

City of Austin: Council Work Session

Proposal: Economic Development Organization

Task 4: Presentation on Organizational Development Plan



Matthew Kwatinetz

Q Partners

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Scope

- **Task 1: Engagement Kick-off and Team Formation (Dec)**
 - Review of Materials
 - Interviews
- **Task 2: Research and Benchmarking (Dec-Jan)**
 - Expanded precedent document review and broad research
 - Benchmarks nationally and in Texas
- **Task 3: Initial Proposal to Staff, Stakeholders and Leadership (March)**
 - Initial Proposal (“Straw Person”) to kick-off discussion (this presentation)
 - Refined Proposal based on Staff, Council Member and Project Team feedback
- **Task 4: Presentation and Recommendations (August)**

Agenda

- Organizational Structure & Governance
- Project List
- Budget & Funding Streams
- Next Steps

Organizational Structure & Governance

Public Real Estate Developer

As Cities grow to scale, some create a public developer

- Why? A public developer can...
 - Move at the pace of the market
 - Speed approvals, but with the direct oversight of the City
 - Reduce the burdens of government with new funding sources
 - Own and operate real estate to generate cash
 - Accept charitable donations
 - Accept investment dollars
 - Blend the best of public and private deal-making
 - Generate more money for COA from under-performing real estate
- Of the 17 cities that participated in the Peer Cities Conference about the strategic use of real estate to accomplish public policy, 100% agreed that the best strategy for doing so was to create an EDC that had real estate powers to advance projects that a municipality could not on its own.

Organizational Structure (1): Family of Organizations

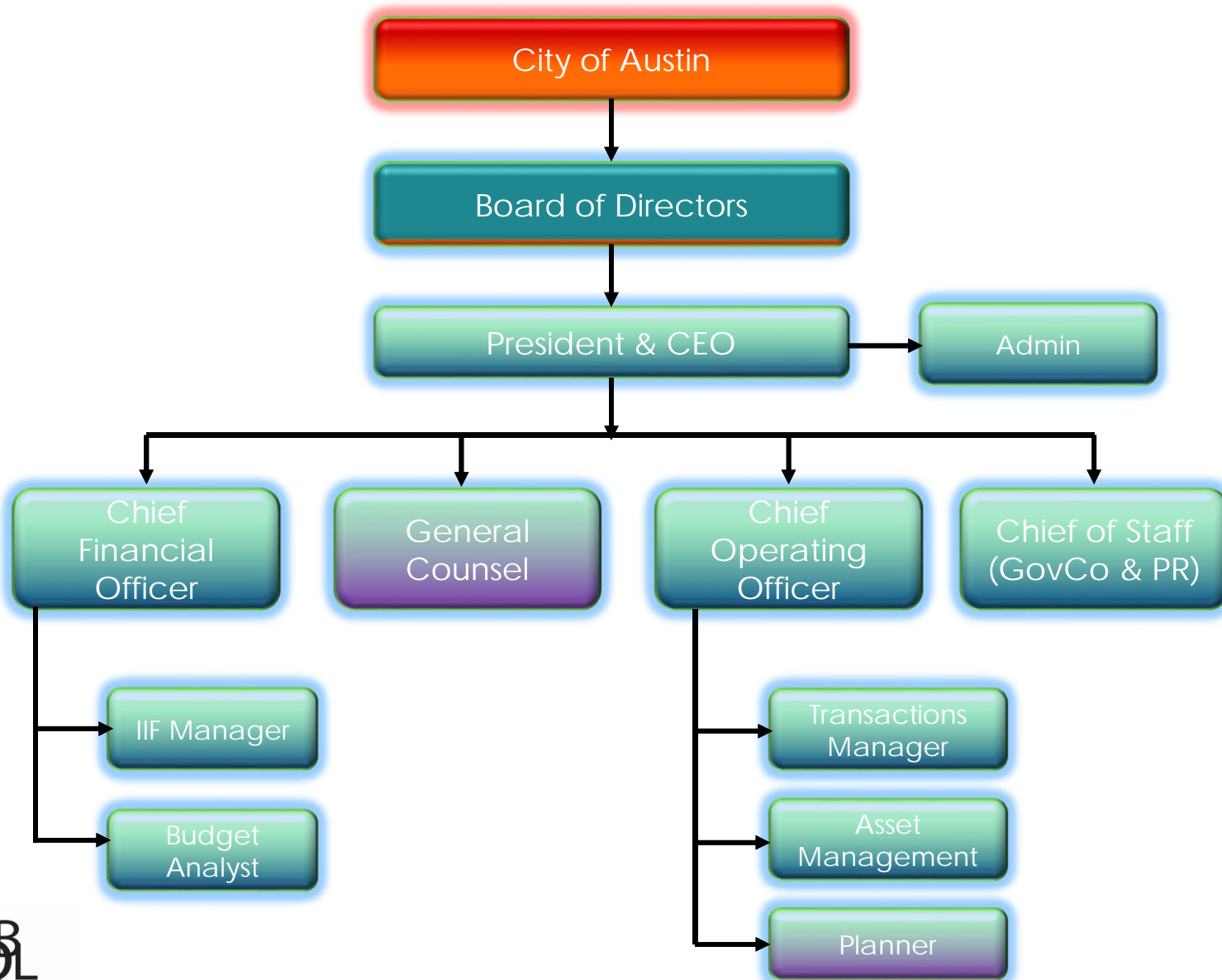
- A family of organizations is the best solution
 - New Entity: Austin Economic Development Corporation (AEDC)
 - Existing Entity: Austin Industrial Development Corporation (AIDC)
 - Partner/Manager: COA Economic Development Department
 - Donor Advised Fund: Existing Foundation
- A family is what we saw in all similar nat'l benchmarks
 - Atlanta, Philadelphia, NYC
- The new AEDC would encompass the following existing entities:
 - Austin Industrial Development Corporation
 - Austin Regeneration Fund
 - South Central Waterfront Advisory Board
- The new AEDC would take on roles for the following areas (no new entities):
 - Management of South Central Waterfront (no new LDC)
 - Support Homelessness work and real estate per Resolution 20190808-077 (no new LDC)
 - Cultural Trust: Run as a program of AEDC (no new entity)

Organizational Structure (2): Powers & Controls

- **Austin Economic Development Corporation (Outside Entity)**
 - *A new Local Government Corporation* with federal charitable status - 501(c)3
 - Obligated by contract for performance, autonomous entity in its operation
 - A board appointed by and controlled by City Council (see next slide)
 - Can accept charitable donations
 - Can manage private investment dollars
 - Can own and operate real estate (Must obtain TX real estate broker's license)
- **Austin Industrial Development Corporation (Conduit Entity)**
 - *An existing Development Corporation* formed by Council in 2015 as a financing conduit
 - Development Corporation authorized by Section 501 (TX LGC)
 - Board is composed of the City Council, who must approve any financing
 - The CFO of AEDC serves as the President of AIDC
- **City of Austin Economic Development Department (City of Austin)**
 - AEDC reports to EDD via contract, but is a separate and autonomous entity
 - Oversight and management of AEDC via an ILA

Organizational Chart: 3-Year Stabilized View

Purple roles can be initially outsourced. Orange roles not compensated by the organization itself.




Governance: AEDC Board

- **Section 2.3 Composition.** The composition of the Board shall consist of development experts in the following areas of industry, public/private partnerships, infrastructure or transportation, real estate development or construction, urban/regional planning, finance, music industry, minority and women-owned businesses (MWBE), and workforce.
- Each place noted below shall be filled by an expert in the subject area. It is recommended that COA Staff and City Council determine a nominator for each slot. **The nominator should be an external public entity.** The nominator puts forth no less than three ("3") candidates to the Council, who will confirm a single selected candidate for each place by majority vote.
 - Place 1 MWBE Business
 - Place 2 Workforce
 - Place 3 Equity and Inclusion
 - Place 4 Public/Private Partnerships
 - Place 5 Affordable Housing and Homelessness
 - Place 6 Public Finance
 - Place 7 Industry
 - Place 8 Urban/Regional Planning
 - Place 9 Real Estate Development and Construction
 - Place 10 Infrastructure and Transportation
 - Place 11 Cultural Arts
 - Place 12 Music and Nightlife
 - Place 13 K-12 Education
 - Place 14 Higher Education & Vocational Education/Workforce Development
 - ce 15. Continuum of Care Consortium (Resolution 20190808-077)

Governance (2): Project Structure & Approvals

Real Estate and Contracts for Services

- **AEDC Will Propose A Contract Every Year to COA.**
 - The contract will propose real estate projects and contracts for services.
 - Autonomy is a factor of success, as indicated by best practices.
- **Real Estate Projects (Three Types)**
 - Lease Administration: *AEDC will manage properties on behalf of the City. The City will retain title. AEDC will be paid out of proceeds from the property and will follow all City rules for procurement and disposition. The City retains title.*
 - Transaction Support: *AEDC will perform a transaction (lease, sale, purchase) on direction from the City. AEDC will follow all City procurement and disposition requirements, as applicable. AEDC must comply with all Texas law and will obtain appropriate licenses and certifications including a Broker's license. AEDC will never have any property interest. Payments to AEDC will be made from the transaction.*
 - Public Development: *The transfer of property to AEDC will be done with an explicit contractual requirement to achieve a public purpose. AEDC will take title to the property. However, if AEDC does not use the property for the public purpose, the City will revert the property. If AEDC must abide by all City procurement rules, even should it determine to perform a further disposition—any such further disposition must still comply with achieving the public purpose.*
- **Contracts for Services:** COA may contract with AEDC to provide services to reduce the burdens of government. These services can be paid for directly via contract, or can be funded as offsets to rent, real estate or other payments due from AEDC to COA.
-  will provide a detailed annual report to COA

Project List

Projects: Proposed List

Initial List (See Report for Details)

- **Major Projects**
 - South Central Waterfront
 - Huston-Tillotson District Planning
 - Cultural Trust
 - International Investment Fund
- **Ongoing City-Wide Projects**
 - Transaction support on P3 negotiations
 - Public Owned Sites Pipeline
 - Support of Affordable Housing
 - Support of childcare & early childhood education
 - Support of inclusive growth around TODs
 - Asset Management on public owned sites
 - Support of Homelessness
 - District (and emerging PID) support
 - Colony Park, St. John's/Home Depot, Health South, Justin TOD
- **Other Priority Projects as Directed by**



Projects: Specific Examples

Case Studies (As Examples)

■ South Central Waterfront

- Negotiation assistance for large projects
- Pursuing appropriate financial tools and approvals
- Capturing the timing of the market
- Value capture funding of infrastructure



■ Huston-Tillotson University

- Same expertise needed for district development
- Utilizes monies generated from other projects – achieving economy of scale
- Promotes inclusive growth and protects vulnerable communities

■ Cultural Trust

- Leveraging \$12M to \$100M+
- Saving transaction fees from brokers & consultants (“Bringing consultant in-house”)
- Common management of city infrastructure, while guaranteeing permanent affordability

■ Policy Example: Early Childhood Education & Childcare

- Inclusive Growth and Basket of Goods Model
- Multi-use developments versus single use facilities

Projects: Summary of Value-Add

What is the “special sauce” here?

- **Aggregation of Contracts & Districts**
 - Example: Consolidating resources (i.e., starting a campfire vs. lighting candles)
 - Example: Multiple organizations vs. one
 - Operating expense efficiency and scale
- **Cross-Subsidy**
 - Some projects generate more revenue than cost (surplus)
 - At direction of City (annual contract), this surplus can be directed to other policy
 - This allows support for community development and inclusive growth projects
 - This includes creating feasibility for projects that do not cash flow on their own
 - Example: SCW revenues supporting HTU
- **Consultant & Broker Fees Saved**
 - “Bringing broker in-house”
 - Putting myself out of a job!
- **Swaps: Capital Dollars and Operating Revenue**
 - Cultural Trust: Bond vs. Rents

Funding Sources & Budget

Funding Sources: Cost Neutral To Current Budget

AEDC creates an economy of scale for funding and staffing.

- **Existing Fund Balance:** Austin Industrial Development Corp
- **Budget Transfer from Existing EDD Personnel Budget**
 - Contract for Services to manage projects and establish the Cultural Trust
- **Contributed Income**
 - Foundation Capacity Building Grant – 3 Year
 - Philanthropic Donations (Including matching equity for cultural trust)
- **Real Estate Revenues**
 - Transaction fees for assisting with closing negotiations in projects
 - Real estate rents from tenants and asset management fees from Landlords
 - Trustee fees taken for managing conduit financing (as a % of issuance)

Three Year Proposed Budget (DRAFT)

Projected Profit and Loss: Austin Economic Development Corporation (AEDC) Corporation

Fiscal Year 2021 - FY 2024

Last Revision: July 2020 by M Kwatinetz

	FY'21	FY'22	FY'23	FY'24
<i>Fiscal Year 2021 runs from Oct 1, 2020 to Sept 30, 2021</i>				
Revenue				
Contributed Income				
Government	200,000	-	-	-
Corporate & Foundations	-	400,000	300,000	300,000
Individuals				
Earned				
Real Estate Transactions	-	-	656,250	1,037,500
Real Estate Asset Management	-	-	354,000	854,000
District Management Fees (TIRZ, HPZ, etc)	-	-	500,000	500,000
Conduit Financing Fees	-	-	500,000	1,250,000
Government Contracts -- Transfer from COA EDD Budget	700,000	700,000	700,000	-
Government Contracts -- City	-	-	-	-
Government Contracts -- Federal	-	-	-	-
All Other Income	-	-	-	-
Total Revenue	900,000	1,100,000	3,010,250	3,941,500
Direct Expenses				
Real Estate Transactions	-	-	50,000	102,500
Transaction Legal Fees	-	-	-	-
Real Estate Asset Management (including Public Pipeline)	-	40,000	42,000	44,100
District Management (including TIRZ)	-	20,000	100,000	105,000
Cultural Trust & Cohort Services	-	50,000	350,000	367,500
Economic Empowerment & Financial Services (including COVID response)	-	-	-	-
Other Direct Expense: Includes On-Call Legal Services until GC is hired	50,000	52,500	205,125	317,944
Legal Formation Fees	150,000			
Total Direct Expenses	200,000	162,500	747,125	937,044
Gross Income / (Loss)	700,000	937,500	2,263,125	3,004,456
Operating Expenses				
General & Administrative	5,000	5,000	25,000	50,000
Directors and Officers Insurance	50,000	50,000	50,000	50,000
Facilities	-	-	50,000	53,500
Personnel	237,500	615,625	1,461,250	2,284,625
Public Affairs, Marketing & Outreach	25,000	10,000	55,125	57,881
Total Operating Expenses	317,500	1,083,941	1,936,898	2,551,819
Net Income / (Loss)	382,500	(146,441)	326,227	452,637
Contribution To / (Withdrawal From) Reserve Fund	337,500	(193,441)	277,227	400,137
End of Year Net Cash Position	45,000	47,000	49,000	52,500
Reserve Fund EOP Balance	337,500	189,059	513,286	962,423

Notes

200k from AIDC Balance in 2020
\$1M organizational development grant from one foundation, spread over 3 years.

2023: Cultural Trust Txn @ 1.75% and 250k One Texas Center
2023: Rents/AM from 1 Texas Center
2022-23 SCW TIRZ Fee
2022: \$50M financing; 2023: \$125M financing
EDD BUDGET TRANSFER: Use frozen headcount budget until entity becomes self-sustaining

Cost of diligence for transaction
Transaction legal fees are an expense of the project, paid by the developer and/or borrower (in the case of bonds).
Legal services, architectural & engineering services
Specific studies and reports to advance specific projects
Workshops + debt service for loan to assist with rent payments (tenant of last resort)
Ongoing education, distribution, workforce programs
Includes on-call legal retainer for services until a General Counsel for the AEDC is hired
Legal counsel for formation of entity

Scales with personnel.
Quote from Lockton obtained June 2020 for AEDC. Liability protection for city officials and citizens who serve as officers of AEDC
First two years free or no office, then scales up in building
See Staffing Worksheet (next slide)

Three Year Staffing Up Plan

Below, yellow highlights the first year each position is paid in the organization. After the first year of full employment, 5% raises assumed.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Chief Operating Officer	0.5	1	1.05	1.1025
Transactions Manager	0.5	1	1.05	1.1025
IIF Manager (Executive Director, AIDC)		0.5	1.05	1.1025
President / CEO		0.5	1	1.05
Executive Assistant			0.5	1
Chief Financial Officer			0.5	1
Chief of Staff			0.5	1
Asset Management Head			0.5	1
Financial Analyst			0.5	1
Associate, Transactions				0.25
Associate, Asset Management				0.25
Planning Manager				0.25
General Counsel				0.25
Press Agent / PR				0.25
Associate, Government & Community Relations				0.75
Total Positions	2	4	9	15
Total FTEs	1	3	7	11



Additional Notes:

In the first year, the CEO will be temporarily filled by City of Austin's EDD Director. The primary work will be done by the COO and Transactions Manager – with the CEO filling the temporary role only until a national search has been successful to fill the full-time permanent CEO position.

Next Steps

Next Steps: Austin Implementation Steps

Administrative/Staff Actions

- Final review of organizational bylaws & articles by City of Austin Legal
 - *QBL will work with external counsel to draft initial documents*
 - *Documents will include proposed nominating bodies for Board*

- Experienced staffing would need to be allocated as noted in the budget and staffing slides herein.
 - *Specifically interim CEO who remains a COA employee*
 - *Hiring of COO and Transaction Manager as independent staff*

- Preparation of Interlocal Agreement between AEDC and COA

- Preparation of proposals for SCW and issuance of RFP for Cultural Trust
 - *An immediate call for donations could go out to support the Cultural Trust. Grants could also be pursued. **

Next Steps: City Council

AEDC can be started as quickly as City Council desires. Expedited creation could assist with COVID response and recovery.

- A vote of Council would establish the entity.
- Council approval of initial AEDC budget
 - *Authorize transfer of fund balance of AIDC to AEDC & EDD transfer*
- Approval of Interlocal Agreement (AEDC and COA)
 - *Finalize the bylaws and articles*
 - *Board Creation: Council to confirm nominating bodies*

Questions