

Operational Assessment of the Austin Revitalization Authority

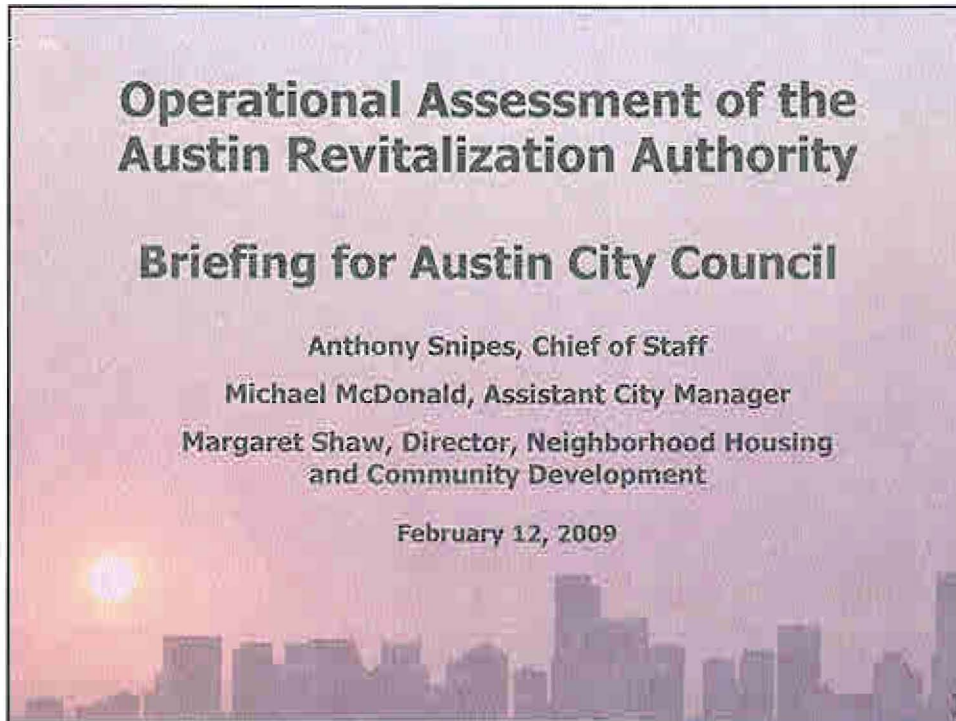
Briefing for Austin City Council

Anthony Snipes, Chief of Staff

Michael McDonald, Assistant City Manager

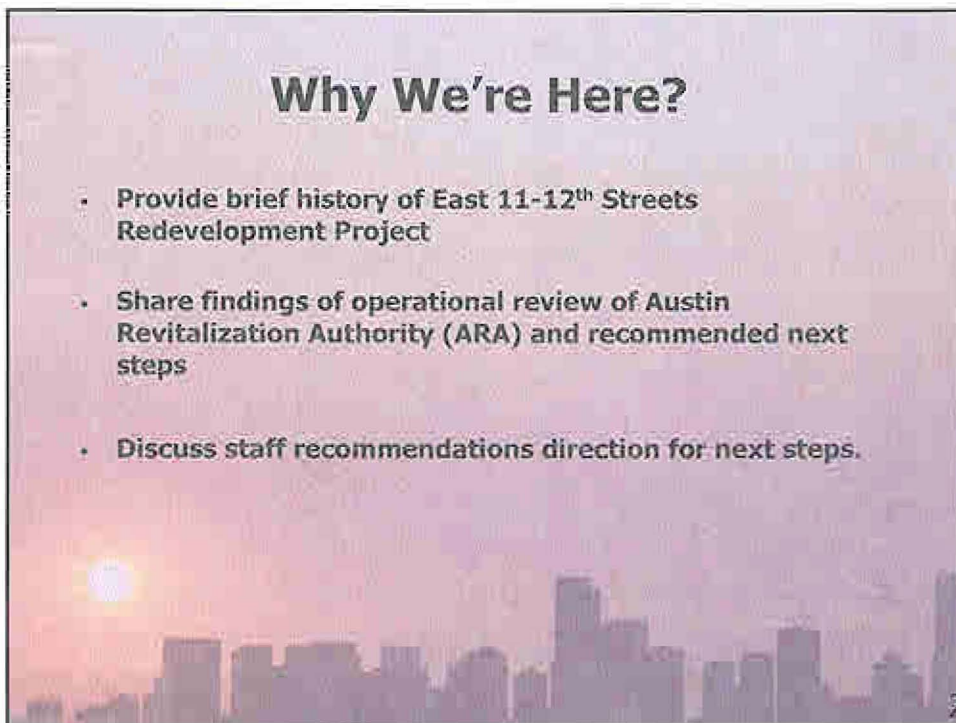
Margaret Shaw, Director, Neighborhood Housing
and Community Development

February 12, 2009



Why We're Here?

- Provide brief history of East 11-12th Streets Redevelopment Project
- Share findings of operational review of Austin Revitalization Authority (ARA) and recommended next steps
- Discuss staff recommendations direction for next steps.



The Problems of the Past

- Area of rich cultural history fell into disrepair
- Poor infrastructure conditions (sidewalks, undersized utilities, roads)
- Criminal activities (drugs, murders, prostitution etc.) rampant
- Deteriorated housing and commercial structures
- Vacant lots and buildings that enabled criminal activities
- Disinvestment by conventional lending community ("redlining")



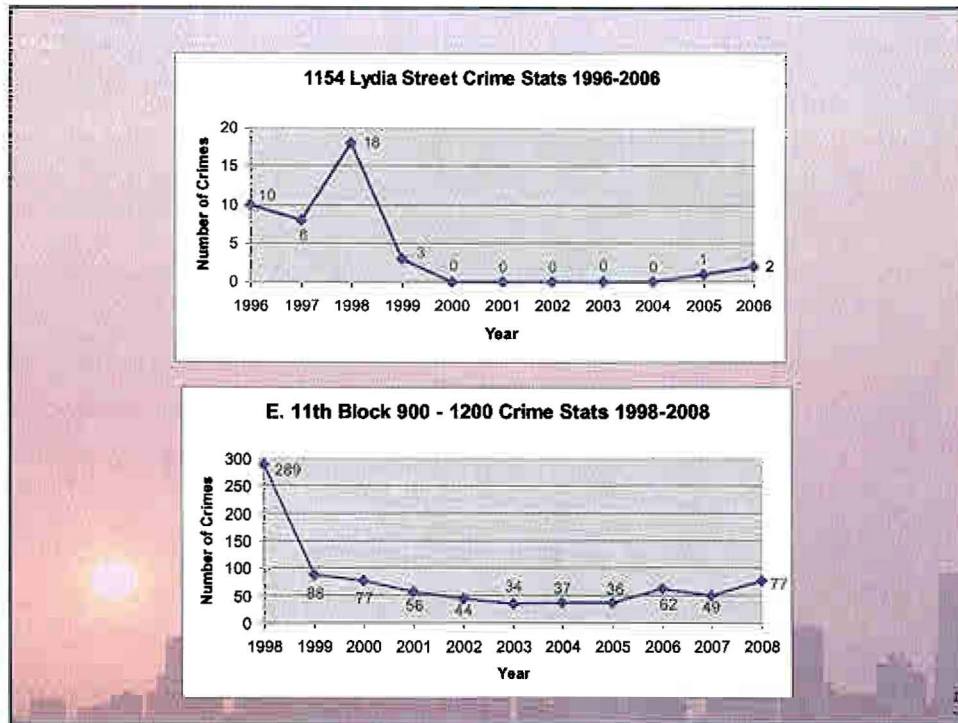
The poor still inhabit the miserable housing in the central area, but they are increasingly isolated from contact with, or sight of, anybody else...

The very development of the American city has removed poverty from the living, emotional experience of millions of middle-class Americans.

Living out in the suburbs it is easy to assume that ours is, indeed, an affluent society.

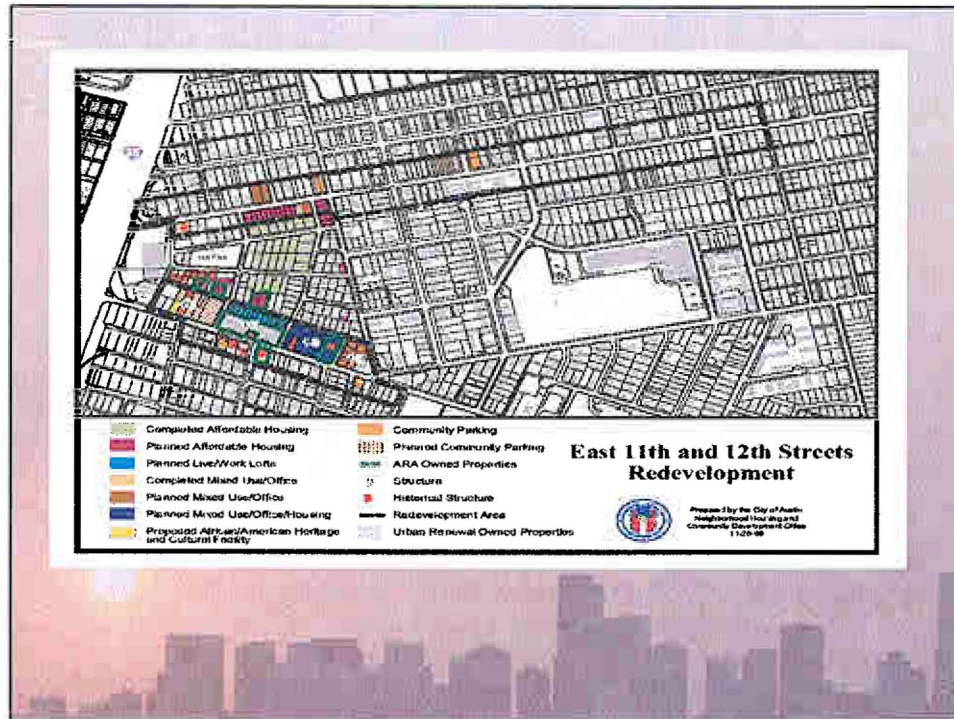
Michael Harrington
The Other America





Early Actions for Renewal

- **1995:** ARA created to develop master plan for East Austin
- **1997:** Council designated East 11-12th Streets area as blighted and suitable for urban renewal.
- **1999:**
 - **January:** Council approves Urban Renewal Plan.
 - **October:** City, Urban Renewal Agency, and ARA entered into Triparty Agreement defining each party's role and responsibility in the urban renewal project.



Three Partners in East 11-12th St. Redevelopment

City of Austin- Neighborhood Housing & Community
Development (Lead)

Guiding Principles:

- Protect public investment
- Ensure responsible redevelopment on the corridor
- Address community priorities

Austin Revitalization Authority

- In October 1995, ARA, a community-based, private non-profit corporation was formed to develop a Redevelopment/Master Plan, marketing plan, and business plan to support area revitalization efforts.
- Mission:
 - Respect the people, institutions, cultures and history of East Austin;
 - Restore a sense of hope and pride in the East End community; and
 - Revitalize the area's commercial, residential and social components in a manner that promotes diversity, stability and prosperity.
- Vision: The East End will once again be a vibrant community comprised of safe and attractive neighborhoods, thriving businesses, and quality educational institutions with a cultural, racial and economic diversity that respects the area's heritage.

Urban Renewal Agency

- The Urban Renewal Plan is the product of three years of planning and community consensus building.
- The Plan's vision includes:
 - A mixed-use, pedestrian friendly East 11th Street;
 - Compatibility with existing residential housing;
 - Diverse residential products (SF, MF);
 - Commercial development with entertainment, retail and restaurants.
- URA created December 7, 1959 to serve 6 urban renewal areas, only remaining plans are E11-12th and University East.

Priorities of New City Leadership

- Build upon 2007 City's Executive Staff efforts:
 - Identified program weaknesses & internal inefficiencies
 - Nov 2007 Renegotiated Triparty Agreement (ARA-City-URA)
 - Decouple development projects
 - Set timelines for development of Block 17 and 18
 - Establish regular channels of communication
- City Manager Ott directs executives to assess City's current relationship with ARA and determine next steps to:
 - Mitigate City's risk & protect public's investment
 - Expedite responsible redevelopment of corridor
 - Improve efficiency and effectiveness

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Methodology



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Areas of Focus & Highlights 2008

- **Development**
 - Identify projects that can be completed in 18 months & obstacles ex., Juniper/Olive Historic District (5 new constructions, 7 rehabilitations)
- **Contractual**
 - 9 main agreements addressing operational, residential, commercial efforts
 - Recommend modifications to 6
- **Organizational**
 - Lack of long-term business plan
 - Conflicting roles & responsibilities
- **Financial**
 - Independence unlikely in near future
 - Review ARA/EEC Audits reveals concerns
- **Establishing mutual goals**
 - Roles & responsibilities within triparty unclear
 - CMO executives tour redevelopment area
 - Improve communication: NHCD continues weekly meetings with ARA key staff; CMO executives meet bi-weekly with ARA Board and key staff

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Staff Recommendations

- **City's Partnership with ARA**
 - Not advisable to continue as currently structured nor to bring to close our partnership
 - Address contract inefficiencies and ambiguities
 - Redefine and clarify roles and responsibilities of key partners
- **Specify future projects and partnerships**
 - Identify clearly roles & responsibilities and expectations
- **Monitor performance and provide updates bi-annually**

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Summary of E.11-12th Projects Completed/Underway

- 25,000 square foot Vertical Mixed Use development, including 20% affordable housing, opening March 2009 (Block 19)*
- Two community parking lots on East 11th (24 spaces)*
- 57,000 square foot retail/office building (Block 17)*
- 11 single-family affordable homes in Juniper-Olive*
- Infrastructure improvements*
- Streetscape improvements*
- Renovation of historic Connelly-Yerwood House
- 7 single-family affordable homes in Juniper-Olive

*ARA involved

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E11th: Urdy Plaza, Haehnel, Street-Jones, Snell Bldgs.



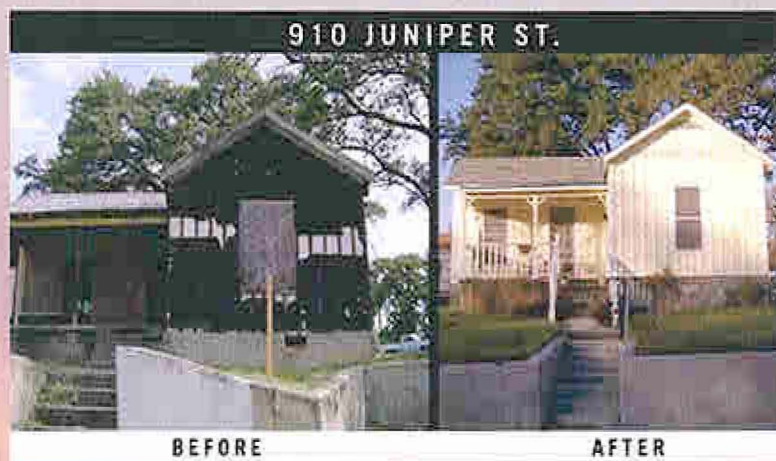
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E.11-12th Projects Under Discussion

- Urban Renewal Agency
 - Block 16 (mixed-use)
 - Block 17 (residential)
 - East 12th Street (various, notably community parking)
- ARA
 - Juniper Olive (1 remaining new home construction)
 - Anderson Hill (7 home rehabilitations)
 - Block 18 (mixed use, approved plan due June 2010)
- City –NHCD
 - African American Cultural & Heritage Facility (Detrick-Hamilton House on Block 16)
 - Two East 12th Street tracts at Navasota and at Curve

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Juniper-Olive District



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COA-ARA Contractual Agreements

- There are 9 main agreements between the City and ARA and their affiliate Eleven East Corporation (EEC), and one prospective project yet to be approved by Council.
- Operational:
 - Tri-Party Agreement (Nov 2007);
 - Operations Subrecipient Agreement (October 2004)
- Residential (affordable housing):
 - Juniper Olive Phase I Renovations and New Construction (May 2004)
 - Juniper Olive Phase II New Construction (Nov 2007)
- Commercial:
 - Haehnel Grocery/Eastroom/ 1124 E. 11th St. Grant (September 1997)
 - Predevelopment Loan (Feb. 2001)
 - Eleven East Development Loan (April 2003)
 - Eleven East \$47,000 Deferred Loan (Feb. 2007)
 - Eleven East Lease Agreement (July 2002)
- Prospective:
 - Juniper Olive Phase III Renovations (proposed March 2009)

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Contractual Assessment

- Assessment reveals contract inefficiencies and ambiguities
- Modifications to 6 contracts recommended
 - Juniper Olive Phase II New Construction (Council approved 12/18/08)
 - Juniper Olive Phase I Renovations and New Construction
 - Predevelopment Loan
 - Eleven East Development Loan
 - Eleven East \$47,000 Deferred Loan
 - Eleven East City Lease Agreement
- Execute prospective agreement for Juniper/Olive Phase III through Austin Housing Finance Corporation
- Continue negotiations on two contracts
 - Haehnel/Eastroom
 - Operations Agreement
- No changes recommended to Triparty Agreement at this time.

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Proposed Modifications

- Administrative "housekeeping" modifications:
 - 1.) Eleven East Deferred Loan: \$47,000 deferred loan to complete finish-out of lease space in Snell Building.
 - Clarify job creation obligations tied to site not tenant.
 - 2.) Eleven East Lease Agreement with City-NHCD
 - Modifications to add definitions of key terms, streamline reconciliation and record-keeping, and provide for quarterly reporting and invoice review.

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Proposed Modifications

- Administrative modifications (cont'd):
 - 3.) Eleven East Development Loan: \$4.7M loan funded construction of the Street-Jones & Snell Buildings and a rental security agreement to secure third-party financing.
 - Modifications incorporate replacement reserve account and correct amortization schedules.
 - 4.) Juniper-Olive Phase I: Rehabilitation of 4 historic homes and construction of 3 new homes to be sold to low-moderate income households. City contributed \$240,000 in federal funds for rehabilitation costs, land and historic structures
 - Modifications to standardize reporting requirements from monthly to annual.

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Proposed Modifications

- Modifications with financial commitment:
 - 1.) Predevelopment Loan for Blocks 17 & 18: \$330,000 loaned for predevelopment expenses. Outstanding \$132,000 matured in December 2006.
 - Modifications establish revised repayment schedule.
 - 2.) Prospective Project - Juniper-Olive Phase III: Renovation of 6 historical structures, \$60,000 per house. City promised \$360,000 in federal funds to reimburse for rehabilitation costs.
 - Modifications to include standard financing for current market conditions. Proposed AHFC item- March 5, 2009.

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Organizational Assessment Challenges & Recommendations

- Challenges
 - Multiple goals in ARA's current Strategic & Work Plans
 - Current lending/market conditions threat to production & revenue sources
 - Heavily dependent on key staff as small nonprofit
- Proposed Recommendations
 - Secure temporary staff and/or consultants:
 - To develop, implement and train ARA staff on Federal regulations and reporting requirements.
 - To assist with design, development, and financing requirements for real estate development.
 - To assist in creating five-year business plan.

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Financial Assessment Challenges & Recommendations

- **Challenges**
 - 2006 & 2007 audits show prior 12-month financial activity, financial security, and cashflow are declining.
 - Operational reserves low with high debt balloon payments in 2011 & 2012.
- **Recommendations**
 - Independent assessment of City's risk and ARA's business financial strengths needed.
 - Updated appraisals of existing properties key to risk & loan-to-value ratios.

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City's Potential Exposure In Default

	\$M
City of Austin investment	5.8
Third-Party Investors (superior lien)*	8.5
<i>Subtotal, Project Investment</i>	<i>\$14.3</i>
TCAD 2008 Property Values	9.3
Third-Party Investors (superior lien)	-8.5
City's portion of shared collateral	0.8
City's investments in first lien	0.1
<i>Subtotal, City's collateral</i>	<i>\$0.9</i>
City of Austin investment	-5.8
<i>City's potential exposure in case of ARA default</i>	<i>\$4.9</i>

*Source: ARA/EEC 2007 Financial Audit

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Establishing Mutual Goals Challenges & Recommendations

- **Challenges**
 - Goals, priorities and roles/responsibilities of each party -- URA, City and ARA – blurred
- **Recommendations**
 - Facilitate a joint meeting of URA Board, ARA Board and CMO to outline on-going and future priorities, roles and responsibilities.

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Staff Recommendations

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Office of City Auditor

- Timeline: November 2008 with report in May 2009
- OCA Audit Scope from 1995-present
 - Effectiveness of ARA's revitalization efforts.
 - Long-term financial viability of ARA & redevelopment efforts.
 - Evaluate City's administration & monitoring efforts.
- City staff working collaboratively with OCA sharing documents and meeting, as requested

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Proposed Next Steps Proposed

- Given OCA Objectives, staff recommends:
 - Delay in securing consultants to prepare business risk assessment and to provide real estate development expertise.
 - Continued support of OCA efforts, implement their recommendations, as needed.
- Council Action Requested to Continue to Move Forward
 - With ARA on:
 - On March 5, 2009:
 - 5 RCAs to modify contracts
 - 1 AHFC-RBA for Juniper-Olive Phase III rehabilitations
 - Provide technical assistance to ARA staff to improve quality of submissions (on-going).
 - Issue competitive bids for URA's Blocks 16 and 17 in February (ARA may bid).
 - Issue bid for City's restoration of Detrick-Hamilton House/African-American Cultural & Heritage Center (PARD to manage Center operations) by late Spring (ARA may bid).
 - Convene joint meeting of URB-ARA-CMO to establish mutual goals & priorities for next three years.

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