



MEMORANDUM

TO: Mayor and City Council

CC:: Elaine Hart, Interim City Manager
Robert Goode, P.E., Assistant City Manager

FROM: Sam Angoori, P.E., Interim Director
Austin Resource Recovery (ARR)

DATE: August 22, 2017

SUBJECT: Austin [re]Manufacturing Hub Feasibility Analysis and Staff Recommendations

Background

Austin Resource Recovery and the Economic Development Department have partnered since 2013 to attract, retain, and grow zero waste businesses and entrepreneurs through the Recycling Economic Development Program. The partnership, outlined in the 2011 Master Plan, includes business-to-business materials exchange, the [Re]Verse Pitch Competition, local zero waste business promotion, and the Austin [re]Manufacturing Hub.

The Austin [re]Manufacturing Hub is a proposed redevelopment project aimed at turning unused City-owned land adjacent to the former FM 812 landfill into an eco-industrial park to house recycling and reuse manufacturing companies. Based on Council direction in [Resolution No. 20160414-003](#), the City examined a public-private partnership approach to the Hub project, and identified the need for additional analysis prior to initiating a solicitation due to the uniqueness of the project. Economic and Planning Systems, Inc. (EPS) a consultant that has worked on numerous City of Austin redevelopment projects, performed a feasibility analysis of the proposed project following established Council direction, policies and guidelines.

Summary of Report Results

EPS' complete feasibility analysis is [posted at this link](#). EPS determined that the current concept for the Hub is neither financially feasible nor attractive to a private developer. If a private developer were to take on a 40-year lease to develop and manage the Hub without additional subsidy, EPS estimates that the net present value of the Hub cash flow over 40 years is negative \$5.4 million. In other words, the developer would lose the current equivalent of \$5.4 million over the 40-year period because the ground lease payments they could receive from tenants would not cover the costs of infrastructure, operations, and an industry-standard profit margin. In EPS's opinion, no profit-oriented private developer would be attracted to this opportunity without major subsidy.

EPS identified several possible modifications and alternatives to the current Hub concept, which are outlined in the executive summary (Figure 2) and detailed in Section 4.

Zero Waste Advisory Commission

EPS presented the report findings to the Zero Waste Advisory Commission on May 10, 2017, and staff followed up with a response to commissioners' questions and staff recommendations for moving forward (discussed below) in the [June Director's Report](#).

Staff Recommendation

The Austin [re]Manufacturing Hub was intended to make productive use of City-owned land and to support the local growth of recycling and reuse manufacturing companies that would provide needed living wage jobs and investment in southeast Austin. The EPS report indicates that a large-scale eco-industrial park development at 10108 FM 812 would face major hurdles and that more efficient alternatives for achieving these goals are available.

Based upon information from the consultant and the high cost, staff does not recommend constructing the [re]Manufacturing Hub at this location. As an alternative, staff recommends a two-pronged approach moving forward:

- 1) **Repurposing land for an appropriate public use.** ARR has had preliminary discussions with Austin Energy regarding installing a solar array at the property. The property's limited tree canopy and flat topography make it well-suited to adding more solar to Austin Energy's power generation mix and contributing to AE's goal of supplying 55% renewable power by 2025. Due to the site's proximity to the airport, a glare study would be required before the project could move forward. ARR will continue to evaluate the overall feasibility of this project in partnership with Austin Energy.
- 2) **Developing policy and programmatic recommendations for attracting recycling and reuse manufacturing businesses to locate in Austin.** Alternative C in the EPS report describes the option of attracting recycling and reuse manufacturing businesses to private land within the City. Staff intends to pursue this idea and develop specific policy and programmatic recommendations for attracting recycling and reuse manufacturing businesses, outside of a City-owned industrial park, within the framework of Council's March 2nd resolution to revise the economic development policy.

Resolution #20170302-034 directs the City Manager to develop recommendations for reforming the economic development incentive policy to result in increased community benefits. The Council's desired benefits include middle-skill job creation, job training, paid internships or apprenticeships in targeted occupations; increased employment among hard-to-employ populations; and increased availability of affordable commercial space for local small businesses. These benefits strongly align with ARR supporting and attracting remanufacturing businesses to locate in Austin.

Recycling Economic Development Program staff will work directly with the Economic Development Department (EDD) team responding to Resolution #20170302-034 to include policy and program recommendations to make real estate in Austin more affordable and attractive to remanufacturers.

This approach has several advantages relative to constructing the Remanufacturing Hub:

- Targeting City investment toward specific business recruitment and expansion opportunities and would not require an upfront infrastructure investment, thereby reducing the City's risk.
- Allowing City investment to be directed to multiple locations.
- Allowing the City to support remanufacturing uses not compatible with 10108 FM 812's proximity to the airport, such as remanufacturers using food waste as a feedstock.
- Making use of existing utility infrastructure and existing industrial buildings.

- Avoiding the difficulties inherent in obtaining bank financing for improvements on a ground lease.
- As noted in the EPS report, most companies interested in the Hub have indicated a need for gap financing. This approach would allow City investment to be focused exclusively on this gap financing need, instead of dividing resources between building new infrastructure and supporting this financing.
- Any resulting incentives policy or program can be amended over time to reflect changing market conditions and City priorities.

Austin continues to require strategic investments for attracting remanufacturers in a time of rising costs. Redirecting our attention from the industrial park concept to an economic development program concept will allow the City to respond to this need in a more efficient & effective manner.

Next Steps

ARR will continue to work closely with EDD to address the needs of recycling and reuse manufacturers through the response to Resolution #20170302-034. EDD is providing regular updates on the progress of this Economic Development Policy revision process at <http://austintexas.gov/investinaustin> and expects to present stakeholder feedback and initial recommendations to multiple commissions and the City Council in Fall 2017.

If you have any questions, please contact me at 512-974-4313 or Natalie Betts at 512-974-9235.

CC: Kevin Johns, Director, Economic Development Department