

DATE: June 16, 2020
TO: Alan Holt, City of Austin
FROM: Ian Carlton and Emily Picha
SUBJECT: Updated 2020 SCW Financial Tool – Key Takeaways and Technical Methods

Background and Purpose

Since Summer 2019, ECONorthwest has been helping the City of Austin update prior financial analyses of the 2016 South Central Waterfront Vision Framework Plan (SCW Framework Plan). Our work has focused on defining scenarios to aid decision makers and the Planning & Zoning Department with a final calibration of opt-in zoning (i.e., South Central Waterfront Regulating Plan, or SCW Regulating Plan), which could contribute to a Tax Increment Reinvestment Zone (TIRZ) Financing Plan produced by others. This memorandum provides a summary of our approach, key findings, and policy considerations.

Our work built upon initial feasibility modeling from the SCW Framework Plan. To evaluate potential regulatory policies and incentives, ECONorthwest developed a parcel-based pro forma model that looked at the feasibility of potential development across the South Central Waterfront. This 2020 Financial Tool included updated assumptions and methods to provide greater clarity to City Council about potential development feasibility when considering policy options.

The COVID-19 pandemic has created uncertainty for the future of the district and its timeline for development. From the creation of the SCW Framework Plan in 2016 until 2019, the District saw increased developer interest in a distinct mix of uses, but construction costs in the Austin market were also increasing rapidly. Over the next few years, demand remains uncertain. For example, construction costs may stabilize with fewer project starts, but construction costs seldom decline. Regardless of this uncertainty, developing a flexible implementation plan and associated policies can prepare the SCW to attract new development in the future.

Methods and Approach

The 2020 Financial Tool provided a snapshot look at the district buildout, as though all development delivered simultaneously under market conditions in late 2019 and early 2020 (ECONorthwest vetted assumptions with local developers and property owners in 2019 and the City of Austin and Endeavor provided cost information in 2020).

To conduct this analysis, ECONorthwest used parcel-based pencil-outs to consider multiple “input scenarios.” The input scenarios included plan entitlements, infrastructure costs, affordable housing, and bonus participation fees.

We modeled three buildout scenarios:

1. The 2020 Updated SCW Plan, which reflected all elements of the 2016 SCW Framework Plan not built to date
2. Statesman PUD proposal and modified Crockett site
3. A hybrid Statesman PUD proposal limited to 2016 plan heights and a modified Crockett site

In addition to the buildout scenarios, we modeled nine scenarios for the build out of One Texas Center based on development programs produced by McCann Adams Studio. The scenarios varied based on the following factors:

- Rental or ownership housing units
- Low-rise, mid-rise, or high-rise development
- 100% affordable or mixed-income development

The model produced a summary of parcel-by-parcel performance for development feasibility, a district-wide feasibility gap, and an affordable housing shortfall (if any) for each set of input scenarios. These can be compared with the results from the 2016 Framework Plan to understand how market conditions, both demand and costs, have changed since its adoption.

MODEL ASSUMPTIONS

- 2016 SCW Framework Plan entitlements
 - Late 2019 market conditions (costs and revenues)
 - 305 S. Congress (Statesman) PUD proposal
 - More precise infrastructure costs, including the proposed Statesman site plan.
 - Bonus participation fees
 - Affordable housing (including multiple OTC options and Statesman targets)
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Key Takeaways

Developments of the scale contemplated in the 2016 SCW Framework Plan may be financially infeasible, even before accounting for infrastructure and affordability requirements.

The analyses affirmed many of the findings from the SCW Framework Plan analysis, particularly the infeasibility of the district's vision without public financial support.

- **Infrastructure:** Recent feasibility testing suggests that developments, including at the Statesman site, are financially infeasible even before accounting for the impact of incremental infrastructure called for in the SCW Framework Plan. Thus, the plan's infrastructure requirements lead to larger subsidy amounts for any given site in the SCW. Infrastructure investments will require coordination between the public and private sectors.
- **Affordable Housing.** Achieving the 20% housing affordability target is infeasible without public subsidy. The SCW Framework Plan demonstrated that achieving the District's overall goals could require project-by-project affordable housing subsidies. Our analysis suggested extending these subsidies to cover infrastructure and general feasibility of development at the scale and quality envisioned in the SCW Framework Plan.

Market conditions impede the viability of new development in the District.

The market conditions brought on by the global health emergency in the first part of 2020 are unprecedented. No forecaster can predict the near or distant future. This hinders the viability of new development at a scale that matches the City's vision for the district. The timing, scale, and phasing of future development will all be difficult to predict.

The most feasible affordable housing development types are low- and mid-rise 100% affordable rental projects.

In the SCW Framework Plan, the City set a goal that 20% of housing delivered in the district would be income-restricted.

This included a 100% affordable building on the OTC parking lot and an affordable housing target less than 5% for all units on the Statesman site. We considered multiple OTC options and Statesman targets the 2020 Financial Tool. The results reaffirmed the findings from the 2016 SCW Framework Plan: achieving the City's 20% affordable housing goal requires substantial project-by-project subsidies. The most feasible development types are low- and mid-rise 100% affordable rental projects in the OTC parking lot or adjacent neighborhoods, without requiring onsite units for condo buildings

2016 SCW FRAMEWORK PLAN AFFORDABILITY REQUIREMENTS

- 20% of housing should be income-restricted
 - 100% affordable building on the OTC parking lot
 - Affordable housing target of less than 5% of all units on the Statesman site - offsetting major infrastructure and open space commitment
 - Targeting households making 60% MFI for rental units
 - Affordable requirements varied by site
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Policy Direction

To set the SCW up to attract development that meets the City's vision, the City can take the following actions to help to catalyze development in the District:

- **Commit to a flexible SCW Plan.** An adaptable SCW Plan can adjust to changing market conditions and allow for new opportunities and partnerships. For example, fixed bonus participation fees and fixed affordability requirements could hamstring development or leave value on the table as conditions change.
- **Determine base zoning.** The City should determine which, if any, revised LDC zones could be applied to District parcels based on minimizing any new entitlements to ensure the district bonus remains an attractive alternative.
- **Ensure capable management and governance.** An empowered and capitalized district management or development agency can manage through changing market conditions. An Economic Development Organization with tax increment financing could serve this role. However, an active manager will only be effective if the SCW Plan allows for nimble management.
- **Determine the approach for bonus participation fees.** The City should develop an administrative process for how fees will be collected and directed in the District. For this analysis, we reached the following findings:
 - Fees would be charged to a development based on its use of the district entitlements, but credits for on-site affordable housing and SCW bonus infrastructure costs would reduce the total payment to the City/District.
 - Fees can be set such that expected revenues, after credits for on-site affordability and bonus infrastructure, roughly correspond to the cost of addressing the affordable unit shortfall of the district.
 - Bonus participation fees have been considered a key element of the district's funding portfolio, but recent and future market conditions suggest that fee payment is infeasible for many developments under these conditions. Thus, any fees required of development under these conditions may need to be backstopped by another public subsidy source (e.g., TIRZ).
- **Determine affordable housing targets, drawing lessons from previous experience.** As outlined in the Key Takeaways section, the most feasible means of achieving the 20% districtwide affordable units would require 100% affordable rental projects on (a) the OTC parking lot and (b) in surrounding areas, without requiring onsite units for condo buildings. In developing these policies, the City can look to examples of alternative approaches within the City of Austin:
 - The Snoopy PUD allowed for affordable housing provision outside of the strict district boundaries, in surrounding areas, which the recent financial analyses find is the most viable option for achieving the 20% district target.

- Most regulating plans in Austin have a single affordability requirement for projects that utilize bonus entitlements. The neighboring downtown bonus district requires 10% affordable housing in the bonus, which could be a model for the district's project-based requirement.
- **Target Capital Improvement Plan dollars in the SCW to support development and show the City's commitment to the SCW Framework Plan.** Without a partnership with the public sector, the Plan's infrastructure requirements would place a cost burden on future development that it would not be able to absorb.
- **Establish funding options for the District.** Given the need for public financial support, TIRZ could be an essential element of the District's funding portfolio. Implementation steps could include:
 - Establishing a TIRZ district on Statesman site to capture value from new entitlements, but consider limiting TIRZ to that subarea for now.
 - Studying the timing of districtwide implementation. Given market conditions in 2020 and future property assessment, the City should avoid generating negative increment due to declining valuations.