

EAST AUSTIN COMMUNITY PRESERVATION & REVITALIZATION ZONE PROPOSAL

What is a Community Preservation & Revitalization (CP&R) Zone?

A CP&R Zone is intended to be an additional component of the City's existing economic development program that targets economically disadvantaged areas of the City. Development projects that occur within a CP&R Zone and that meet very specific criteria would be eligible for varying levels of economic incentives. Through the CP&R Zone program, the City hopes to promote economic growth in a way that is sensitive to the economic needs of the targeted area.

Why do we need to create a CP&R Zone in East Austin?

The proposed CP&R Zone would serve as a tool to close the gap of economic prosperity between East Austin and other areas in the City, a gap that has existed for many decades. In recent years, East Austin has seen an upsurge in public and private investment. Because of the success of such projects, interest is building in the private sector for developing in East Austin. Through the establishment of a CP&R Zone, the City can help facilitate developments that will: create jobs and expand the tax base in East Austin; bring needed commercial services and housing opportunities to the surrounding neighborhoods; and conform to the policies outlined in adopted neighborhood plans in order to ensure compatibility with the neighborhood and preservation of the neighborhood character.

What are the boundaries of the CP&R zone?

IH-35, Riverside Drive, SH-71, US-183, Manor Road

What distinguishes the proposed CP&R zone from the rest of the City?

The Poverty Rate for the Zone is more than twice the Poverty Rate for the City (29.8% vs. 14.4%)

The Unemployment Rate for the Zone is almost twice the Unemployment Rate for the City (8.2% vs. 4.4%)

The Median Family Income for the Zone is 54% of the Median Family Income for the City (\$29,340 vs. \$54,091)

The combined Hispanic & African American population of the Zone is 84.4% while the combined Hispanic & African-American population of the City is 40.3%.

What incentives would the City provide for a mixed-use development that takes place in the CP&R Zone?

The City would rebate a certain percentage of the additional property taxes generated by the development depending on the amount of commercial development.

A mixed-use project with at least 7500 square feet of commercial development could qualify for up to a 35% tax rebate.

A mixed-use project with at least 15,000 square feet of commercial development could qualify for up to a 60% rebate.

A mixed-use project with at least 30,000 square feet of commercial development could qualify for up to an 85% rebate.

In order to qualify these incentives, a developer must agree to provide 10% of residential units at 65% MFI and must agree to pay an amount equal to 10% of their total taxes (excluding any rebates) to a Homeowner's Assistance Fund for the CP&R Zone.

What incentives would the City provide for a commercial-only development that takes place in the CP&R Zone?

The City would rebate a certain percentage of the additional property taxes generated by the development depending on the number of jobs created.

A commercial project that creates at least 25 jobs for residents of the CP&R Zone could qualify for up to a 35% tax rebate.

A commercial project that creates at least 50 jobs for residents of the CP&R Zone could qualify for up to a 60% tax rebate.

A commercial project that creates at least 100 jobs for residents of the CP&R Zone could qualify for up to an 85% tax rebate.

In order to qualify these incentives, a developer must agree to pay an amount equal to 10% of their total taxes (excluding any rebates) to a Homeowner's Assistance Fund for the CP&R Zone.

What is gentrification?

In an April 2001 report by the Brookings Institution, gentrification is defined as "the process by which higher income households displace lower income residents of a neighborhood, changing the essential character and flavor of that neighborhood." The City's Gentrification Committee of 2001 and the City's Gentrification Task Force of 2003 both adopted the Brookings Institution definition with minor adjustments to the language.

How is gentrification currently affecting East Austin?

Information compiled by the City for the 2003 Gentrification Task Force shows that for the bulk of the area proposed for designation as a CP&R Zone, property values increased by 3% between 1990-1995, compared to an increase of 38% for the City as a whole. From 1995-2000, the increase in property values for this same study area (79%) almost matched the increase in property values for the City (83%). However, during this same time period, the increases in property values for several of the East Austin neighborhoods that are closest to downtown exceeded the City average: Blackland – 109%, Guadalupe – 96%, Swede Hill – 169%, Willow/Spence – 110%. This trend has continued since 2000 and will likely accelerate as new development occurs in the zone.

How will the CP&R Zone help curtail gentrification?

Through the CP&R Zone program, the City would provide development incentives for projects that provide 10% of the residential units to persons earning 65% of median family income (MFI). This income level is closer to the MFI for the residents of the proposed CP&R Zone than is the minimum affordability requirement (80% MFI) for other private developments that qualify for City assistance.

With the establishment of a CP&R Zone, the City will also be establishing a Homeowner's Assistance Fund (HAF) to which developers seeking economic incentives for projects within the zone will be required to invest in order to qualify for such incentives. The funds from the HAF will be used to assist the homeowners that have resided in the Zone for at least 10 years and whose income is 50% of the median family income. Both the 2001 Gentrification Committee and the 2003 Gentrification Task Force recommended that homeowners at the 50% MFI level be the primary beneficiaries of changes in policies and regulations intended to mitigate the effects of gentrification.

East Austin Community Preservation and Revitalization Zone Proposal

Purpose

The City wishes to create an economic development program under authority of Chapter 380 of the Texas Local Government Code for the area bounded by I-35 from Manor Road to Riverside Drive, Riverside Drive from I-35 to SH 71, SH 71 from Riverside Drive to US 183, US 183 from SH71 to Manor Road, and Manor Road from US 183 to I-35 ("the Zone").

This program is an additional component of the City's existing economic development program, and is intended to encourage economic development in an area of East Austin, which has traditionally lagged behind the rest of the city in benefiting from economic prosperity as Austin's economy has grown.

Criteria for consideration of a project for the East Austin Community Preservation and Revitalization Zone program benefits are shown below. One goal of the program is to increase jobs, wealth and investment in this area of East Austin. It is reasonable to assume that property values, and therefore taxes and other expenses may rise. In order to mitigate the possible unintended negative side effect of increases in taxes and other costs on long-time homeowners in the area, an additional component of the program is proposed. As a condition of receiving the proposed economic development incentives for investment in the area, the recipient of incentives would be required to pay an amount equal to 10% of what their city tax would have been without the incentives, to a "Homeowners' Assistance Fund", to be administered by the City. Qualified homeowners would then be eligible to request assistance from this fund in the form of utility payment vouchers.

Incentives for Economic Development

Two types of development qualify for incentives:

- Developers of mixed-use projects receive property tax refunds based on the number of commercial square feet and number of residential units within the project (see table below). It is anticipated that some form of design guidelines will be incorporated in order to evaluate these projects.
- Firms locating in the Zone receive property tax refunds based on the number of jobs provided for residents of the designated zone.

All development projects would also be required to be consistent with the City's adopted Neighborhood Plan for the area for which the development is proposed.

Developers building mixed-use projects or providing jobs for Zone residents will receive a refund of City property taxes of up to 85% over a 10-year period, depending on the size of the project or number of jobs produced. It is also proposed that as an additional condition of the economic development incentives, developers be required to contribute to the Homeowners' Assistance Fund an amount equal to 10% of what unabated City taxes would have been. Below is an illustration of example projects in each size category:

Incentive Guidelines - Mixed Use Projects	Incentive Guidelines - Commercial/Office	(1) Percentage of City Tax Rebated for a 10 Year Period	(2) Estimated Value of Example Project	(3) Total Property Tax	(4) City's Portion of Property Tax	(1) X (4) City Tax Abated Annually	(4) X .10 = (5) 10% of City Taxes to HAP Fund	(6) No. of Projects Needed to Reach Target 1	(7) No. of Projects Needed to Reach Target 2
7,500 sf new comm. space*	25 - 49 jobs for Zone residents	35%	3,405,000	91,097	16,780	5,873	1,678	33	67
15,000 sf new comm. space*	50-99 jobs for Zone residents	60%	5,730,000	153,300	28,237	16,942	2,824	20	40
30,000 sf new comm. space*	100+ jobs for Zone residents	85%	9,180,000	245,602	45,239	38,453	4,524	12	25

* 10% of living units reserved for tenants at 65% MFI

(1) Percentage as stated in Program Guidelines

(2) Assumptions: Comm. cost psf of \$150, resid. cost psf of \$120
1,000 sf per living unit
19 living units in tier I, 29 tier II, 39 tier III.

(3) Estimated Value of Project multiplied by 2.6754, total property tax rate.

(4) Estimated Value of Project multiplied by .4928, City's property tax rate.

(6) Target 1 = funding needed so that the program is able to provide assistance equal to the difference between their current taxes and their 2004 taxes.

(7) Target 2 = funding needed so that the program is able to provide assistance equal to the difference between their current taxes and their 2004 taxes doubled.

Note 1: Tax rebate calculations are based on assumed increase in value of entire project (commercial + multifamily)

Note 2: The City does not provide rebates for 100% retail projects.

Homeowner Assistance

Property owners, living in the Zone for at least ten years and at 50% or below median family income, are eligible for benefits in the form of utility vouchers equal to two times the difference between the current year's taxes and the 2004 taxes.

Quantification of the Homeowner Assistance Provided

Basis of Calculations

- Of the total property tax bill, consisting of AISD, City of Austin, Travis County, and Austin Community College assessments, the *City of Austin* portion represents 18.4%.
- The average home value of qualifying homeowners is estimated to be \$69,000.
- The average City tax bill of qualifying homeowners is estimated to be \$340.
- The number of eligible individuals is estimated to be 2,200.

By law, an individual's assessed property value may only increase by 10% per year (and the City of Austin also exempts \$51,000 of appraised value for homesteaders over 65). Applying a 10% assessed value increase, and assuming a constant tax rate, the average annual increase in the City tax bill is estimated to be \$34. Using an estimated 75% participation rate for qualifying residents, the number of participants would be 1,650. To reach Target 1, total dollar amount distributed would then be \$56,100 (1,650 participants multiplied by \$34).

Property Tax Increases in the Zone

The Table below shows the change in average valuation of owner occupied housing stock within the study area from 1990 to 2002, broken down into three periods: 1990 to 1995, 1995 to 2000, and 2000 to 2002.

Residential Valuation Trends (1990-2002)				
Homestead Exemption Only				
Period	Ending Value	Average Change	Percent Change	Annualized Percent Change
1990-95	32,908	2,408	7.3%	1.4%
1995-2000	60,670	27,764	84.4%	13.0%
2000-2002	82,668	22,018	36.3%	16.7%

n = 6409

The residential property value change was relatively flat from 1990 to 1995 as the study area saw few home sales. This in turn gave the county appraisal district little reason to increase assessed market value. Moreover, Austin's overall economy was only beginning to emerge from its deep slump of the late 1980s and early 1990s.

However, the following period from 1995 to 2000 experienced a strong surge in home values within the study area as pressure from increasingly expensive housing in the region began to be felt in east Austin and the pace of sales accelerated. The county appraisal district took advantage of comparable sales within the study area to support the claim that market values were rising.

The ascent of home values within the study area increased even further between 2000 and 2002 as evidenced by the annualized percentage gain of 16.7% during the period. While there is no information to describe the trend from 2002 to 2004, it is assumed that home values within the study area will continue to increase.

The trajectory of average residential property value within the study area over the past few years is partly a function of the appraisal district playing catch-up to account for market trends of the 1990s. However, it is important to note that current property value increases are largely a function of intensified redevelopment pressures within east Austin as a whole.

For the purposes of this study we assumed that only the lower half of the owner-occupied homes in the area would qualify for this program. This is consistent with the fact that according to Census data about 45% of east Austin homeowners are under 50% of regional

median family income. In 2002 the average housing value for this qualifying group was \$57,000. If values for 2004 have been adjusted upwards by 10% per year for two years, the maximum increase allowed, we can assume that qualifying homeowners will have an average home value of about \$69,000.

East Austin Community Preservation and Revitalization Zone Development Examples

\$100M, \$50M & \$25M Projects at 60% Tax Rebate

(2) Estimated Value of Example Project	(1) Percentage of City Tax Rebated for a 10 Year Period	(3) Total Annual Property Tax	(4) City's Portion of Property Tax	(1) X (4) City Tax Abated Annually	(4) X .10 = (5) 10% of City Taxes to HAP Fund	(6) No. of Projects Needed to Reach Target 1	(7) No. of Projects Needed to Reach Target 2
100,000,000	60%	2,675,400	492,800	295,680	49,280	1	2
50,000,000	60%	1,337,700	246,400	147,840	24,640	2	5
25,000,000	60%	668,850	123,200	73,920	12,320	5	9

\$100M, \$50M & \$25M Projects at 85% Tax Rebate

(2) Estimated Value of Example Project	(1) Percentage of City Tax Rebated for a 10 Year Period	(3) Total Annual Property Tax	(4) City's Portion of Property Tax	(1) X (4) City Tax Abated Annually	(4) X .10 = (5) 10% of City Taxes to HAP Fund	(6) No. of Projects Needed to Reach Target 1	(7) No. of Projects Needed to Reach Target 2
100,000,000	85%	2,675,400	492,800	418,880	49,280	1	2
50,000,000	85%	1,337,700	246,400	209,440	24,640	2	5
25,000,000	85%	668,850	123,200	104,720	12,320	5	9

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