

Homestead Preservation District

Policy and Program Overview

**City Council Housing
Committee**

March 25, 2015

Presentation By:

Neighborhood Housing and Community Development



Presentation Goals

- I. What is the Homestead Preservation District legislation?
- II. Review the history of the Homestead Preservation District legislation and City of Austin actions
- III. What is the eligibility criteria for Homestead Preservation Districts?
- IV. Overview of eligible areas and their unique characteristics
- V. How do the Homestead Preservation tools work?
- VI. Steps for implementing the Homestead Preservation District legislation



Important Acronyms

HPD = Homestead Preservation District

HPRZ = Homestead Preservation Reinvestment Zone

TIRZ = Tax Increment Reinvestment Zone

TIF = Tax Increment Financing

CLT = Community Land Trust

What is the HPD legislation?

Legislation first passed in 2005 that created Chapter 373A, Local Government Code intended to:

- **Increase homeownership**
- **Provide affordable housing**
- **Prevent the involuntary loss of homesteads by existing low and moderate-income homeowners**



HPD Affordable Housing Tools

Homestead Preservation Reinvestment Zone:

Allows the use of tax increment financing (TIF) to finance the creation and preservation of affordable housing in the district.

Homestead Land Bank Program:

Allows the City of Austin to operate a Land Bank program, through which vacant properties subject to tax foreclosure are made available for affordable housing.

Homestead Land Trust:

Allows Council to designate one or more community land trusts to operate within the district and access TIF funds. Austin Housing Finance Corporation, Travis County Housing Finance Corporation and PeopleTrust are designated by City Council to operate as HPD Land Trusts.



HPD Land Bank

Allows the City of Austin to operate a Land Bank program within a District, through which vacant properties subject to tax foreclosure are made available for development of affordable housing.

- **Property ordered to be sold pursuant to tax foreclosure may be sold in a private sale for the amount of the judgment to the Land Bank.**

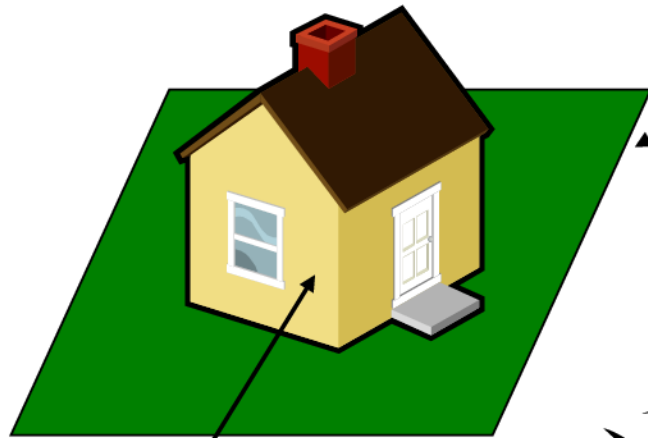
HPD Community Land Trust

The purpose of the CLT Program is to increase the supply of permanently affordable homes for low- and moderate-income households, increasing homeownership opportunities.

- **CLT homebuyers purchase only the house and will enter into a long term agreement to lease the land.**
- **CLTs make homeownership affordable for today's homebuyers by taking the cost of the land out of the real estate transaction, making the homes more affordable than houses on the open real estate market.**

Community Land Trusts:

How do they work?



Buildings (residential or commercial) are owned by individuals. Because they pay only for the structure, and not the underlying land, purchasing the building is more affordable.

Land is owned by the Community Land Trust, which is governed by a non-profit board.



A 99-year ground lease between CLT and owner ensures owner-occupancy and responsible use and outlines fees paid to the CLT.



A resale formula built in to the ground lease is designed to keep homes affordable for subsequent buyers.





HPD Legislation and Actions

- 2005** Homestead Preservation District & Reinvestment Zone introduced to Texas Legislature by Representative Eddie Rodriguez
- 2007** City Council established the original Homestead Preservation District
- 2013** HB 3350 passed with revised HPD criteria



Resolution No. 20130627-72

The City Manager is directed to analyze the impacts of HB 3350 and present a legal and fiscal analysis, potential boundaries and included property classes along with necessary Code amendments in order to align current City code with state law so that homestead preservation districts can be created as soon as possible.



HPD Eligibility Criteria

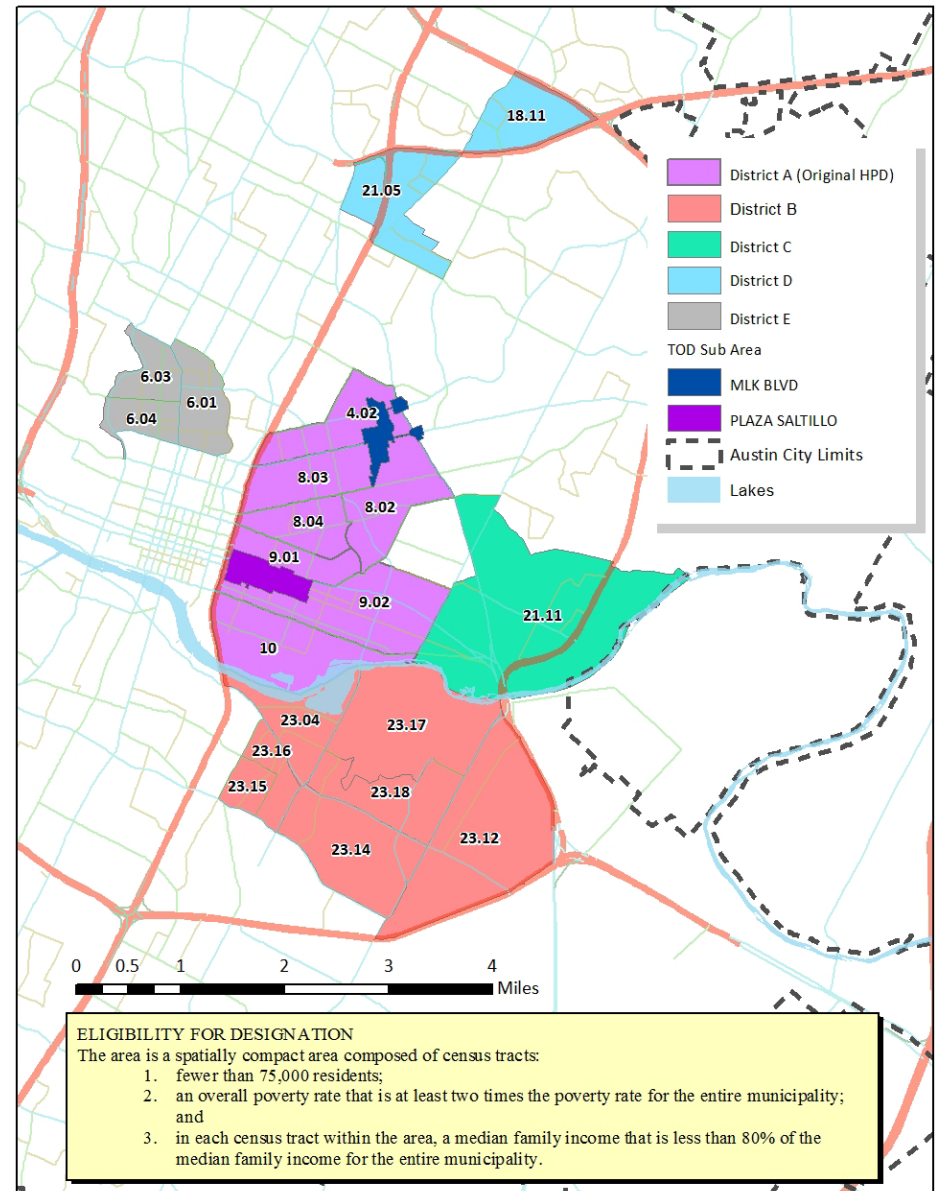
1. Each census tract must have a MFI less than 80% COA MFI
2. The HPD must be composed of contiguous census tracts
3. The potential district must have fewer than 75,000 residents
4. The overall poverty rate for the HPD must be twice City of Austin Poverty Rate

	City of Austin	HPD criteria
Median Family Income (MFI)	\$63,672	Less than 80% COA MFI (>\$50,938)
Poverty Rate	20.30%	2x COA Poverty Rate (40.6)

*Analysis based on data provided by the U.S. Census Bureau American Community Survey 2011 5yr Estimates

Areas Eligible for HPD Designation

In 2013, at City Council's direction, NHCD conducted analysis of City of Austin census tracts and identified five areas that would be eligible as a HPD under the current legislation.





Council Resolution NO. 20140213-044

On February 13, 2014, the City Council approved a resolution directing the City Manager to develop a financing and funding strategy for five districts identified as meeting the criteria for establishing HPD's. The strategy is expected to include the following:

- A market study to project future property values and related tax increment,
- Consideration and projection of value capture and/or other funding tools,
- Development of criteria for determining whether land is unproductive, underdeveloped, or blighted, and,
- An inventory of public land and its intended use in each proposed district

HPD TIF Analysis Overview

Neighborhood Housing and Community Development and the Finance Department have contracted with Economic & Planning Systems (EPS) and Capital Market Research (CMR) to address the Homestead Preservation District analysis through slightly different lenses in order to produce a comprehensive analysis that considers both the financial and social implications of designating Homestead Preservation Districts and the potential use of the Homestead Preservation Reinvestment Zone TIF tool.



Steps for Implementing the Legislation

City Council Resolution No. 201413-044

- HPD Eligibility Criteria
- “Value Capture” Financing Options
- Public Property Inventory

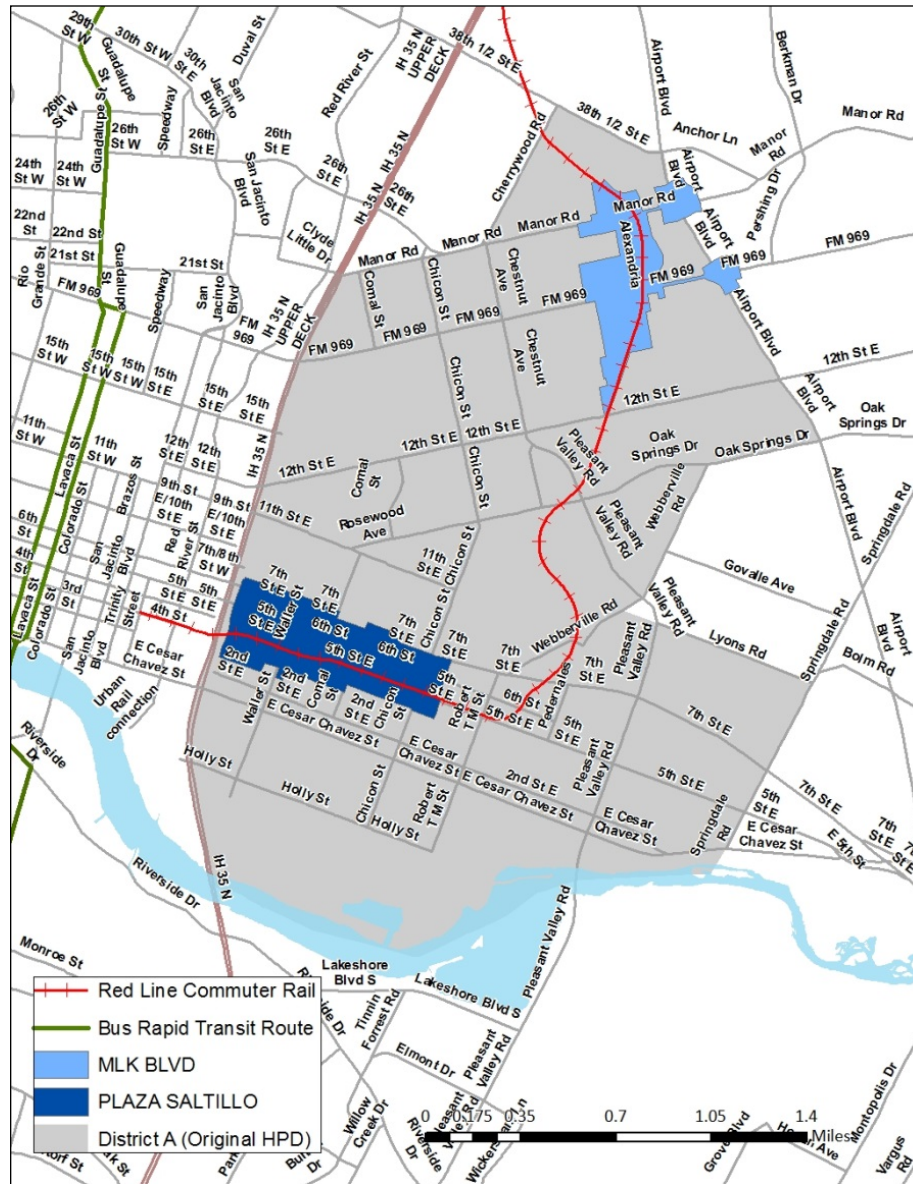
- Development and Tax Increment Projections
- Fiscal Impact Analysis

**Overall
Strategy for
Use of Funds**

**Recommendations
for Council
Consideration**

**HPD TIF District
Project and
Financing Plans**

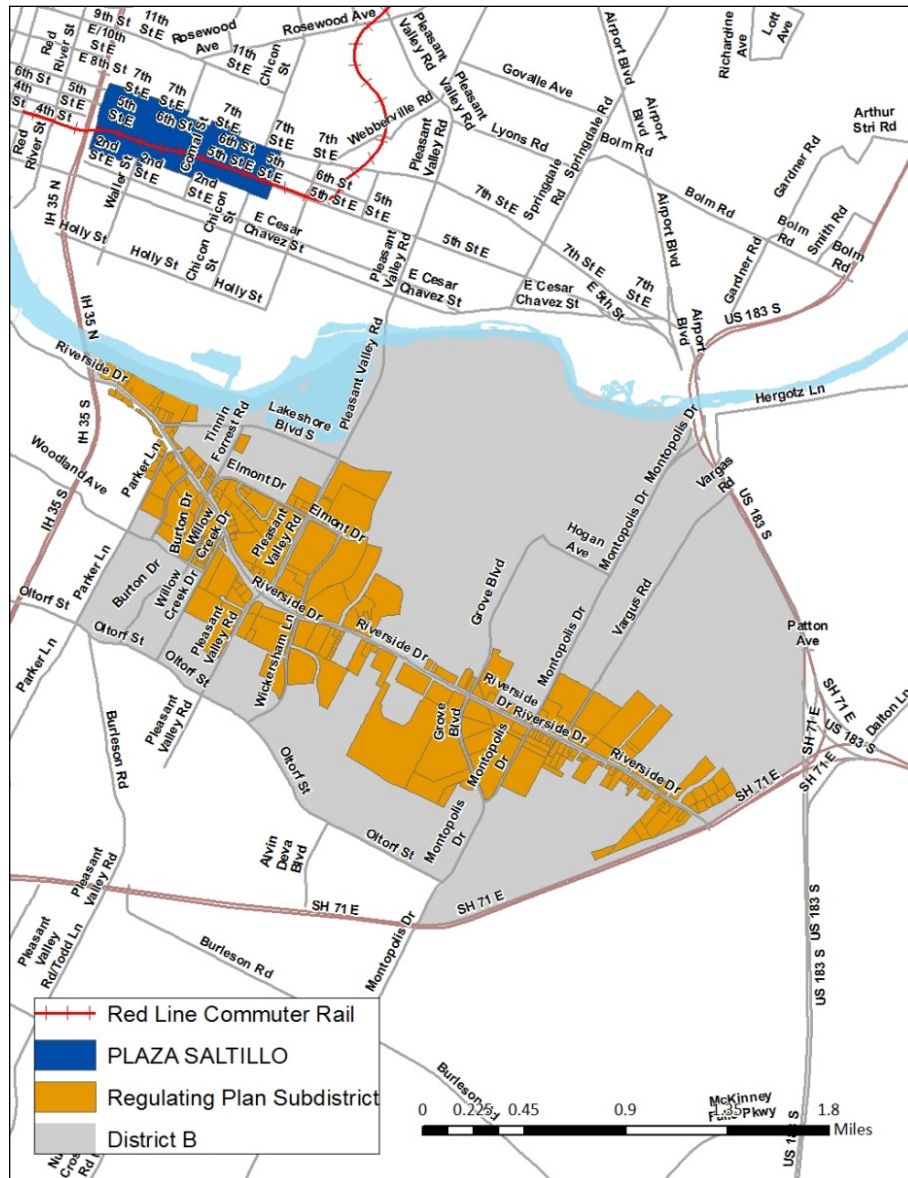
HPD District A



- Total population of 20,379
- Overall poverty rate of 32.27%.
- Boundaries includes the MLK Blvd TOD and Plaza Saltillo TOD
- Upper Boggy Creek, Central East Austin, Chestnut, Rosewood, Govalle, Holly, and East Cesar Chavez Neighborhood Planning Areas.
- City Council Districts 1, 3, & 9

The demographic change in the area since 2008 reflects the results of economic displacement, which remains a significant threat in this area if new affordable housing is not provided.

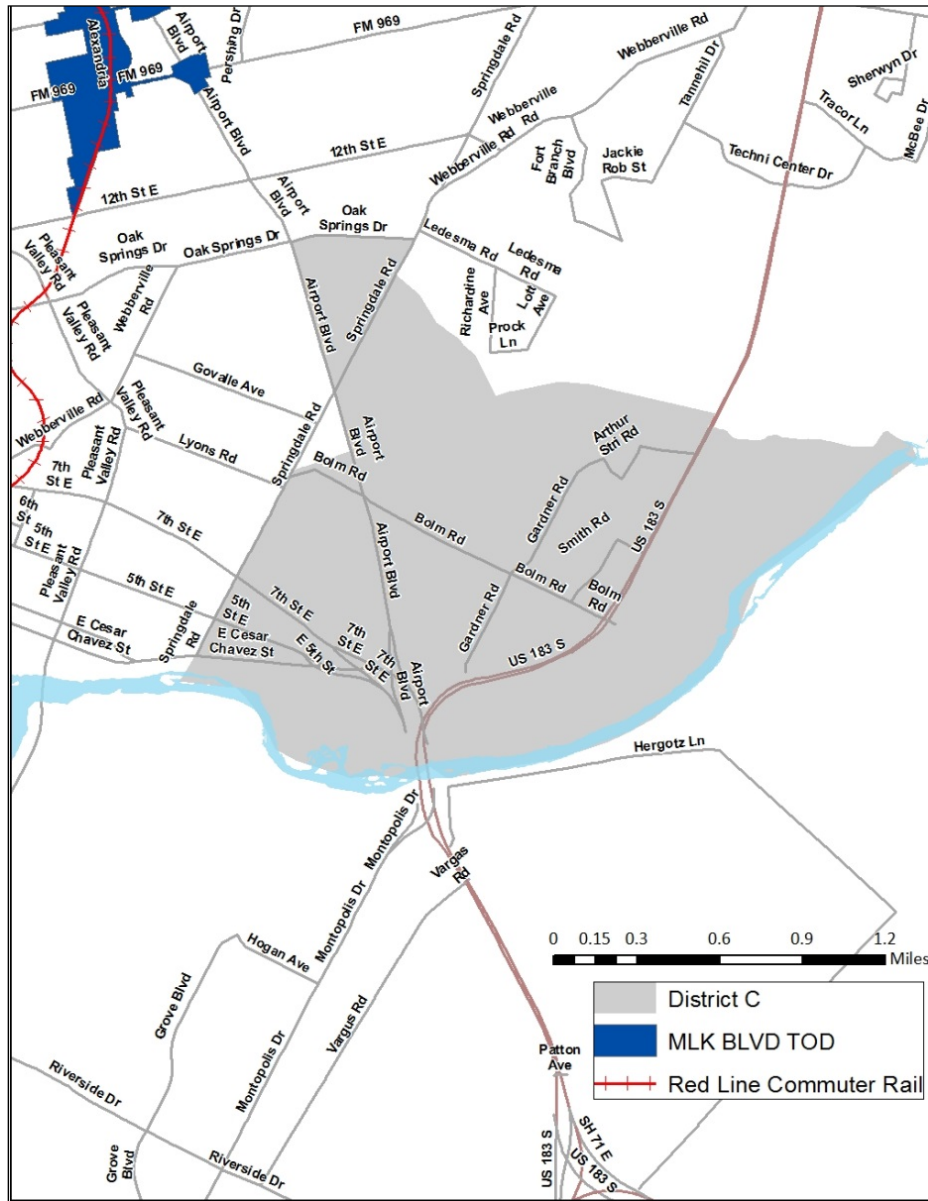
HPD District B



- Total population of 35,486
- Overall poverty rate of 43.61 %
- East Riverside Corridor planning area
- Montopolis, Pleasant Valley, and the majority of the Riverside Neighborhood Planning Areas.
- City Council District 3

This area meets all suggested eligibility criteria, and is planned for considerable development that may threaten displacement of existing lower-income households.

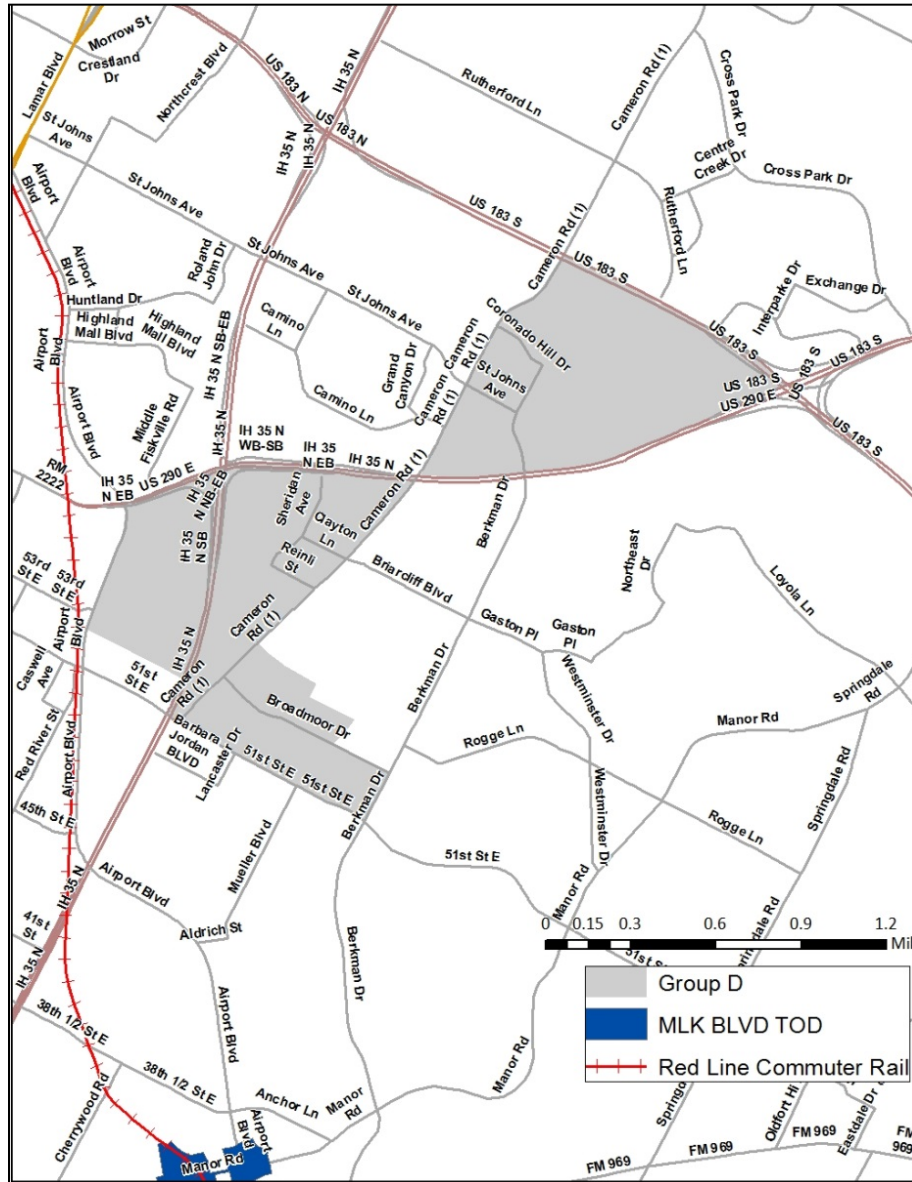
HPD District C



- Total population of 4,354
- Overall poverty rate of 41.57 %
- Johnston Terrace Neighborhood Planning Area, and portions of the Govalle Neighborhood Planning Area.
- City Council District 3

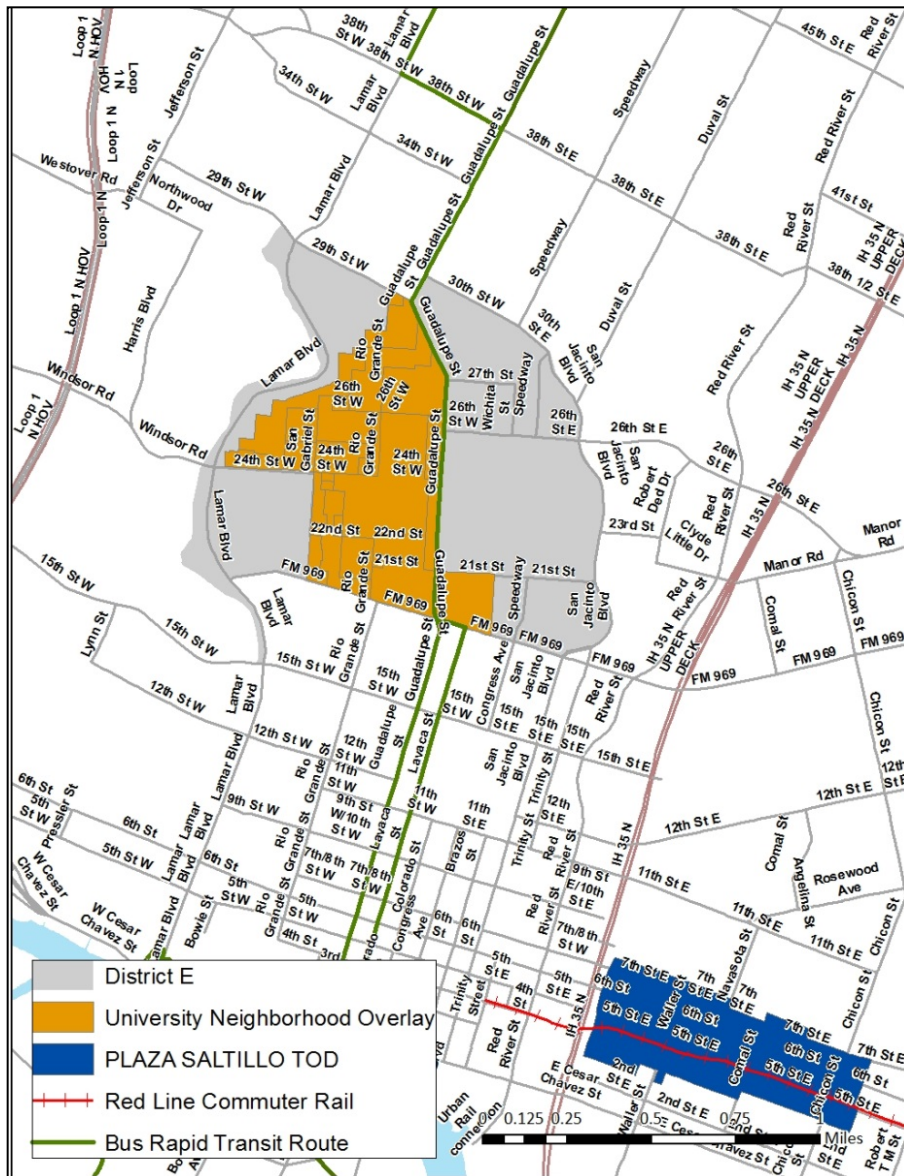
This area meets all suggested eligibility criteria, and lies just east of the original HPD where market forces have recently caused economic displacement of some lower-income households.

HPD District D



- Total population of 8,334
- Overall poverty rate of 44.32 %
- Coronado Hills, North Loop, and Windsor Park Neighborhood Planning areas.
- City Council District 1, 4, & 9

This district meets all suggested eligibility criteria, and lies just north of the Mueller project that has demonstrated the strong market potential of the area, potentially threatening economic displacement of lower-income households.



- Total population of 11,852
- overall poverty rate of 82.29 %.
- Includes The University of Texas
- City Council District 9

Staff recommends that the eligible District E not be considered for Homestead Preservation District designation based on the particular circumstances, as students' reported income often does not reflect their available resources to meet housing costs and the City has already adopted the University Neighborhood Overlay to promote affordable housing in the area.

Summary of Criteria by District

RECOMMENDED HPD ELIGIBILITY CRITERIA					
	<u>Total Pop.¹</u>	<u>% Poverty²</u>	<u>Median Income²</u>	<u>% Students¹</u>	<u>Aggregate AV</u>
<i>Standard</i>	<i><75,000</i>	<i>2 X City %</i>	<i>All Tracts <80% MFI</i>	<i><50% Total Pop.</i>	<i>< 4% of City Total³</i>
<i>City</i>	802,140	20.3%	\$50,938 (80% MFI)	12.2%	100.0%
District A	21,551	32.3%	No	8.4%	2.2%
District B	36,685	43.6%	Yes	21.4%	1.5%
District C	4,290	41.6%	Yes	5.0%	0.3%
District D	8,606	44.3%	Yes	3.5%	0.5%
District E	22,493	82.3%	Yes	93.9%	2.1%
					6.6% Aggregate
1) Source: American Community Survey 2008-2012					
2) Source: American Community Survey 2007-2011					
3) Austin's Financial Policy limits total TIF areas to 5% of total City tax base. Existing TIF districts comprised 1% of total tax base in 2012. All figures represent 2013 assessed valuations, and are subject to update.					

Additional Recommended HPD Criteria

- Less than 50% student population (skews info regarding cost burdens)
- Less than 5% of total tax base in TIF/HPD zones (current City policy)
- Finding that private investment is not meeting affordability needs
- Finding of blight/unproductive property (as in TIF legislation) and/or
- Finding of underdeveloped property (threat of displacement)



Recommended Prioritization of HPDs

Alphabetical Order!

1. **District A** – Existing HPD has seen significant demographic change
2. **District B** – E. Riverside area with major changes planned
3. **District C** – Large area in east Austin ripe for infill and change
4. **District D** – Small area not yet experiencing much market pressure
5. **District E** – Student housing area has UNO affordable housing



“Value Capture” and Other Local Funding

City has used numerous approaches to provide local funding and incentives for affordable housing production and retention.

- GO Bonds
- Housing Trust Fund and City land development
- UNO Zoning and Trust Fund
- Austin Energy/Holly Good Neighbor
- Density Bonus
- S.M.A.R.T. Housing
- General Obligation Fund/Capital Improvement Plan



“Value Capture” and Other Local Funding

“Value capture” and other approaches used elsewhere include:

- Inclusionary zoning, in-lieu fees, and impact fees on market-rate housing
- Sales taxes, hotel taxes, “occupational privilege” tax, excise tax
- Document recording fees, commercial linkage fees

Law Department has determined the City’s options are limited

- Inclusionary zoning and impact/linkage fees prohibited in TX
- Existing taxes are at limits (sales) or cannot be re-purposed (hotel)
- HPDs and TIFs for affordable housing are among few untapped options



HPD Tax Increment Reinvestment Zone

Utilizes a Tax Increment Financing model to provide a dedicated funding stream to be reinvested in the Homestead Preservation District to finance the creation and preservation of affordable housing in the district.

- **Revenue from the TIRZ must be reinvested within the zone**

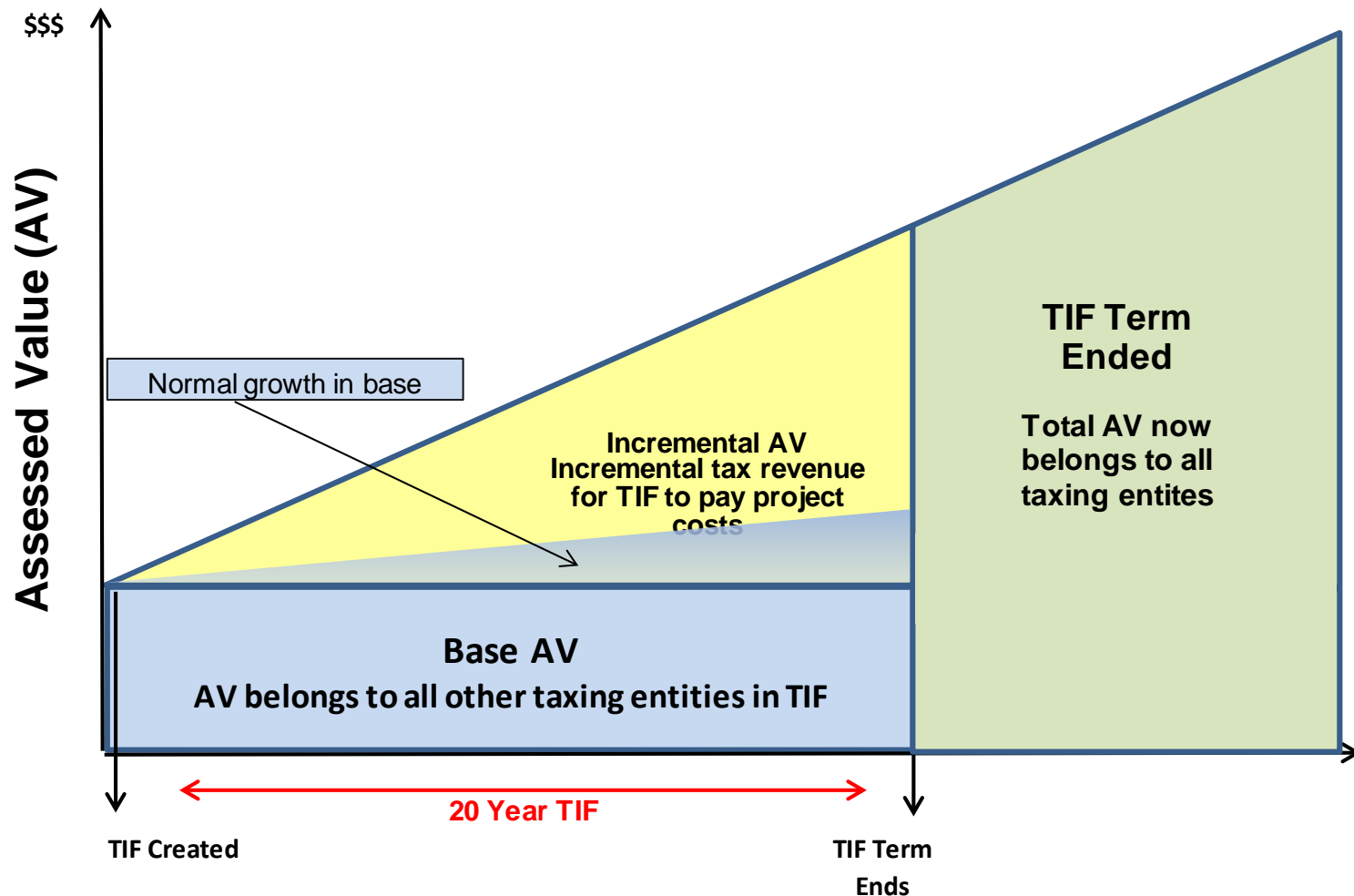


Tax Increment Financing (TIF)

- Popular financing tool to encourage economic development within a defined geographic area or zone
 - Various Texas Code sections allow reinvestment zones
- **Purpose** - set aside property tax revenues due to assessed valuation growth in zone to use for specific purposes in zone
 - Usually public investments that stimulate economic development
- **But For** the TIF subsidy, economic development would not occur at proposed level solely from private investment in the reasonably foreseeable future
 - Essential for property values to rise more than typical market driven growth

Tax Increment Financing (TIF)

TIF Assessed Value (AV) Over Project Life



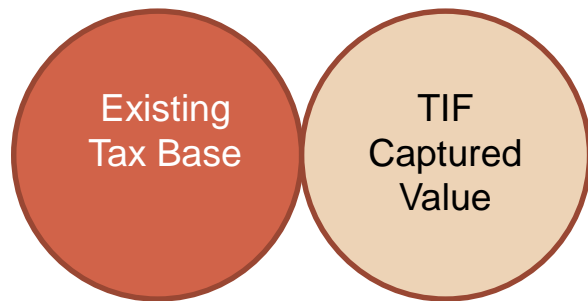


Tax Increment Financing (TIF) & Tax Rates

- TIFs increase effective tax rate – the lower the “but-for” test, the bigger the increase
- Property tax dedicated to TIF is not “free”
 - Dedication of funds that may otherwise have been available to pay for General Fund requirements
 - May be offset by increase in sales tax revenue, utility revenue (and thus, General Fund transfers) due to zone development
 - Participation by other local taxing jurisdictions encouraged, so they help pay for improvements they also benefit from
- May fund projects that should be funded by private sector or other City funds
- Look at all other funding options first before TIF use

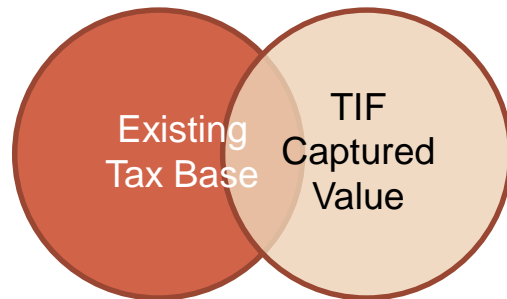
Tax Increment Financing (TIF) & Tax Rates

"But- For" Scenarios



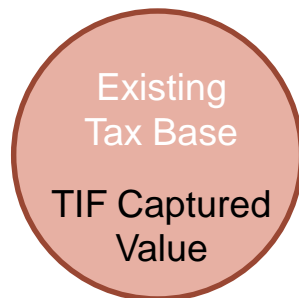
- TIF Captured Value all result of TIF public investment

Minimal Impact on Effective Tax Rate



- TIF Captured Value includes some tax value that otherwise would have occurred

Some Impact on Effective Tax Rate



- TIF Captured Value is all value that otherwise would have occurred

Larger Impact on Effective Tax Rate



HPD District Growth Rates & Development

	District A	District B	District C	District D	District E	Total
Acres	2,900	3,600	1,700	830	930	9,960
Residential Records	6,579	3,099	1,082	960	2,143	13,863
<i>Historical Annual Growth Rates (2004-2013)</i>						
All Properties	10.73%	5.48%	7.44%	3.61%	10.99%	8.47%
All Residential	11.67%	5.84%	10.32%	4.26%	12.81%	9.76%
Existing Residential (YOC < 2000)	8.36%	2.41%	6.15%	4.00%	3.92%	5.16%
<i>Development (Under Construction & Planned)</i>						
Residential Units	3,030	2,180	240	110	760	6,320
Commercial Sq.ft.	496,400	133,200	53,000	3,050	13,000	698,650

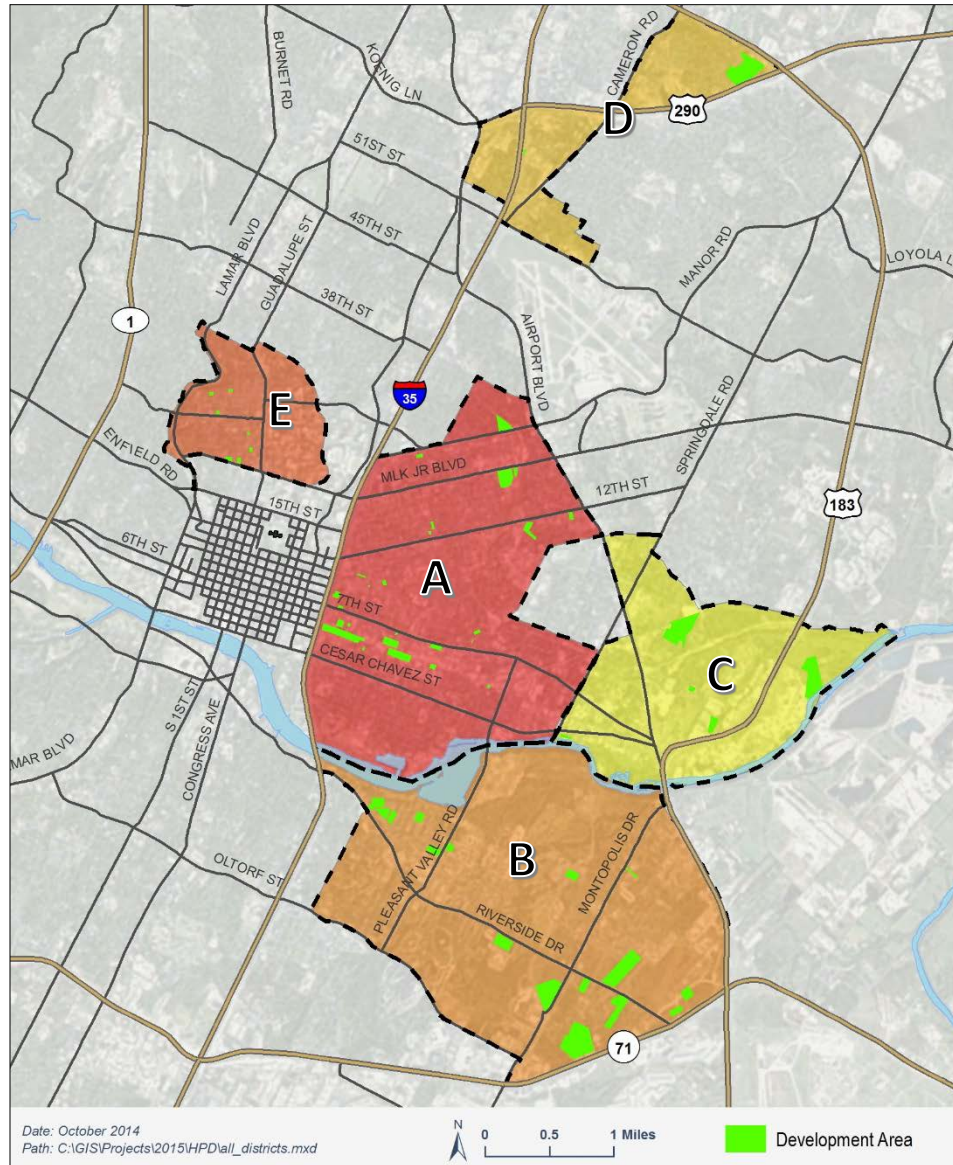
HPD District Trends

In 2013...

- **6.64%** of the City total tangible property value & taxable income
- Accounts for **3.87%** of City land area

From 2004 to 2013...

- All properties had an annual property growth rate of **8.47%**
- Residential property value grew at **9.76%**
(COA Residential growth rate: 5.96%)
- Existing Residential property value (built before 2000) growth rate of **5.16%** per year
- Highest annual increase in Residential property value:
 - District E (**12.81%**)
 - District A (**11.67%**)
- Highest annual increase in Existing Residential property value:
 - District A (**8.36%**)
 - District C (**6.15%**)





Development & Tax Increment Projections

	District A	District B	District C	District D	District E	Total
Acres	2,900	3,600	1,700	830	930	9,960
Residential Records	6,579	3,099	1,082	960	2,143	13,863
Total Assessed Value: 2014	\$2 billion	\$1.3 billion	\$302 million	\$470 million	\$1.8 billion	\$5.8 billion
Projected Growth: 2023						
Annual Rate	10.7%	5.5%	7.4%	3.6%	11.0%	
Total Value	\$4.5 billion	\$1.9 billion	\$530 million	\$573 million	\$4.4 billion	\$12 billion
Increment vs 2014	\$2.5 billion	\$560 million	\$227 million	\$103 million	\$2.6 billion	\$6 billion
Property Tax Revenue: 2023	\$11.9 million	\$2.7 million	\$1.1 million	\$.05 million	\$12.6 million	\$28.7 million

Strategies for Council Consideration

- **Establish HPD eligibility criteria that reflect City policy goals and consider establishing Homestead Preservation Districts in priority areas.**
 - Limited Student Population
 - Findings of Unproductive and/or Underdeveloped Property
 - < 5% of total City tax base in TIF/HPD zones
 - Original HPD plus Districts B, C, and D, not District E (West Campus)
 - Would not require actual TIF commitment at this time
- **Consider establishing targeted TIRZ under Chapter 311 only,**
 - identify projects throughout these potential districts for specific areas
 - evaluate establishing Tax Increment Reinvestment Zones (TIRZ) under Tax Code Chapter 311 for subareas such as the existing Transit Oriented Development (TOD) Red-Line stations at Saltillo Plaza (District A) and MLK station (District A), along the Riverside Corridor (District B), to invest in both affordable housing and infrastructure that directly supports affordable housing.



Strategies for Council Consideration

- **Identify specific target areas to encourage development within potential districts to jointly collaborate with the city and include affordable housing;**
- **For all future TIRZs created in any HPD, set-aside a percentage for affordable housing;**
- **Amend the Housing Trust Fund resolution,** by increasing the percentage from 40% to 60% of property tax revenue generated by properties in the HPD that convert from public to private sector, subsequent to the amendment date, and dedicating all 60% to be spent within the HPD area the property resides in.

Strategies for Council Consideration

IN SUMMARY

Continue to pursue local and federal resources for affordable housing throughout the City

- Creation of TIFs within the areas eligible for HPD designation but without the restrictions tied to HPRZ. TIF's could support affordable housing, public transit, and infrastructure
- Funding such as GO Bonds, Housing Trust Fund, etc.
- Programs such as density bonus, S.M.A.R.T. Housing, etc.
- Increase General Fund allocation to Affordable Housing, earmarking funds to housing preservation

Learn More About HPDs!

City of Austin

Neighborhood Housing and Community Development

<http://austintexas.gov/page/reports-publications>



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