Place-Based Enhancement Program

Economic Development Department

June 2024

Economic Development
CITY OF AUSTIN

Chapter 380 Revision

- Economic incentive programs use tax reimbursements, grants, and other financial programs to encourage desired community outcomes
- This often includes new jobs or new real estate and capital investment
- Guided by state code (Chapter 380) and City policies and priorities
- In Austin, these include strong community benefit requirements:
  - Living wages
  - Childcare support
  - Green building
  - Hiring harder to employ individuals
  - Local art and music
  - Transit access

Chapter 380 Revision: State Local Code

LOCAL GOVERNMENT CODE
TITLE 12. PLANNING AND DEVELOPMENT
SUBTITLE A. MUNICIPAL PLANNING AND DEVELOPMENT
CHAPTER 380. MISCELLANEOUS PROVISIONS RELATING TO MUNICIPAL PLANNING AND DEVELOPMENT

Sec. 380.001. ECONOMIC DEVELOPMENT PROGRAMS. (a) The governing body of a municipality may establish and provide for the administration of **one or more programs**, including programs for **making loans and grants** of public money and providing personnel and services of the municipality, to **promote state or local economic development** and to stimulate business and commercial activity in the municipality.

Program Background

- In 2018 EDD Staff utilized feedback from an extensive engagement process in development of the current Program Guidelines
  - Community conversations included 8 Sessions, held in each Council District
  - Sessions' attendance ranged from 7 to 90, with 160 unique attendees, providing 260 points of input, generating 2,500 comments
  - "Affordability" was a top concern for Creative Sector and Small Business participants
- Current Chapter 380 Policy and Program adopted by City Council
- At that time, City Council adopted Ordinance No. 20180830-058 authorizing the City Manager to develop a Location Enhancement Program

Program Background

Location Enhancement Program core focus from Ordinance No. 20180830-058 on developing an affordable real estate program:

- Commercial affordability for tenants of commercial space with … particular focus on small, local, heritage businesses, non-profits, cooperatives, and the creative sector
- Financial challenges faced by owners of commercial spaces by providing access to capital/financing to deliver community benefits, such as affordable and public spaces, creative spaces, new goods and services, and to preserve neighborhood identity
- Specific market needs, such as the delivery of goods, services and transportation solutions to underinvested areas that yield benefits to the community beyond local tax base contribution

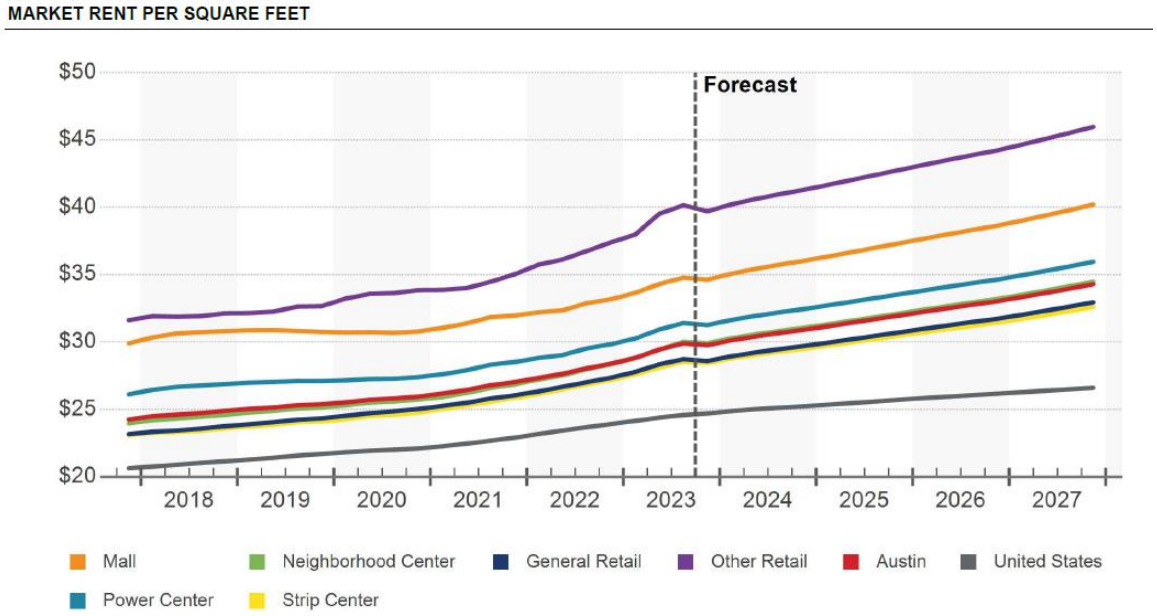
Additional Direction

- Live Music Venue Bonus and Incentive Program (Resolution No. 20220728-094)
  - "Expanded facilitation of affordable commercial space... in new construction" for music venues
- Creative Space Bonus and Incentive Program (Resolution No. 20220901-089)
  - "Expanded facilitation of affordable commercial space restrictive covenants in new construction," incentivization of "lower cost/long term leases" including "potential property tax relief for owners," and the use of Chapter 380 agreements
- ETOD Plan and Policy
  - Incentivize developers to provide affordable and favorable ground-floor lease terms for small businesses, non-profits, and community-supporting space
- Palm District Plan
  - Revisions to the Chapter 380 policy to incorporate tools and mechanisms for small businesses and creative space preservation.
  - Initiation of the development of a Location Enhancement Program and an ordinance to Council for adoption

Urgent Needs for Affordable Small Business Space

Market Trends

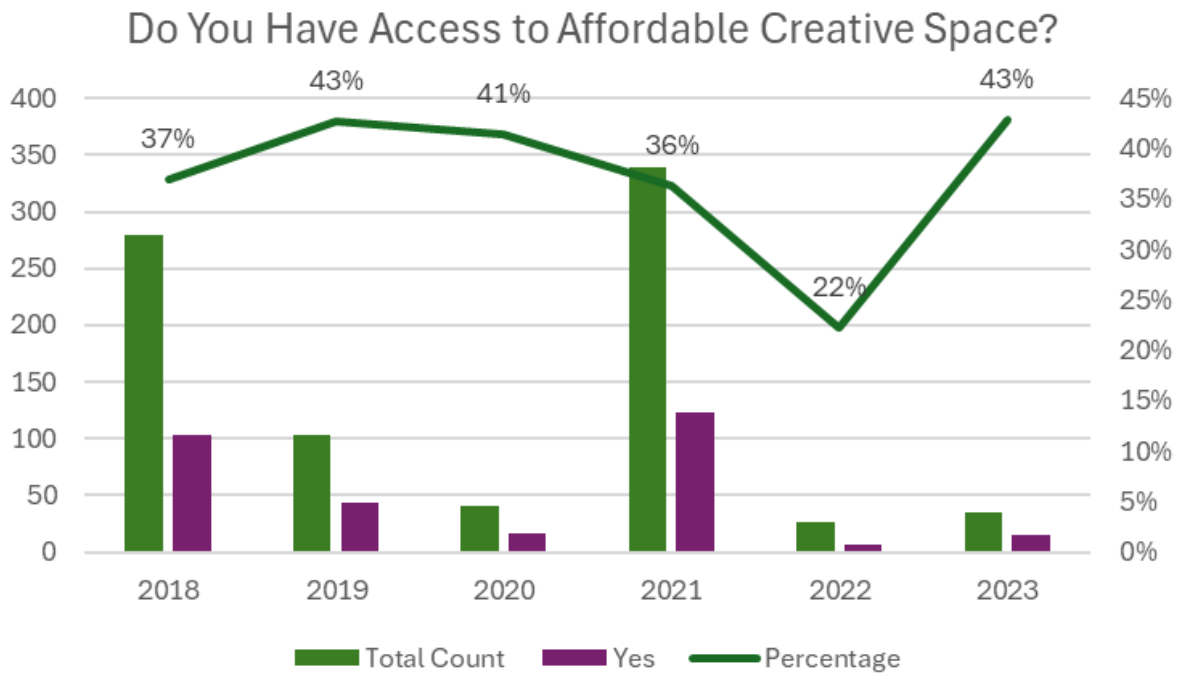
"Tight market conditions prevail in Austin's retail market as robust consumption and subsequent tenant expansions continue to drive demand throughout the metro. With an **availability rate of 3.8% and little supply relief coming** from the construction of new retail space, landlords are experiencing superb **rent growth that is double the national average** (*emphasis added*)… With tight market fundamentals and retail sales rising at a brisk pace, overall asking rents have increased by 7.6% year over year, a **historic high for the market**."



Urgent Needs for Affordable Small Business Space

Continued Need for Affordable Creative Space

Annual surveying of Austin's creative sector businesses suggests continuing urgency of need for affordable creative space, with under 45% of creative sector respondents reporting access to affordable creative space year over year



Program Development Activity

Consultant Study and Engagement

Location Enhancement Report

- Reviews current polices, state and local best practices and provides findings
- Incorporates real estate market analysis to identify gap financing options
- Makes recommendations on program priorities, guidelines, targets, and scoring

Stakeholder Focus Groups

- Cultural Arts and Creative Sectors Needs
- Music Industry Needs
- Existing Small Business Support Program
- Strategic Property Coordination
- Chapter 380 and Incentive Delivery
- Arts and Creative Space Developers
- Businesses District and Association Representatives
- Real Estate Development Community
- Private | Public Sector Lenders

Place-Based Enhancement Program

PROGRAM PROPOSAL

What is it?

A new program to encourage affordable commercial space for the creative sector, small local business, community-serving projects, and needed infrastructure in underserved areas

What is the incentive based on?

- *New investment in real estate in priority areas for the City that provides major community benefits*
- *Preservation of existing venues, creative spaces, and legacy businesses threatened by high real estate costs (rent, taxes, building improvements)*

What community benefits are prioritized?

- The main community benefit for these projects will be providing affordable commercial space or supporting/retaining new or existing creative spaces, legacy businesses, and community-serving initiatives
- Additional community benefits will be tied to deeper affordability, serving many organizations, etc.

Place-Based Enhancement Program

PROGRAM PROPOSAL
Category I - Affordable Space: This category will offer tax reimbursements to developers of mixed-use and commercial building projects to include affordable commercial leases for arts and music venues and establishments, small local businesses, and community development projects
Category II – Community Impact: This will offer tax reimbursements that support the development of stand-alone high-impact community development or improvement projects including arts and music complexes, grocery stores in food deserts, childcare facilities, and industry hubs and incubators
Category III – Cultural Preservation: This will offer tax reimbursements and potentially other programs to support retention and improvement of existing music venues, creative spaces, and legacy businesses, nonprofits, and co-ops

Community Benefit Targets

COMMUNITY BENEFIT TARGETS

Music Venues and Creative Spaces

- Music venues, performance venues, and theaters;
- Art workshops, studios, and galleries;
- Arts related retail or other uses as approved

Community Development Projects

- Specific, high impact projects to benefit underserved community or fill an industry ecosystem "gap"
- Grocery stores, childcare, industry hubs or incubators, etc.
- Affordable housing if other non-residential community benefits are provided, in specific projects

Small, Local Businesses, Nonprofits, and Co-ops

- Affordable space needs for these core organizations
- Focus on businesses in economic and cultural districts, density bonus districts with affordable non-residential space elements, and target industry clusters

Geographic Targeting

- Economic and Cultural Districts: Economic and Cultural districts (ECD) are contiguous micro-geographic areas, typically between ¼ mile – 1 ½ mile in size, containing concentrations of creative, cultural, entertainment, heritage, or commercial assets. These include, but are not limited to, districts that have received Creative District zoning.
- Equitable Transit-Oriented Development (ETOD): Areas identified as existing Transit-Oriented Developments by the City of Austin, or included in the ETOD density bonus combining district as adopted in May 2024 and expanded in future amendments.
- City-led Redevelopment Initiatives: Sites in or within 1-mile of major City-led redevelopment initiatives, including repositioning of City properties or land bank properties, or City-led special district development including South Central Waterfront, Colony Park, etc.
- Priority Equity Areas: Areas identified in the Project Connect Anti-Displacement Mapping Tool to further neighborhood-based equity; or catalytic projects in the Eastern Crescent.

Affordability Standards and Gap Financing

Commercial Affordability

- 50% market rate for retail based on the 5-year rolling average at the time of incentive; or,
- Rent/revenue ratio requirement based on industry standards; and,
- 5% annual escalation cap maximum

Determination of Project Need

- Value of incentive will be guiding by the financing gap in a real estate development or preservation project required to provide the community benefit of affordable space to the target beneficiary
- Applicants will be required to demonstrate gap in their real estate pro formas caused by meeting the affordable space requirement
- Incentives will be tied primarily to new real property development value, or to preservation of existing creative spaces and legacy small businesses

Additional Community Benefits for Bonus Scoring

- *Providing a "right to return" for an existing creative or small business space at a redevelopment site, with comparable space and lease rates to those held prior to redevelopment*
- *Having target businesses, nonprofits, or cooperatives already identified*
- *Providing temporary relocation assistance/funding to an existing creative space or small business at a redevelopment site*
- *Co-location or providing multiple affordable spaces to target beneficiary tenants*
- *Providing multiuse affordable space such as creative coworking/workshop spaces*
- *Offering space at lower rates, longer terms, or lower escalations than required*
- *Co-location with affordable housing or live/work units for artists and musicians*
- *Urgency of need, with incentive required in 12-24 months to avoid displacement (for Cultural Preservation Incentive)*
- *Commitments to equity and to serving historically underrepresented communities*
- *Being a "legacy" business, nonprofit, or co-op that has been established at the site or in Austin for 20 years or more*

Example: Affordable Space Category

Affordable Creative Space in an ETOD District

- Project involves construction of a mixed-use building within the Equitable Transit Oriented Development Density Bonus District (DBETOD)
- Project will include new construction of a 12-story building, with ground floor office and a 10,000 GSF live theater
- Total capital investment is $20 million
- The project will offer the live theater an affordable lease for 10 years, at $15 per square foot per year during the duration
- Community Benefits Target: Affordable creative space (theater); target geography for development (ETOD area near a rail line); long lease (10 years)
- Project Assistance: Tax reimbursements on the new construction to allow the project to be built according to the community benefit guidelines required; tied to capital investment by developer

Example: Affordable Space Category

Affordable Creative Space in an ETOD District

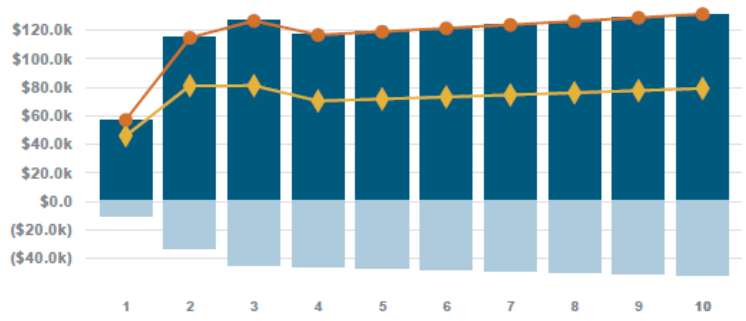
Economic Development
CITY OF AUSTIN

Business Retention & Expansion | Tourism & Hospitality

City of Austin

BENEFITS	COSTS	INCENTIVES
$1,163,064	$0	($435,122)

NET BENEFITS	NET BENEFITS LESS INCENTIVES
$1,163,064	$727,942



JOBS

0 Total
0 Direct
0 Spin-off

SALARIES

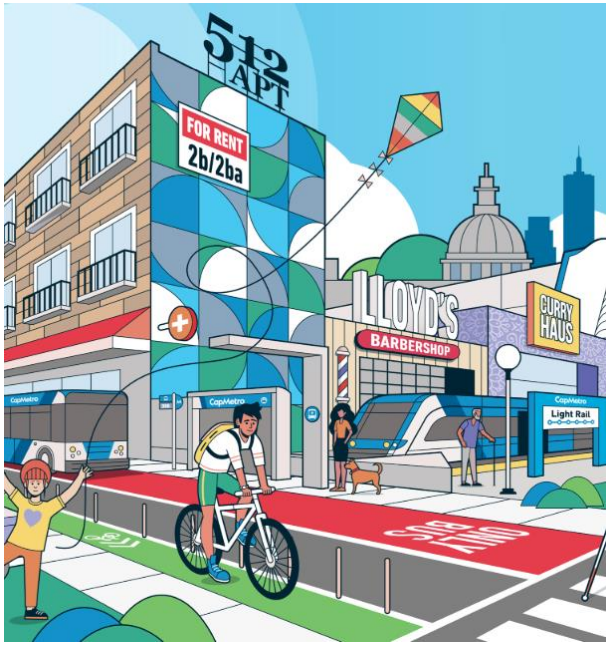
$0 Avg
$0 Direct
$0 Spin-off

CAPITAL INVEST.

$20.0M
Buildings + FF&E

RESIDENTIAL DEV.

0 Homes
0 Relocations



Economic Development
CITY OF AUSTIN

Example: Community Impact Category

Grocery Store in a Food Desert

- Project involves construction of a grocery store in a federally-identified food desert in the Eastern Crescent
- Project will include new construction of a full service, medium-sized grocery store of 10,000 GSF and associated equipment and furnishings
- Total capital investment is $1.6 million
- Community Benefits Target: Community development project (grocery store); target geography for development (food desert)
- Project Assistance: Tax reimbursements on the new construction to support buildout of the storefront and sales tax reimbursements to support initial operations

Example: Community Impact Category

Grocery Store in a Food Desert

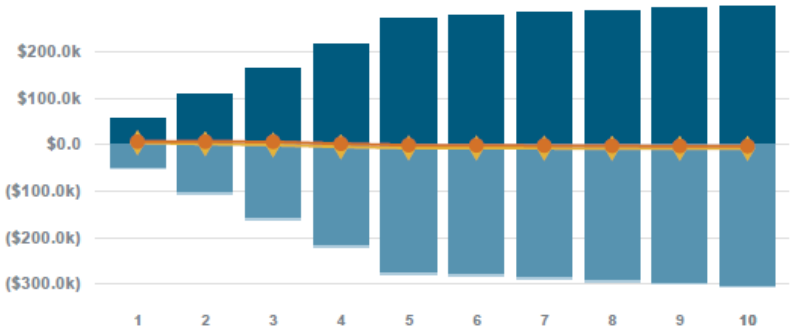
Economic Development
CITY OF AUSTIN

Business Retention & Expansion

City of Austin

BENEFITS	COSTS	INCENTIVES
$2,243,346	($2,254,119)	($52,501)

NET BENEFITS	NET BENEFITS LESS INCENTIVES
($10,773)	($63,274)



JOBS

138.1 Total
100.0 Direct
38.1 Spin-off

SALARIES

$44,088 Avg
$40,000 Direct
$54,830 Spin-off

- May be appropriate for waiver for "exceptional project" circumstances

Example: Cultural Preservation Category

Live Theatre Performance Venue

- Project involves preservation of an existing performance venue facing impending closure due to real estate related costs (rent increase)
- Theater generates substantial annual tourism, which is regularly reported as part of eligibility requirements for cultural funding associated with hotel occupancy tax programs; tourism generates strong net fiscal positive impacts, as visiting tourists spend money on accommodations, food, retail, other entertainment, and travel expenses, without incurring substantial costs from City services
- Project Assistance: Tax reimbursements for the existing venue + investment in building improvements, and sales tax reimbursements

Example: Cultural Preservation Category

Live Theatre Performance Venue

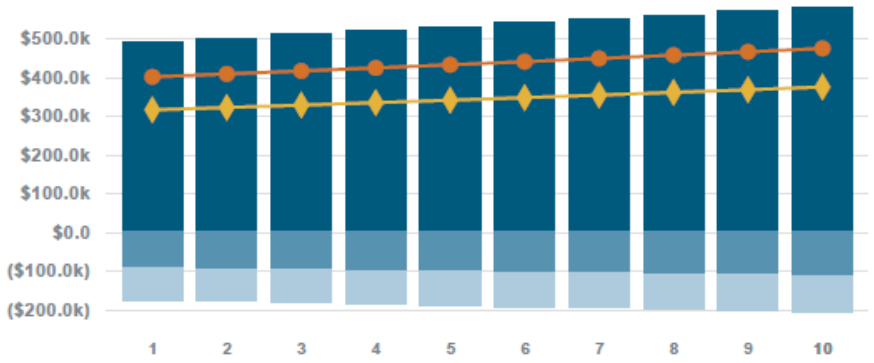
Economic Development
CITY OF AUSTIN

Business Retention & Expansion | Tourism & Hospitality

City of Austin

BENEFITS	COSTS	INCENTIVES
$5,349,776	($988,628)	($922,019)

NET BENEFITS	NET BENEFITS LESS INCENTIVES
$4,361,148	$3,439,129



JOBS

69.2 Total
54.0 Direct
15.2 Spin-off

0 New Jobs @ $0
54.0 Retained Jobs @ $34,788
54.0 Direct Jobs @ $34,788

SALARIES

$43,752 Avg
$34,788 Direct
$75,568 Spin-off

CAPITAL INVEST.

$0
Buildings + FF&E

Additional Community Benefits

- For Place-Based Incentives, the primary Community Benefit is providing affordable space to a target beneficiary or supporting the development of high-impact, brick-and-mortar community development projects
- Additional Community Benefits prioritize construction-related requirements from Chapter 380 Policy

➢ *All construction workers hired for construction of the project will be provided Workers Compensation Insurance and OSHA 10 Training*

➢ *All construction work on the project must comply with the City's established prevailing wage program that is used on City of Austin public works projects*

➢ *Construction workers hired for construction work will be paid at least the City's living wage*

➢ *Meeting City of Austin living wage standards for all employees*

➢ *Affirming commitment to completing a labor peace agreement if the business is approached by a labor organization*

Thank you! Closing Comments?