the housing units must be affordable to households earning at or below 60% of median family income for rental housing, and 80% of median family income for owner housing.

**Additional
Observation 2**

The Second Street TIF district is not a traditional TIF district, but it is required by an agreement the City signed with a business located in the TIF district. This agreement does not appear to have anticipated rising maintenance costs within the TIF district over time. Despite this, City staff have identified funds to pay for the additional maintenance costs in the TIF district required by the agreement.

We reviewed the terms and conditions of the agreement and related documents requiring the City to create the Second Street TIF district and to perform maintenance activities in the district. In the TIF project plan, the City agreed to contribute \$100,000 per year to the TIF district for the maintenance activities. When the TIF district was created, these activities were estimated to cost \$100,000 per year. Since then, the cost of this maintenance has risen beyond the yearly \$100,000, but the City’s annual contribution to the TIF district has not increased proportionately to account for inflation and increased demand for maintenance. As a result, the City is paying for these increased maintenance costs using contributions from the Building Services Department, the Economic Development Department, and the Great Streets Program managed by the Planning and Zoning Department. In doing so, the City is complying with the maintenance provision of the agreement. City staff assert that failure to pay for maintenance would result in the City defaulting on the contract.

Scope

The audit scope included all four current City tax increment financing districts (also called tax increment reinvestment zones or TIRZ).

Methodology

To complete this audit, we performed the following steps:

- interviewed knowledgeable City staff;
- obtained and analyzed data from City systems, including financial and project management;
- reviewed documentation associated with creation and implementation of TIF districts;
- conducted site visits;
- selected a judgmental sample of invoices from work within TIF districts (This sample cannot be projected to the universe);
- evaluated the possibility of fraud related to third-party work in TIF districts; and,
- obtained and analyzed data from the Travis Central Appraisal District.

Audit Standards

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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DRAFT

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. We conduct performance audits to review aspects of a City service or program and provide recommendations for improvement.

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