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Audit Report

E. 11th & 12th Street Redevelopment Project

November 3, 2009

Office of the City Auditor
Austin, Texas

Audit Team

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This audit was conducted in compliance with the Generally Accepted Government Auditing Standards.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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City of Austin

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website: http://www.ci.austin.tx.us/auditor

Date: November 3, 2009

To: Mayor and Council

From: Corrie Stokes, Acting City Auditor

Subject: E. 11th & 12th Street Redevelopment Project Audit

I am pleased to present this audit report on the E. 11th and 12th Street Redevelopment Project. This audit was part of the approved annual audit plan for FY 09.

Our objectives were:

- Determine if the City's efforts to redevelop and revitalize the designated E. 11th and E. 12th Street area using the Austin Revitalization Authority (ARA) have been successful. If not, why not?
- Evaluate the role that the ARA has played in the Redevelopment Project, ARA's long-term financial viability, and the role that the ARA can play if the City continues its redevelopment efforts.
- Determine the effectiveness of the City's administration and monitoring of redevelopment efforts in the target area.

We found that:

- The project has reduced slum and blight conditions in the Redevelopment Area; however, the project has not been implemented as originally envisioned because it has not been completed according to the schedule specified in the Master Plan.
- Several factors may have contributed to project delays including factors outside the control of involved parties, actions by ARA and the City, and the lack of a shared understanding of the roles of each involved party.
- While NHCD has effectively monitored expenditures by ARA, NHCD's lack of a project coordinator to guide the Redevelopment Project may have also contributed to delays.
- Liquidity challenges, reliance on the City for income, and inconsistent financial planning have adversely impacted ARA's long-term viability.
- While responsible parties have taken steps to include the community in redevelopment efforts, ARA's financial condition and need to pursue viable projects, combined with delays and market conditions, have resulted in community dissatisfaction with some proposed development and with slow progress in the Redevelopment Area.

We have issued nine recommendations that we believe will improve the Redevelopment Project and assist the City Manager's office and Council going forward. Management has concurred with eight recommendations and partially concurred with one recommendation, proposing a modified plan for implementation of that recommendation.

We appreciate the cooperation and assistance we received from NHCD and ARA personnel during this audit.

COUNCIL SUMMARY

This report presents the results of our audit of the E. 11th & 12th Street Redevelopment Project.

The City of Austin launched the Redevelopment Project to stimulate growth and encourage investment along the 11th and 12th Street corridors. The project involves the cooperation of the City of Austin, the Urban Renewal Agency, and the Austin Revitalization Authority (ARA). These three partners have entered into numerous financial and contractual relationships in order to accomplish the redevelopment goals.

Our audit objectives were to determine if the effort to redevelop these corridors has been successful and to identify barriers to success; to evaluate the role that ARA has played, as well as the organization's long-term financial viability and its potential roles moving forward; and to determine the effectiveness of the City's administration and monitoring of redevelopment efforts in the target area.

We found that while the project has been successful in reducing slum and blight conditions in the Redevelopment Area, the project has not been implemented as originally envisioned in that it has not adhered to the schedule specified in the Master Plan. Factors contributing to project delays may include factors outside the control of involved parties, actions by ARA and the City, and the lack of a shared understanding of the roles of each involved party. While NHCD has effectively monitored ARA's expenditures, NHCD's lack of a project coordinator to guide the Redevelopment Project may also have contributed to delays.

Additionally, liquidity challenges, reliance on the City for income, and inconsistent financial planning all impact ARA's long-term viability. While responsible parties have taken steps to include the community in redevelopment efforts, ARA's financial condition and need to pursue viable projects, combined with delays and market conditions, have resulted in community dissatisfaction with some proposed development and with slow progress in the Redevelopment Area.

We have offered nine recommendations that we believe will improve the Redevelopment Project and assist the City Manager's office and Council going forward. Management has concurred with eight recommendations and partially concurred with one recommendation proposing a modified plan for implementation of that recommendation.

We'd like to thank the staff at NHCD and the ARA for the cooperation and assistance that we received during this audit.

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ACTION SUMMARY

AU09103 - E 11th & 12th Street Redevelopment Project

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
1	In order to ensure that the Redevelopment Project is successful as envisioned in the Master Plan, the City Manager and NHCD director should re-vision the Redevelopment Project, incorporate input from recent plan amendments, and determine the individual steps required to fully implement the Master Plan.	Concur	February 2010
2	In order to ensure that the goals of the Redevelopment Project as envisioned in the Master Plan and the Urban Renewal Plan are met, the City Manager and NHCD director should ensure that a detailed implementation plan that outlines the steps to be taken is created.	Concur	April 2010
3	In order to ensure that all partners in the Redevelopment Project understand their roles within the Redevelopment Project, the City Manager and the NHCD director should ensure that all contracts and associated agreements are updated to clearly define the roles and responsibilities of each of the partners, especially with regard to providing leadership and development of implementation plans.	Concur	August 2010

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
4	In order to ensure the success of the Redevelopment Project, the City Manager should appoint a project champion at the Executive or CMO level who is tasked with overseeing the Redevelopment Project implementation plan and ensuring that necessary resources (including those from other City departments) and oversight are provided.	Concur	TBD, based on Council action
5	In order to ensure that NHCD properly manages the Redevelopment Project as a whole, the City Manager should ensure that a project coordinator at NHCD is tasked with monitoring and ensuring that the Redevelopment Project implementation plan is properly executed.	Partially Concur (Implemented with Modification)	August 2009
6	In order to ensure that project expenses are tracked properly and to aid the project coordinator in monitoring the Project, the NHCD director should ensure that contract monitoring procedures include detailed accounting reports.	Concur	January 2010
7	In order to further protect the City's investment in the Redevelopment Area and its current financial resources, the City Manager should evaluate redevelopment options and associated financial risks prior to entering into new contractual agreements for the Redevelopment Project.	Concur	June 2009

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
8	In the event that the City decides to continue the relationship with ARA, in order to ensure that ARA management has the financial capacity to meet its future debt obligations and support program services in the long term, the City Manager should request that ARA management develop a realistic comprehensive plan that details how ARA management will meet its financial obligations, finance its future planned developments, and generate additional income.	Concur	TBD
9	In order to ensure that all parties are meeting the goal of providing individual redevelopment projects that are acceptable to the citizens most affected, the City Manager and the NHCD director should clarify or modify the expectations for ARA's self-sufficiency.	Concur	June 2010

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APPENDICES

BACKGROUND

The East 11th and 12th Street corridors have long been commercial and entertainment centers in East Austin, but for several decades have experienced slum and blight conditions. In the late 1990s, the City of Austin launched the East 11th and 12th Street Redevelopment Project to stimulate growth and encourage investment in the area. The project involves the cooperation of the City of Austin, the Urban Renewal Agency, and the Austin Revitalization Authority. These three partners have entered into numerous financial and contractual relationships in order to accomplish redevelopment goals.

City of Austin's East 11th and 12th Street Redevelopment Project

From the late 1800s until the 1960s, the East 11th and 12th Street corridors included a mix of residential and commercial activity. Though the area had long been racially diverse, the 1928 City Plan urged African American and Hispanic residents elsewhere in the City to relocate to East Austin. Subsequently, many white residents moved out of East Austin. In the late 1970s, the area began to suffer significant neglect and decline, and by the 1980s, the area had lost its economic base and the quality of the residential environment surrounding the commercial core was dramatically impacted. In November 1997, the results of a Project Area Survey, which the City commissioned to study the area, found that many properties in the area were vacant or dilapidated, infrastructure capacity did not meet the area's needs, the crime rate was disproportionately high, and public health indicators were disproportionately low.

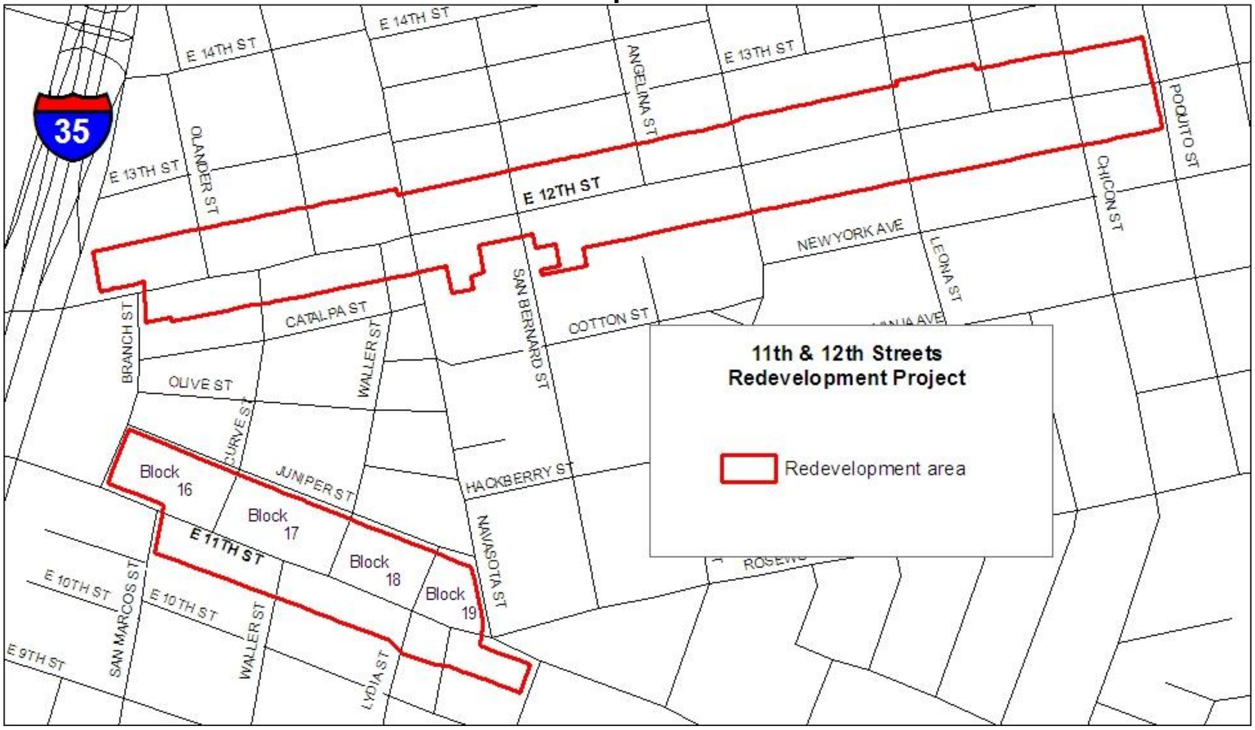
The Project Area Survey provided information that allowed the City to designate the area as a slum and blighted area as defined by Chapter 374 of the Texas Local Government Code. Chapter 374 establishes the following as "public purposes for which public money may be spent and the power of eminent domain exercised":

- the repair and rehabilitation of buildings and other improvements in affected areas,
- public acquisition of real property,
- demolition of buildings and other improvements as necessary to eliminate slum or blight conditions or to prevent the spread of those conditions,
- the disposition of property acquired in affected areas, and
- other public assistance to eliminate those conditions.

In the mid-1990s, the City launched the East 11th and 12th Street Redevelopment Project (Redevelopment Project) in order to encourage private investment and stimulate economic growth. The expected benefits of the redevelopment were the removal of the blighting influences, attracting businesses to the area, an increase in the availability of goods and services to support neighborhood residents, and job training and employment opportunities for low and moderate income individuals.

According to the Central East Austin Master Plan (CEAMP) developed by ARA, the Redevelopment Project was to be implemented in two phases over 15 years. Phase I, intended to last from 1999 through 2005, included the north side of East 11th Street (Blocks 16, 17, 18 & 19) and both sides of 12th Streets, from IH-35 eastward to Navasota, as well as the south side of Juniper from Branch eastward to Navasota. The project area was slightly expanded later, with the addition of the south side of East 11th Street when additional building rehabilitation projects were identified. Phase II, which was to run from 2006 through 2013, extends along the north and south sides of East 12th Street from Navasota to Poquito. See Exhibit 1 below for a map of the Redevelopment Area, and Appendix C for a more detailed map of the Redevelopment Area.

EXHIBIT 1
Redevelopment Area



SOURCE: Compiled by OCA, Sept. 2009

Planning Tools for Redevelopment

Planning documents serve as a tool that the City can use to implement redevelopment, by serving as blueprints to guide future policy making and decision making within the Redevelopment Area. They address many components of sustainable development, including housing, open space, and community facilities. Additionally, some plans change development regulations and land use options, some provide general development guidance, and some offer suggested mechanisms for affordable housing and economic development. Exhibit 2 provides a summary of the planning tools affecting the Redevelopment Area. For the Redevelopment Area, the Urban Renewal Plan (URP) is the primary document guiding development.

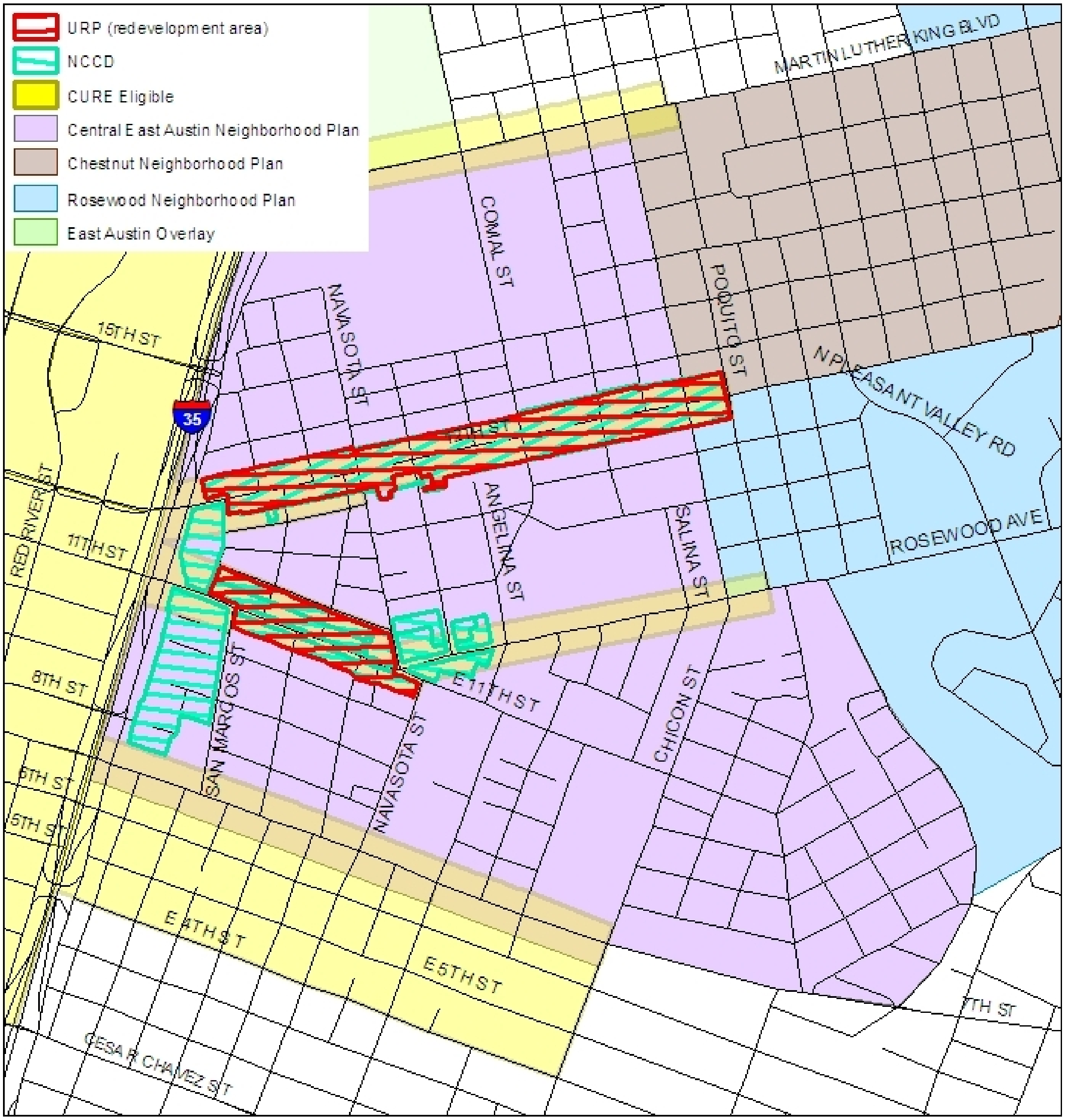
EXHIBIT 2
Planning Tools Affecting the Redevelopment Area

<table>
<tr><th>Tools</th><th colspan="2">Description</th></tr>
<tr><td>Central East Austin Master Plan (CEAMP)</td><td colspan="2">• ARA led development of the CEAMP and community groups, including neighborhood associations, business owners, and residents, participated.
• Endorsed by City Council in 1999.
• Outlines the history and condition of Central East Austin.
• Details the vision and goals of redevelopment.
• Offers policy and program recommendations.
• Includes a proposed implementation program, including a property acquisition and disposition plan, and relocation assistance plan.
• Also includes the Urban Renewal Plan (see below.)
• Not a legally binding document.</td></tr>
<tr><td>Urban Renewal Plan (URP)
also known as the Community Redevelopment Plan (CRP)</td><td colspan="2">• Endorsed by City Council in 1999 along with CEAMP.
• Contains specific project controls to guide the development of the 11th and 12th Street corridors.
• Breaks down the corridors into sections comprising properties or groups of adjoining properties with the same intended use.
• Amended in 2001, 2003, 2005, and 2008.
• Legally binding – establishes legally-enforceable guidelines for development of particular parcels, such as acceptable uses and floor-to-area ratio requirements, as well as requirements for new construction and preservation (e.g. number of new units to be created or number of sq. feet to be preserved.)</td></tr>
<tr><td>11th Street Neighborhood Conservation Combining District (NCCD)</td><td colspan="2">• Established in 1991 by City Council ordinance.
• Provides incentives for economic development along 11th St and I-35 frontage.
• Modifies base zoning and eases development regulations.
• In the event of conflicts with the neighborhood plan, the NCCD prevails.</td></tr>
<tr><td>12th Street NCCD</td><td colspan="2">• Established in 2008 by City Council ordinance.
• Brings zoning into accordance with URP and adds mixed-use overlay to most tracts.
• Relaxes many setback and compatibility requirements.
• In the event of conflicts with the neighborhood plan, the most restrictive provision prevails.</td></tr>
<tr><td rowspan="4">Neighborhood Plans</td><td colspan="2">• Developed by neighborhood residents.
• Amend the Austin Tomorrow Comprehensive Plan.
• Provide a framework for zoning and land use decisions.
• Provide guidelines for the design of new development.</td></tr>
<tr><td>Central East Austin</td><td>• Completed in 2001.
• Focuses on the areas not covered by the URP.</td></tr>
<tr><td>Chestnut</td><td>• Completed in 1999.</td></tr>
<tr><td>Rosewood</td><td>• Completed in 2001.</td></tr>
<tr><td>Central Urban Redevelopment Combining District (CURE)</td><td colspan="2">• Established in 1997 by City Council ordinance.
• Provides incentive-based flexibility of development standards and waivers from development fees as defined in various zoning districts and provisions of the City of Austin Land Development Code (LDC.)
• May be applied only to a property located in the area adopted by Ordinance, which sets the area as the Central Business District with extensions out to Chicon St. between E. 4th and E. 7th Streets; and to Poquito St on E. 11th/ Rosewood, E. 12th Streets, and MLK Blvd.
• May be applied only to property that either has existing development that is at least 10 years old or is vacant.
• Must be applied for and granted on a property-by-property basis.
• Currently, none of the properties in the Redevelopment Area have CURE status.</td></tr>
<tr><td>East Austin Overlay</td><td colspan="2">• Established in 1996 by City Council ordinance.
• Zoning overlay intended to ensure public input on commercial and industrial development near residential areas.
• Properties are removed from the East Austin Overlay as they are incorporated into neighborhood plans. All of the Redevelopment Area is subject to a neighborhood plan, so the Overlay is no longer relevant to these tracts.</td></tr>
</table>

SOURCE: Compiled by OCA, August 2009.

Exhibit 3 illustrates how the different planning areas defined in these documents relate to the Redevelopment Area.

EXHIBIT 3
Zoning and Planning Areas in Central East Austin



SOURCE: Compiled by OCA, August 2009

Redevelopment Project Partners

According to Chapter 374 of the Texas Local Government Code, "a municipality may exercise urban renewal project powers through a board or through municipal officers selected by the governing body of the municipality by resolution." The municipality may also "exercise those powers through an urban renewal agency created under this subchapter if the governing body by resolution determines that the creation of an urban renewal agency is in the public interest."

Also according to Chapter 374, “if an urban renewal agency is created by a municipality, the mayor of the municipality, with the advice and consent of the governing body of the municipality, shall appoint a board of commissioners for the urban renewal agency.” The board must be composed of at least five but not more than nine members, with each member serving a two-year term.

The City first set up an Urban Renewal Agency (URA) with a board of directors (Urban Renewal Board or URB) back in 1959, and used City staff to support the board. The URB members are appointed by the Mayor with the consent of the Council. Their primary responsibility is to oversee the implementation and compliance of approved Urban Renewal Plans that are adopted by the Austin City Council. Because there were no other active redevelopment areas and the seven seats on the URB were vacant when the East 11th and 12th Street Redevelopment Project began, the Mayor appointed new members and added this Redevelopment Project to their charge. Presently, the URB comprises representatives from neighborhoods surrounding the Redevelopment Area, along with representatives from the city at-large.

The City structured the Redevelopment Project through a three-party partnership: the Neighborhood Housing and Community Development (NHCD) office, acting as the City’s representative; the Urban Renewal Board (URB), to recommend approval or non-approval of proposed changes to the Community Redevelopment Plan (CRP), also called the Urban Renewal Plan (URP), to the City Council; and, a non-profit Community Development Corporation (CDC) known as the Austin Revitalization Authority (ARA).

ARA was formed in October 1995, with the support of Council, by a group of citizens to ensure that redevelopment was both effective and compatible with neighborhood interests. ARA's board of directors includes representatives from area residents, business owners, and churches, as well as chambers of commerce, Huston-Tillotson University, the Real Estate Council, and the Austin Area Urban League. Although the City helped establish the ARA’s board of directors in 1995 and has requested several changes to the board over the years (as discussed later in this report), it does not currently have any appointment powers for ARA’s board. Currently, ARA’s staff includes an Executive Director/President, Financial Manager, and two additional staff members who serve as project managers. ARA also employs temporary workers as necessary, while contracting out additional work.

Financial Components of the Redevelopment Project

The City of Austin utilized federal funding sources from the United States Department of Housing and Urban Development (HUD), namely the Community Development Block Grant (CDBG) Program, HOME Program, and Section 108 Loan Program for projects in the Redevelopment Area. CDBG, HOME, and section 108 Loan funds have various national objectives and requirements that identify what organizations/entities are eligible to receive these funds and how the funds may be used. For more information about these programs and their associated requirements, see Appendix D.

The City also applied for funding through the Section 108 Loan Guarantee Assistance Program of HUD for Phase I of the redevelopment program. In September 1995, the City received approval from HUD for a loan guarantee totaling $9,035,000 under Section 108. The City planned to apply this funding as follows:

- $3,119,000 for the acquisition, relocation, and demolition of identified properties;
- $5,240,000 for the design and construction of 40,000 square feet of retail/office space within the target area and debt service reserves; and
- $676,000 for closing costs, interim interest, legal fees, and other related costs.

The City also set up a redevelopment loan program from the Section 108 funds that developers could access to secure funding for projects within the Redevelopment Area. Most of the available funds have been used as of the date of this report. In addition, property developers in the Redevelopment Area, including sub-recipients of HUD funds, may solicit private funding from other lending institutions.

The City also used some non-federal funding sources to supplement spending in the Redevelopment Area. In addition to Federal and City funding sources, ARA separately obtained funding from private sources in the form of contributions and private loans. Major sources for private loans include JPMorgan Bank, Chase Bank, Wells Fargo Bank and ESIC New Markets Partners XIV Limited Partnership. For a summary of public investment in the East 11th and 12th Street Redevelopment Area, see Appendix F.

Structure of Relationships between the Partners

The City has three major agreements that provide guidance for the activities related to the East 11th and 12th Street redevelopment project. These agreements spell out the duties and obligations of the contracting parties for the activities and work related to the Redevelopment Project. In addition, there are various other agreements between the parties including project specific agreements and a lease agreement.

<u>Tri-Party Agreement Between the City, ARA, and the URB</u>

In 1999, the three parties (the City/NHCD, ARA, and the URB) entered into an Acquisition, Development and Loan Agreement, also known as the "Tri-Party Agreement". This agreement spells out the duties, obligations, and rights of the three parties pertaining to acquisition, development and loans for the Redevelopment Project. The Section 108 Redevelopment Area Loan Program funds are tied to this agreement through the Approved Capital Budget for the Redevelopment Area and the Loan Program Guidelines, which are both included as Appendices to the Tri-Party Agreement.

Under the Tri-Party Agreement, the ARA's primary functions are to organize and facilitate redevelopment, coordinate with outside developers and property owners, and offer guidance to the URB on proposed changes to the URP. The City's primary responsibility is to support the URA's functions, including providing the funding through the NHCD and the relocation of displaced individuals through the City's real estate office. The URA's primary responsibilities include authorizing the City and ARA to begin the acquisition of properties in accordance to the URP, the Property Acquisition Plan, and Property Acquisition and Disposition Plan, and transferring properties to ARA or private developers. For more detail on the major duties of each contracting party refer to Appendix E.

The term of the original agreement expired on October 1, 2004 and the City and ARA signed a second agreement on September 1, 2006 (but was given an effective date back to October 1, 2004). The agreement expired on October 1, 2007, but was subsequently extended through October 1, 2010, with two options to extend for one year each.

As the recipient of federal funding, NHCD then entered into sub-recipient agreements with both the URB and ARA.

Subrecipient Agreements between the City and the URB

Under this agreement, signed in October 2000, the City agreed to provide funding for the URB to acquire (through the eminent domain process if necessary) eleven parcels of land within the Redevelopment Area. Additionally, the City also provides funding for the URB's liability insurance and other operational costs, such as legal fees, as well as for the URB to enter into a property management agreement with the ARA (described below). The original agreement had several amendments extending the term through September 30, 2008 and totaled $498,828. A second agreement was signed through September 30, 2009, and was recently extended through September 30, 2010. The total amount budgeted, including property maintenance, is $168,700.

Subrecipient Agreements between ARA and the City

Through agreements dating back to 1996, the City has provided approximately $3.4 million in operational funding to ARA. For detailed payments to ARA by the City, see Appendix F.

In 1995, the City Council authorized a one-year contract for $375,000 to ARA to prepare an Urban Renewal/Master Plan (URP) and for operating expenses, along with four one-year extension options at $275,000 each, for ARA operating expenses. NHCD then entered into a Subrecipient Professional Services Agreement (Operations Agreement) with the ARA on March 22, 1996. This agreement was funded with federal CDBG funds and tied to the program's national objectives by requiring ARA to aid in the creation of new jobs and to provide assistance to micro-enterprises. Through this Operations Agreement with the City, the ARA was made responsible for soliciting input and feedback from local stakeholders and developing the Central East Austin Master Plan, a conceptual and strategic approach to redevelopment, as well as the URP, which establishes permitted uses and project controls in the East 11th and 12th Street corridors. In order to ensure participation from surrounding neighborhoods, at the time of the agreement, the City asked the Board of Directors of the ARA to expand its membership by four members to include a representative from each of the following neighborhood associations: Blackshear; Chestnut Hill; Robinson Hill; and Guadalupe. The agreement also called for ARA to submit a separate plan, within 120 days after Council adoption of the Master Plan, detailing how it would reach self-sufficiency within five years of the date of the agreement.

After two extensions in late 1997, the City extended the agreement with ARA for an additional period to "allow more time for subrecipient to complete the master plan." Additionally, as a result of community pressures for a more inclusive ARA board, the City asked ARA to "stop all operations and make several changes to its organizational structure", including the addition of ten positions to its Board of Directors, making a total of 29 board positions. In May 1998, stating that "ARA has made the necessary structural changes and filed the same with Texas Secretary of State," the City renewed the agreement through a Council-authorized one-year extension. Following these structural changes, in late 1998, ARA completed and submitted the Master Plan to the City. Subsequent amendments to the Operations Agreement extended the termination date of the agreement to September 2004.

In October 2004, the City and ARA signed a second operations agreement worth up to $1,150,000 with an expiration date of September 2005. That agreement called for up to $275,000 to be available in the first year and allowed for four one-year extensions ranging from $275,000 down to $125,000. The extensions were granted through amendments and the agreement's termination date was extended to September 2009. The City and ARA recently agreed to extend the agreement for an additional six months, without additional funding.

Project-Specific Agreements between the City and ARA
The City also contracted with ARA to perform project management responsibilities for specific projects in the Redevelopment Area. ARA received project management fees for each project, while its operating costs were covered through the Operations Agreement. The City has contributed over $7.3M to projects in the Redevelopment Area through project specific loans and grants. These include the following projects:

- Purchase and rehabilitation of the Haehnel building (Shorty's Bar) at 1101 E 11th Street, including architectural, engineering and other services necessary to design and implement the restoration
- Acquisition & maintenance for properties at 1124 E 11th and the historic East Room, located at 1154 Lydia.
- Architectural and engineering services for the East Room.
- Construction of a 57,000 square foot retail and office space on the 1000 block of E 11th Street. The two office buildings built are the Street-Jones and Snell Office Buildings.

For a list of project-specific contracts between the City and ARA, see appendix G.

Other Professional Service Agreements
In October 2000 the URB and the ARA entered into a Professional Services Agreement for one year and up to $20,000 in which ARA agreed to provide initial clearance of trash, debris, fallen tree limbs, etc. plus twice monthly maintenance, such as mowing and trash pickup, of the inventory of properties owned by the URB in the East 11^{th} and 12^{th} Street Revitalization Area. That Agreement was amended yearly up to September 2008 and the total amount of the Agreement reached $121,437. In December 2008, a new agreement was signed through September 2009, and just recently extended through September 2010 for a total not to exceed $54,090.

In 2001, the City also tasked ARA with managing water/wastewater, electrical, telecommunication, and other utility improvements on E. 11th Street and other streets within the Redevelopment Area. Austin Energy, the Austin Water Utility, AT&T Communications, and Capital Metro all participated in the costs through cost reimbursement contracts with ARA. Additionally, Capital Metro also provided US Dept. of Transportation grant funds for other corridor improvements including the creation of Urdy Plaza, which is leased from a nearby church.

Lease Agreement between the City and ARA
Currently the City leases 26,546 square feet of office space and 73 parking spaces from ARA located in the Street-Jones Building. The current lease agreement expires in 2014. For 2008, the City paid $839,851 to lease the office and parking space. In addition to the lease payment, the lease agreement includes in some additional expenses, known as "additional rent", which are common expenses that are split among the lessees. After ARA reconciles the building expenses (e.g. utility expenses, maintenance changes) for the previous year, ARA mails additional rent invoices to each lessee in order to recover costs expended. Per the original lease agreement, additional rent was capped at a 10% increase per year, even if ARA's actual additional rent expenditures exceed that amount. The lease has since been amended to remove the 10% cap.

Additional rent from 2004 through September 30, 2009 averaged approximately $21,000 annually.

Future of the Redevelopment Project

At present, the Redevelopment Project is at a crossroads for several reasons. Over the last few years, key staff members left NHCD and more recently management of NHCD has changed, as has the City Manager and the members of the City Council. Additionally, the Operations Agreement between the City and ARA expires on March 30, 2010, and the Tri-Party Agreement expires on October 1, 2010. Finally, ARA's President and Chief Executive Officer resigned in July 2009 and accepted a position with local government in Richmond, Virginia.

The City Manager's Office recently performed an operational assessment of the relationship between the City and ARA. Because the City's operations agreement with ARA ends on March 30, 2010, three basic options for continuing the Redevelopment Project were identified:

- The City can continue to use the ARA as its main "partner" towards completion of the project.
- The City can continue on the path toward completion of the project using different methods and tools such as issuing Requests For Proposals (RFPs) for potential developers to bid on developing the property that the City owns in the project area through the URA.
- The City can also choose to stop its efforts and let private developers come forward on their own.

The assessment concluded that it was "not advisable to continue the relationship as currently structured nor to bring to close our partnership." Additionally, the assessment concluded that a restructuring of several agreements was warranted, and that it was advisable to secure resources to assist ARA to train staff on federal regulations and reporting requirements, create a five-year business plan, and assist with design, development, and financing requirements for real estate developments.

Upon receiving the results of the assessment Council directed the City Manager and NHCD to clarify the agreements with ARA and to move forward with the completion of the Juniper Olive Historical House rehabilitation project.

This audit is intended to assess redevelopment efforts, ARA's financial viability, and NHCD's monitoring of ARA efforts, and provide recommendations to further assist City Management and City Council as they move forward to complete the Redevelopment Project.

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OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives:

The objectives of this audit were to:

- Determine if the City's efforts to redevelop and revitalize the designated East 11th and 12th Street area using the Austin Revitalization Authority (ARA) have been successful. If not, why not?
- Evaluate the role that the ARA has played in the Redevelopment Project, ARA's long-term financial viability, and the role that the ARA can play if the City continues its redevelopment efforts.
- Determine the effectiveness of the City's administration and monitoring of redevelopment efforts in the target area.

Scope:

The scope of this audit includes the period from initial council resolutions creating the East 11th & 12th Street Redevelopment Project in 1995 to the current plans by the City Manager's Office for the future of the project and the relationship with the Austin Revitalization Authority (ARA) and its affiliate, the Eleven East Corporation (EEC).

The scope of our analysis of ARA financial statements ranged from January 1, 1999 through December 31, 2008, the date of its latest audited financial statements. Because ARA established EEC to hold the Eleven East property in 2005, our analysis for 2005 to 2008 utilized the ARA and EEC consolidated financial statements.

Our analysis of payment requests processed by NHCD ranged from the initial payments to ARA in 1996 through July 31, 2009.

Methodology:

To address the audit objectives, we performed the following steps:

- Evaluated all previous relevant financial audits and internal reviews;
- Reviewed and analyzed relevant background and operating documents;
- Replicated a parcel and street condition survey for the redevelopment area;
- Gathered and analyzed key indicators of public health, public safety, and public welfare for the redevelopment area and City;
- Conducted interviews with personnel from the office of Neighborhood Housing and Community Development (NHCD), personnel from the Austin Revitalization Authority (ARA); members of the Urban Renewal Board (URB); and other stakeholders;
- Researched best practices for Community Development Corporations (CDCs);
- Performed ratio and trend analysis using data from ARA's financial statements;
- Performed analysis of internal controls within NHCD processes; and,
- Performed analysis of payment requests by ARA as part of data integrity and fraud testing.

This audit was conducted in compliance with the Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Those standards also speak to the reliance on work performed by consultants with specialized training and experience (specialists). The standards require that we perform procedures regarding the specific work to be relied on that provides a sufficient basis for that reliance. We have followed this requirement and have determined that we can rely on the work of independent Certified Public Accountants that performed audits of the ARA financial statements where that work serves as the basis for the findings and conclusions in this report.

AUDIT RESULTS

The East 11th and 12th Street Redevelopment Project has reduced slum and blight conditions within the Redevelopment Area; however, it has not been implemented as originally envisioned because it has deviated from the Master Plan in both timing and results. ARA's limited capacity for contract responsibilities, the City's lack of an overall implementation plan, and a lack of clearly defined roles for each Redevelopment Project Partner may have contributed to project delays. ARA has not developed sufficient funds and revenue streams to support its operations and program services in the long term; and is therefore heavily reliant on funding from the City to finance its operations. Additionally, the City's expectation that ARA become financially self-sufficient has resulted in ARA pursuing development that does not satisfy area residents. Finally, the City's NHCD has effectively monitored expenditures by ARA, but lacks a project manager to guide the Redevelopment Project.

The East 11th and 12th Street Redevelopment Project has reduced slum and blight conditions within the Redevelopment Area; however, it has not been implemented as originally envisioned because it has not been implemented according to the schedule specified in the Master Plan.

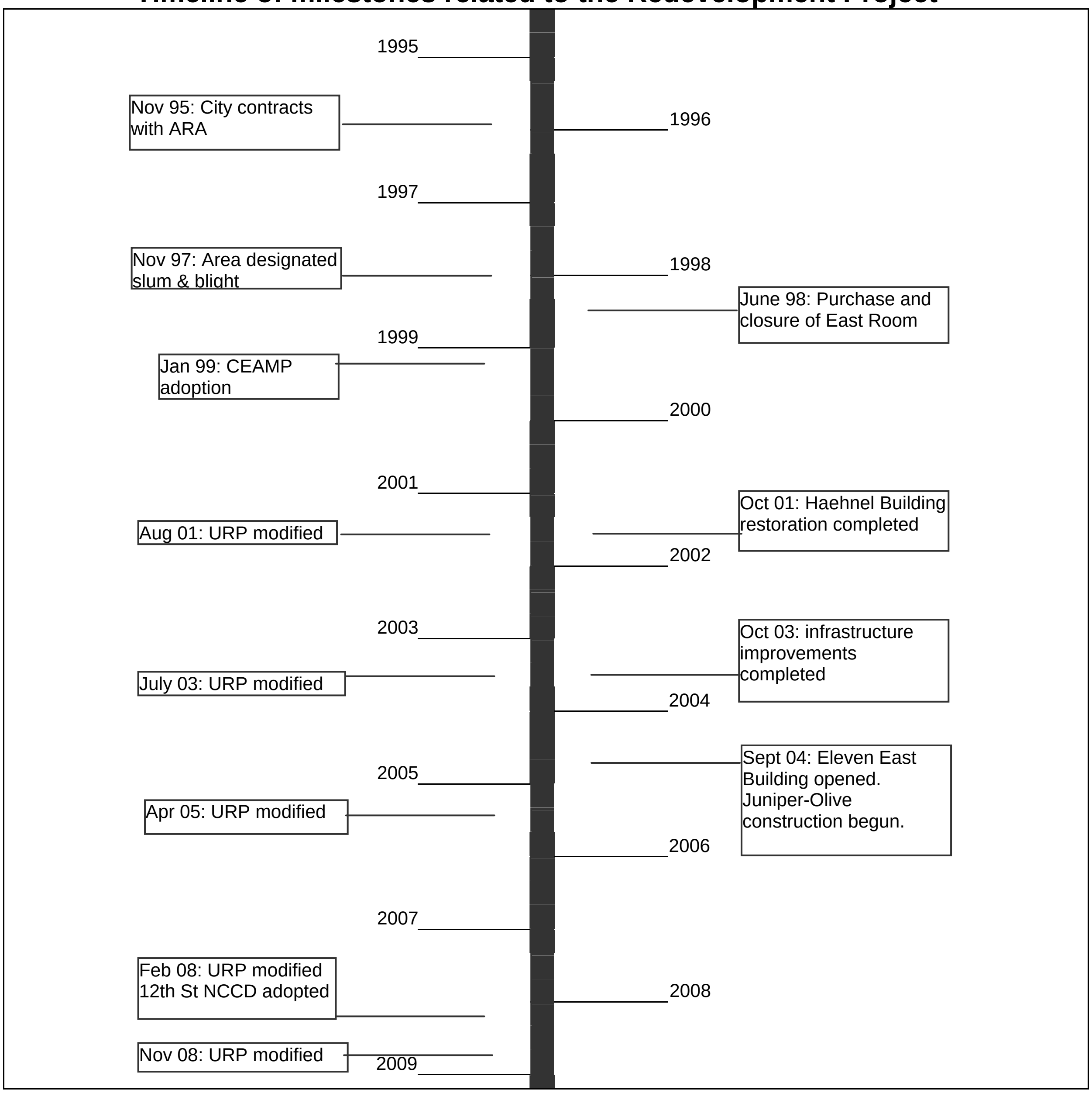
Redevelopment has reduced the extent to which the project area experiences slum and blight conditions. Both the Master Plan and ARA's mission statement include the mandate to preserve community character; however, the area is experiencing gentrification and many new businesses and services do not target long-term residents. Additionally, the Redevelopment Project has deviated in both timing and content from the Master Plan, resulting in continuing slum and blight conditions along 12th Street.

Through coordination, the three involved parties have made significant contributions to the physical environment of the Redevelopment Area. Exhibit 4 shows a timeline with major milestones in the Redevelopment Project thus far and Exhibit 5 shows a map of several of these projects. Completed improvements include:

- The Urban Renewal Agency has obtained many properties along the corridors and has demolished the deteriorated buildings. Though this has increased the number of vacant parcels (another slum/blight indicator), the URA has contracted ARA to maintain the properties, which mitigates their detrimental effect.
- ARA coordinated infrastructure improvements for the City, including buried power lines, upgraded water and wastewater mains, streetscapes, and public art.
- The City's Public Works Department repaved streets along the 11th Street corridor.
- The Austin Police Department worked with community groups to address criminal activity in the area through a "Weed and Seed" program.
- ARA purchased and rehabilitated the historic Haehnel building, located at 1102 E. 11th Street.
- ARA also purchased the East Room, also known as the Schieffer House or the Travis County Negro Agricultural Extension Office. This is a historic structure most recently used as an after-hours club that was a center for criminal activity. The closure of the club resulted in a significant decrease in area crime. ARA plans to rehabilitate and lease out, or possibly use the building, located at 1154 Lydia, for its offices.

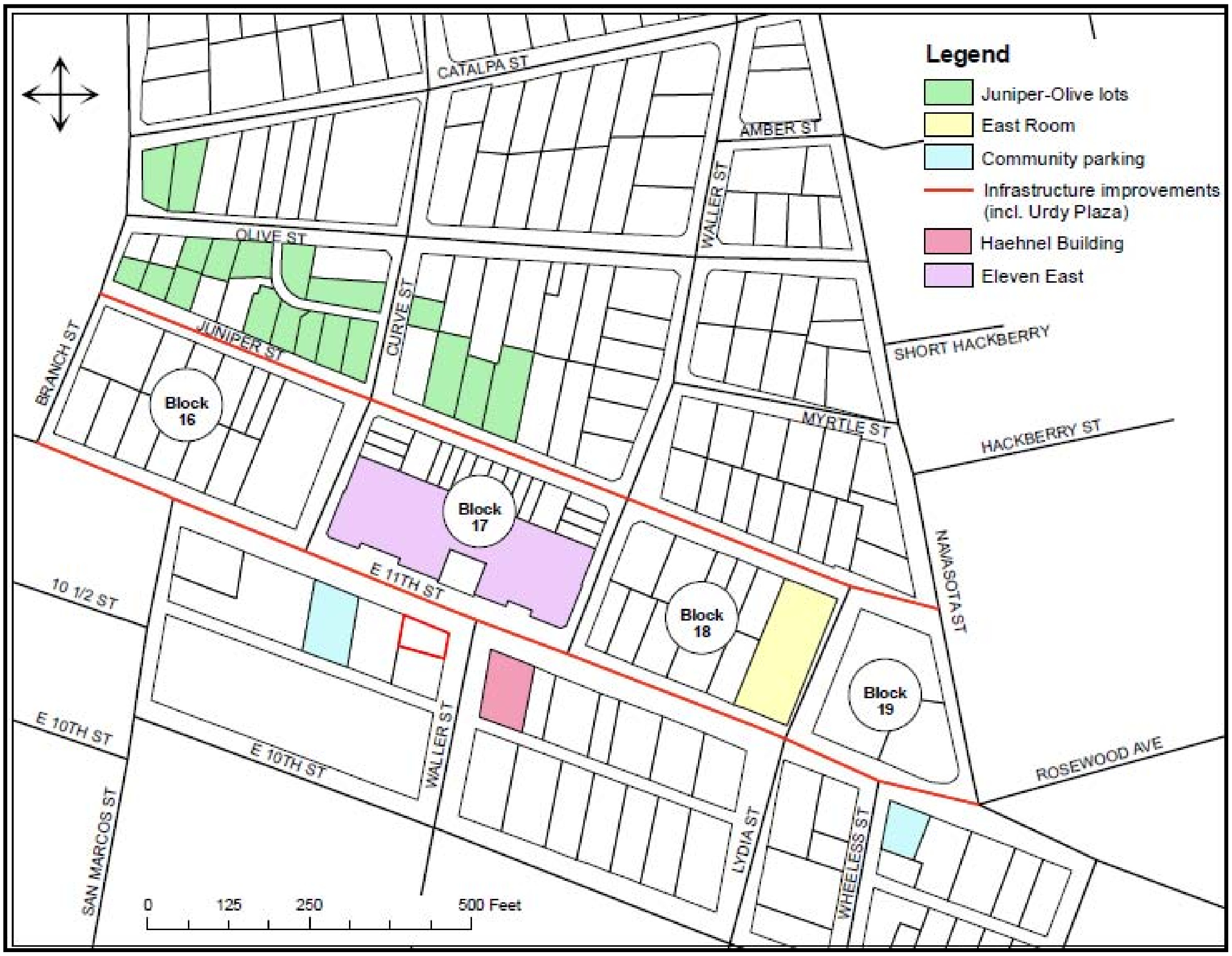
- ARA has also assisted area businesses and facilitated the sale and rehabilitation of the Arnold Bakery (a historic structure located between the Street-Jones and Snell Buildings on Block 17.) It was sold to and rehabilitated by Shoehorn Design.
- In addition to projects along 11th and 12th Streets, ARA has also rehabilitated existing homes and constructed new homes, called the Juniper-Olive houses, to be sold to qualifying parties. To date, 11 of 19 single-family homes have been completed. In the same area, Anderson Community Development Corporation completed 26 affordable housing units and the City completed 21 affordable housing units. Other units are currently underway. NHCD also contracted for renovation and restoration of the Connelly-Yerwood house at 1115 East 12th Street.

EXHIBIT 4
Timeline of milestones related to the Redevelopment Project



SOURCE: Compiled by OCA, August 2009

EXHIBIT 5
Map of projects undertaken by ARA within the Redevelopment Area



SOURCE: Compiled by OCA, August 2009

Redevelopment in the project area has significantly improved the overall conditions in the project area. The purpose of redevelopment activities is to eliminate the slum and blight conditions through a combination of municipal regulation, private development, and public action. As mentioned in the background section of this report, the City commissioned a Project Area Survey, which the City Council used as justification for using the redevelopment powers granted under Chapter 374 of the Texas Local Government Code. Using the Project Area Survey findings as our starting point for comparing past conditions to present conditions, we replicated the parcel and street condition survey, assembled crime statistics, and gathered data on tax delinquency, public health measures, and use of welfare and food stamp programs.

From this work, we found that overall conditions have improved in the area. There are fewer buildings in non-standard condition and fewer properties delinquent in property taxes. Water and wastewater infrastructure has been upgraded, so it is now sufficient for large-scale development. The streets are in better condition. Disparities in public safety, public health, and public welfare have narrowed, so the conditions in East Austin more closely resemble those of the city as a whole. See Exhibit 6 for a comparison of these factors for the Project Area in 1997 and 2009.

EXHIBIT 6
Comparison of Project Area Survey Findings to Auditor Findings

	1997 Project Area Survey	2009 OCA Update Findings
Building Conditions	• 40% of parcels were vacant • 45% of parcels with buildings were substandard	• 51% of parcels were vacant • 16% of parcels with buildings were substandard
Property Tax Delinquency	• 15% of parcels had at least one year of unpaid property taxes	• 5% of parcels had unpaid taxes for more than one year • 10% of parcels had unpaid property taxes
Illegal Lot Sizes	• 48% of non-residential lots illegally sized • 9% of residential lots illegally sized	• NCCDs waive lot area requirements • Could not validate Project Area Survey methodology for comparison purposes
Street Condition	• 85% of street segments in substandard condition	• 58% of street segments in substandard condition
Stormwater Capacity	• 16 of 18 pipe segments below capacity needs	• New, larger pipes installed
Public Welfare	• Zip code 78702 was 3.7% of the county population but • 11% of food stamp distribution • 14.5% of AFDC recipients • 13% of total AFDC payments	• Changes in welfare programs (from AFDC to TANF) make direct comparison impossible • 78702 accounted for 5% of countywide food stamp distribution in 2009
Vulnerable Populations/ Poverty	• Nearly half the zip code residents were in economically vulnerable age groups • More than one third living below the poverty line	• Current demographic and income information not available at the zip code level; 2009 projections are comparable to 1997 demographics.
Public Health	• In 1994, the percentage of births to teenage mothers in 78702 was 147% higher than the percentage for Travis County as a whole • In 1994 for 78702, 38% of births received late or no prenatal care, compared to 17% for the county • Mortality from heart disease, HIV/AIDS, cancer, cerebrovascular disease, and diabetes were 200 to 400% higher than county rates • 10% of HIV and TB cases in the county originated in 78702	• In 2004, percentage of births to teenage mothers in 78702 was 15% higher than the percentage for the county (and lower than the 1994 zip code percentage) • In 2004, 5% 78702 births received late or no prenatal care, compared to 3.2% for the county • Mortality from heart disease, cancer, and cerebrovascular disease only 10 to 55% higher than county rates. HIV/AIDS and diabetes still more than twice county rates, but smaller gap than in 1994 • HIV cases in 78702 1.5% of county total for 2008; TB cases in 78702 for 2008 too few to release
Public Safety	• Violent crime rate almost five times that of City as a whole • Census tracts containing the project area accounted for 1.37% of City population but 3.3% of total crimes and 5.5% of violent crimes	• Violent crime in the three census tracts down by more than half (212 in 1996 and 90 in 2008). • Census Tracts account for 2% of total crimes in the city and 2.5% of violent crimes • Drug crimes as a percent of total crime declining on 11th Street but rising on 12th Street (possibly as a result of targeted enforcement on 12th Street)

SOURCE: OCA update of original Project Area Survey, May 2009

Results of changes in the project area include improved living conditions, health and safety. However, Chapter 374 does not set precise standards for what constitutes slum or blight conditions, which means that it is difficult to determine if the improvements are sufficient to render the area, or at least certain parts of the area, free from slum areas or blighted conditions.

While the overall conditions in the area have improved, the Redevelopment Project has not been completed according the schedule specified in the Master Plan, resulting in some continuing slum and blight conditions along 12th Street. Redevelopment should adhere to the vision expressed in the Master Plan. The Master Plan calls for E 11th Street to be "a visitor-oriented destination consisting of 3-5 story buildings that provide entertainment, music, and office uses that will attract users from the Austin metropolitan area as well as local residents," while 12th Street is "a variety of small-scale, live-work environments with combined office, retail, and residential uses which, for the most part, serve the immediate community." The Plan states that "new housing must come hand-in-hand with new commercial development if retail opportunities are to be sustained."

Development on 11th Street is broadly in accord with the plan, though this development is taking longer to complete than originally envisioned. New construction includes the Street-Jones and Snell buildings, a building with retail, office, and residential space at 1111 E 11th Street, and the East Village on the 1100 block of Navasota (currently under construction). All are three to five stories and include office space, restaurants, and art galleries, which could serve to draw in visitors from other areas. Renovation projects on 11th Street include the Haehnel building (Shorty's Bar), the Masonic Lodge, Urdy Plaza, and the Arnold's Bakery building, along with the Blue Dahlia and the Victory Grill (both done by private parties). There is new housing in mixed-use developments on 11th Street as well as rehabilitated and newly constructed single-family housing on Juniper Street. However, Blocks 16 and 18 remain undeveloped.

Development on 12th Street is further from the original plan. The Master Plan calls for redevelopment to begin on the western portion of 12th Street in Phase I and for redevelopment on the eastern portion to begin around 2006; however, as of September 2009 there is still no significant redevelopment on 12th Street. A planned townhome development, for which the City is responsible, has still not been constructed. Accomplishments on 12th Street include: rehabilitation of two historical structures (one for office space and one as a public facility), construction of one community parking lot, and provision of funding for improvements to some building facades near the intersection of 12th and Chicon.

There are several reasons for departures from the Master Plan for 12th Street. Because 12th Street efforts were initially planned to follow 11th Street, delays on 11th Street may have delayed action on 12th Street. In addition, the URA and ARA own many more properties on 11th Street than they do on 12th Street. On 11th Street, the two entities together own nearly all of the parcels on Blocks 16, 17, and 18, as well as the Haehnel Building on 11th Street. In contrast, on 12th Street the URA owns one parcel at the corner of Navasota and E 12th, which is a community parking lot, and half the block on the north side of 12th Street between San Bernard and Angelina, which is intended to become a mixed-use office development. ARA owns no properties along 12th Street, and without property control ARA can only encourage desired development indirectly.

Encouraging such development was the primary reason that some project controls were removed through the planning process. The City and ARA intended to remove restrictions that might have been hampering development. The loosening of these restrictions resulted in deviating from the original vision for 12th Street. The Floor-to-Area Ratio (FAR) limits, which restrict building size and density, have been removed from all 12th Street portions of the URP. Height limits in the northern and eastern areas have increased significantly. Other controls have been modified through the planning process with the addition of the 12th Street Neighborhood Conservation Combining Districts (NCCD). The stated purposes for some of the URP sub-areas no longer reflect community-oriented uses. For example, the original purpose for section 12-1 of the Master Plan was to “provide new ‘residential-scaled’ office buildings on 12th Street.” In 2005, that purpose changed to “provide mixed-use opportunities on 12th Street.”

However, four years after relaxing these restrictions, development remains minimal. While we are unable to draw a direct relationship, we noted factors that may have hampered development on 12th Street such as lack of clear procedures and poor City oversight of the various planning components, including inadequate communication between City departments. This may also be an example of how the lack of a central project “champion” within the City has contributed to lagging development, which will be discussed further later in this report. Also, the 12th Street NCCD was not finalized until early 2008, which may have kept some property owners from moving forward with new development prior to that time.

As a result of fewer redevelopment activities along E 12th Street, that corridor continues to exhibit slum and blight conditions, particularly those relating to property conditions and public safety. Though property values have increased, they have done so at a slower rate than along E 11th Street. Additionally, a higher percentage of buildings along 12th Street are in poor condition than are those along 11th Street. The 12th and Chicon intersection remains an area of concern to the Austin Police Department due to high levels of drug activity. Also, 75% of property tax delinquent properties in the Redevelopment Area were along the 12th Street corridor, though this corridor accounts for only 65% of the properties in the project area, and the physical condition of 12th Street itself is largely substandard.

Both the Master Plan and ARA’s mission statement include the mandate to preserve community character; however, the area is experiencing gentrification and many new businesses and services do not target long-term residents. From the beginning of the Redevelopment Project cultural preservation has been a core value for redevelopment efforts. The Master Plan discusses “quality development that is compatible with the traditional character of the community” and “sensitivity to the important historical nature of the community as the home of a diverse and multicultural community,” as well as the importance of “protecting the existing homeowners.” ARA’s mission also touches on “maintaining the historic and cultural character of the East End community” and “preserving the integrity of neighborhoods.”

To assess the extent to which the City and ARA have adhered to these values, we examined the degree and impact of gentrification in the area. Gentrification indicates a failure of cultural preservation. The City’s 2003 Staff Task Force on Gentrification defines it as “the process by which higher income households displace lower income residents of a neighborhood, changing the essential character and flavor of that neighborhood.” We reviewed and updated the findings of the Task Force report issued in 2003 and looked at changes in demographics and resident stability, property values, resident perceptions, and area businesses. The Task Force found that while there had been significant resident turnover in East Austin, it was primarily due to voluntary relocation, with replacement by new residents at similar income levels, rather than forced displacement of low-income residents by higher-income residents. However, they noted evidence of gentrification in the area closest to I-35, which includes the Redevelopment Area.

We found that the Redevelopment Area displays both the characteristics that make gentrification likely and the indicators that gentrification is in progress. The area is centrally located and close to Downtown Austin, while still having property values lower than the Austin average. An increasing number of current or prospective businesses in the Redevelopment Area target higher-income levels, such as an upscale restaurant, luxury apartments, a yoga studio, and a contemporary art gallery. The displacement pressure identified in the 2003 report has increased as property values, particularly for single-family residences, have risen more sharply in East Austin than in the city as a whole. The average single-family appraised value in East Austin increased nearly 600% from 1995 to 2008; the average value for all of Austin increased only 160%. While it is difficult to measure involuntary displacement, there is a strong resident perception of neighbors being forced out by high property taxes. Mortgage problems caused by the current economic downturn may have also contributed to increasing resident turnover. Another possible reason is that some residents may have sold their properties for profit due to rising property values. An analysis of Census data and housing trends indicates that the percentage of homes in East Austin with the same occupants for at least five years decreased from 57% to 34% since 1990, while over the same period for Austin as a whole it declined from 34% to 25%.

A number of factors contribute to the displacement pressure on current residents. Even absent broad social trends making urban living increasingly attractive, redevelopment will lead to increased property values. Though there is a ten percent cap on the annual increase in homestead appraisal values, many area residents have difficulty affording repeated annual ten percent tax increases. Additionally, the 2003 Task Force report noted that many East Austin residents do not apply for all the exemptions for which they qualify. Homestead exemptions do not apply to rental property, so rising property values exert significant displacement pressure on renters. As commercial property values increase, fewer businesses that target low-income residents can afford to locate in the area. This contributes to the tension between making redevelopment projects financially self-sustaining and serving existing residents. The Central East Austin Master Plan (CEAMP or Master Plan), which describes the vision for redevelopment and offers suggestions for implementation mechanisms, mentions gentrification only once, in the context of deed-restricted covenants: “The continued access of eligible groups to business facilities, and employment opportunities for community residents will be assured against potential impacts of economic gentrification.” Most of the jobs brought to the area have not gone to community residents, and existing local businesses have difficulty affording rents, although some assistance is available for small and minority-owned businesses renting space in the Snell and Street-Jones Buildings.

The results of gentrification pressures have been residential displacement and distrust of redevelopment activities. Residential displacement creates housing insecurity as these residents have few other options for affordable housing. Even the affordable housing that ARA has proposed may be beyond the means of some traditional residents. Displacement also weakens community ties. Gentrification increases citizen distrust of government operations and contributes to suspicion of deliberate clearance, especially in the historical context of the 1928 City Plan's institutionalization of racial segregation and previous urban renewal activities that have had detrimental effects on the neighborhood.

Recommendation:

01. In order to ensure that the Redevelopment Project is successful as envisioned in the Master Plan, the City Manager and NHCD director should re-vision the Redevelopment Project, incorporate input from recent plan amendments, and determine the individual steps required to fully implement the Master Plan.

MANAGEMENT RESPONSE: Concur.

The Master Plan was not developed by the City alone and therefore cannot be updated and re-envisioned without input from the URB, ARA, and community stakeholders.

- Chief of Staff Snipes in recent months has initiated facilitation discussions with Board Chairs and Vice Chairs of ARA and URB with representatives from the City Manager's Office and NHCD to discuss collaboration and more coordinated efforts for the 11th and 12th Street corridors.
- These discussions should outline the amendments to the TriParty Agreement, which expires October 1, 2010 with an option for two one-year extensions to 2012.
- After the three partners agree on the goals and roles and responsibilities going forward, the City can facilitate a meeting with community stakeholders in East 11th and 12th Street corridors for their input on next steps.
- Based on recent meetings, each entity has discussed the possibility of having a standing agenda item at their board meetings to discuss work plans and projects.

Several factors may have contributed to project delays including factors outside the control of involved parties, actions by ARA and the City, and the lack of a shared understanding of the roles of each involved party.

Twice since the Redevelopment Project began, local real estate market conditions have resulted in tightening of commercial lending, impacting developers' ability to obtain funding for development projects and slowing progress in the Redevelopment Area. The complicated nature of involved real estate transactions also contributed to delays. In addition, actions by ARA and the City on some projects slowed progress in the Redevelopment Area and the City's lack of a detailed implementation plan for the Redevelopment Project contributed to delays in completing the project. Finally, a lack of a clear understanding of each party's roles within the many redevelopment-related agreements may have contributed to extended project timelines.

Some factors outside the control of responsible parties, including the economy and the complicated nature of involved real estate transactions, have slowed progress in the development area. Around 2002 and again in 2008, local real estate market conditions led to tightened commercial lending, slowing progress in the Redevelopment Area. Our analysis of 2009 survey data from the Federal Reserve Board indicates that lenders were significantly less willing to make commercial real estate loans in 2002 and again in 2008, continuing to 2009. These market conditions impacted the ability of ARA and other developers to obtain funding for development projects. Some redevelopment project delays occurred when lending was unavailable to support area projects. In addition, these delays may have adversely affected ARA's financial condition, which is discussed later in this report.

In addition, the complicated nature of the real estate transactions necessary to proceed with redevelopment efforts in the redevelopment area have also contributed to project delays. For example, substandard lot sizes and encroachments across property lines complicated real estate transactions and related financing.

Actions by both ARA and the City contributed to project delays. The contractual relationships between the parties in the Redevelopment Project are complex, and each party's actions impact the other's ability to move forward. At times, ARA has not provided timely or accurate information, which prevented the City from processing payments or proceeding with contracts. At other times, the City has delayed or been inconsistent with decision-making, which prevented ARA from carrying out work. Additionally, the City has lacked a detailed implementation plan to guide the process.

<u>Throughout the Redevelopment Project, ARA has missed deadlines and has not always provided required documentation promptly.</u> For example, some payments to ARA were delayed because ARA did not provide its audited financial to NHCD in a timely manner as required by contract terms. In addition, review of NHCD monitoring reveals that payment requests from ARA often required additional support to comply with contract terms and payment requests were reduced because they contained items that did not qualify for statements reimbursement. In the early years of the Redevelopment Project, ARA's lack of experience and limited resources may have contributed to ARA missing deadlines and not providing contract deliverables.

<u>We also identified instances where the City's actions contributed to project delays.</u> Through our review of project documentation and communication, we identified instances where the City's decision-making was not timely or where the City revisited decisions or did not implement them promptly. For example, the City changed course several times related to transferring parcels for community parking to ARA, which delayed the construction of the parking lots. In addition, tasks requiring coordination with multiple City departments were not always promptly resolved. Changes in staff at NHCD may have further contributed to delays. Also, the technical complexity of involved real estate transactions was further complicated by the City's desire to incorporate mechanisms to provide assurance regarding ARA's performance; these mechanisms were not acceptable to banks that could provide financing and reduced the value of the associated property and further delayed execution of real estate transactions.

<u>The City's lack of a detailed implementation plan for the Redevelopment Project may also have contributed to delays in completing the project.</u> The E. 11th and 12th Street Redevelopment Project should have a detailed implementation plan specifying the steps to be taken to achieve the vision provided by the Master Plan and the Urban Renewal Plan. While the Master Plan contains some high-level strategies for implementation and NHCD does maintain individual project tracking documents, we did not find evidence of a step-by-step implementation plan detailing how the vision for the Redevelopment Project would be attained. Therefore, it appears that neither NHCD nor City Manager's Office personnel ensured that an implementation plan was prepared and acted on. Without a description of how the projects fit into the overall project vision, it is difficult to know whether individual projects undertaken are collectively achieving the goals of the Redevelopment Project.

Some Tri-Party members have different understandings of the roles and responsibilities of the redevelopment partners, which may also have contributed to project delays. The success of a multi-party project depends on each party understanding exactly what its role, purpose and goals are related to the goals and objectives of the project as a whole. This enables all parties to work in unison to complete the project. The Tri-Party Agreement outlines the duties of the involved parties in relation to the planning, development, and acquisition and sale of properties, as well as funding for improvements to those properties.

Staff turnover, at both the City and ARA, may have contributed to some of the confusion about roles. ARA's changes over time have included the President/CEO position and various staff members, which may have led to a loss of institutional knowledge of the project itself as well as City processes and relationships. In the past several years, the City has had personnel changes at all levels, from program monitors to the director of NHCD to the City Manager. City Council Members, of course, change regularly. These changes may have resulted in a loss of institutional knowledge as well as changing ideas about the nature of the City's relationship with ARA.

URB members do not share the same understanding of their role in the Redevelopment Project. The Urban Renewal Plan states that a majority vote of the "Board of Commissioners of the URA" may grant waivers to the Redevelopment Project controls until those controls expire on December 31, 2018, clarifying that the URB's role is to serve as the "arbiter" of the URP. Through interviews we found that members of the URB do not all share the same understanding of the URB mission. Some members believe that the URB should be directing the Redevelopment Project with the help of dedicated staff, essentially working as an Urban Renewal Agency (URA), which is not in line with how the City Council set up the Redevelopment Project. Other URB members believe that their mission is to acquire the land in order to eliminate the slum and blight conditions, as well as recommend changes to the URP to the City Council. Differing understandings of the URB's mission may lead to the members of the URB not being able to reach consensus on project decisions and may contribute to delays in getting projects approved and moving forward.

In addition, some members of the URB believe that the ARA should be leading the Redevelopment Project. A review of the Tri-Party Agreement and the Operations Agreement show that while ARA was tasked with many specific projects and requirements that are part of the Redevelopment Project, it was not specifically tasked with leading the overall project. The Tri-Party Agreement outlines the duties of the involved parties in relation to the acquisition and sale of properties and funding for improvements to those properties, but it does not clearly define the roles that the parties will play in the direction and implementation of the URP.

Recommendations:

02. In order to ensure that the goals of the Redevelopment Project as envisioned in the Master Plan and the Urban Renewal Plan are met, the City Manager and NHCD director should ensure that a detailed implementation plan that outlines the steps to be taken is created.

MANAGEMENT RESPONSE: Concur.

Once the three partners establish overall goals, it is the City's responsibility to ensure implementation plan is developed.

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03. In order to ensure that all partners in the Redevelopment Project understand their roles within the Redevelopment Project, the City Manager and the NHCD director should ensure that all contracts and associated agreements are updated to clearly define the roles and responsibilities of each of the partners, especially with regard to providing leadership and development of implementation plans.

MANAGEMENT RESPONSE: Concur.

Once the goals for the next phase of the Redevelopment Project are outlined, then the Triparty and other contractual agreements between the City, the URB, and the ARA will be updated by the Law Department to reflect the new goals and timeline(s).

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04. In order to ensure the success of the Redevelopment Project, the City Manager should appoint a project champion at the Executive or CMO level who is tasked with overseeing the Redevelopment Project implementation plan and ensuring that necessary resources (including those from other City departments) and oversight are provided.

MANAGEMENT RESPONSE: Concur.

Since October 2009, the City Manager has tasked both Assistant City Manager McDonald and Chief of Staff Snipes to provide executive oversight and championing the East 11th and 12th Street efforts. As the next phase of the Redevelopment Project is outlined and finalized, City Manager's Office staff will continue to provide leadership, resources, and oversight of the effort.

While NHCD has effectively monitored expenditures by ARA, NHCD's lack of a project coordinator to guide the Redevelopment Project may have also contributed to delays.

NHCD has appropriately monitored project-related contracts and expenditures, and more clearly defined the deadlines and requirements when ARA did not deliver as specified in contracts. However, NHCD continued to provide operational funding to ARA when ARA did not meet contractual obligations and has not continuously managed the Redevelopment Project as a whole.

NHCD has appropriately monitored project-related contracts and expenditures. Federal guidelines state that recipients are "responsible for ensuring that CDBG funds are used in accordance with all program requirements." Additionally, "the recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise."

HUD monitoring reports of NHCD processes show that they meet federal guidelines. A report on a HUD on-site monitoring review for Davis-Bacon Labor Standards revealed that NHCD's "CDBG personnel" are "inventive and knowledgeable". The report went so far as to state that the "CDBG personnel responsible for compliance of labor standards are to be recognized for

their remarkable ability to 'think outside the box' and come up with best practices and processes."
Additionally, we found that NHCD has done a good job of monitoring payment requests from ARA. Our review of the payment requests from ARA for project-related contracts and agreements showed that NHCD contract monitoring is thorough and objective, and that they have procedures in place to ensure that all costs related to NHCD awards are reasonable.

However, there were no readily available reports detailing the costs of projects for the Redevelopment Project. NHCD staff had to spend additional time compiling reports, which should be a regular part of tracking a large project such as this.

When ARA did not deliver some expected outputs by specified deadlines, NHCD more clearly defined the deliverable requirements and assigned specific deadlines for those deliverables. Contract monitoring of deliverables ensures that a project or agreement is completed on time and on budget. However, we found that ARA's contracts and agreements were amended and extended several times and ARA did not meet some of the deliverable deadlines. Our review of annual monitoring reports of ARA found that NHCD staff identified concerns regarding ARA's internal controls and failure to meet contract deadlines. Through amendments to the Operating Agreement, the City modified the Statement of Work to included specific deadlines and specific requirements for deliverables. NHCD also increased contract monitoring.

While NHCD closely monitored contract deliverables, NHCD also continued to provide operational funding to ARA even though ARA had not met all contract requirements. A contract should have requirements showing what is expected of the contractor, along with penalties for not meeting those requirements. For the majority of the Redevelopment Project, ARA was reimbursed for the full contractual amount for operational expenses, though not all contractual requirements, such as deadlines related to deliverables and reporting, were met. The exceptions were Amendments 6 and 7 of the Operations Agreement, for Fiscal Years 2007 and 2008 respectively, which extended the agreement term and reduced the amount of funding for those years "due to non-performance".

While NHCD has monitored project-related contracts, NHCD has not continuously managed the Redevelopment Project as a whole. Managing a large project such as the East 11th and 12th Street Redevelopment Project requires a project manager responsible for overseeing all of the components of such a project. In addition to lacking a step-by-step implementation plan as previously mentioned, we found that there is not a clear project coordinator tasked with ensuring that the master plan is implemented and related goals are achieved. Instead, monitoring appears to have been performed on an individual contract basis, and there has not been someone responsible for keeping the overall project moving forward. This may be one of the causes of delays and deviations from the Master Plan.

Recommendations:

05. In order to ensure that NHCD properly manages the Redevelopment Project as a whole, the City Manager should ensure that a project coordinator at NHCD is tasked with monitoring and ensuring that the Redevelopment Project implementation plan is properly executed.

MANAGEMENT RESPONSE: Partially Concur [Implemented with Modification].

- In the past, NHCD has maintained one project coordinator to administer and oversee the redevelopment of East 11 and 12th Streets. Given the complexity and enormity of the project, current management incorporated the project in to a department-wide reorganization by function. This divides the workload more evenly among NHCD divisions and ensures for auditing purposes that there are ample checks and balances for decisions. The ultimate accountability lies with the NHCD Director. A detailed explanation of new functional responsibilities follow:
  - In August 2009, NHCD fully implemented a department-wide reorganization to include the East 11-12th Streets Redevelopment Project. Because of the complexity of the project and to ensure accountability, the project is divided between Compliance and Real Estate divisions, with the Director serving in an oversight role to ensure departmental accountability and commitment at the highest departmental level. As other city resources or URB or ARA input is needed, the NHCD Director engages key personnel, and raises to CMO any issues that cannot be resolved.
  - Each development project on the corridor is assigned an individual project manager from the NHCD's Real Estate division to oversee day to day issues. A manager supervises their work. NHCD Compliance Division oversees the contractual and monitoring aspects of the redevelopment effort.
  - The 10 main agreements between City and ARA or its affiliate, Eleven East Corporation and the lead oversight position are:
    1. Triparty Agreement = City Manager's Office/NHCD Director
    2. Operations Subrecipient Agreement = NHCD compliance
    3. Juniper Olive Phase I (renovation & new construction) (completed – NHCD Compliance monitors contract terms)
    4. Juniper Olive Phase II (new construction) (Last home constructed and sold October 2009; NHCD Compliance will begin monitoring terms.)
    5. Juniper Olive Phase III (NHCD Real Estate developing options for completing historic renovations)
    6. Haehnal Grocery/East Room (NHCD compliance)
    7. Predevelopment Loan for Blocks 17-18 (NHCD compliance)
    8. Eleven East Development Loan (NHCD compliance)
    9. Eleven East Deferred Loan (NHCD compliance commercial tenant finish-out)
    10. Eleven East Lease (CLMD-Real Estate oversees NHCD lease of office space)
  - The Contract and Land Management Department-Real Estate Services administers NHCD's lease of office space from Eleven East (#10) and works closely with NHCD Real Estate division to provide appraisal, closing and other appropriate services.
  - Since July 2009, all NHCD (program, finance, compliance, etc.) staff involved in these activities meets every other Friday morning for 60-90 minutes to review status of projects. Law Department staff is also invited. A status report is distributed prior to the meeting for discussion. This collaborative effort allows staff at all levels and in all divisions to understand goals, financing, requirements, timelines and deliverables.

06. In order to ensure that project expenses are tracked properly and to aid the project coordinator in monitoring the Project, the NHCD director should ensure that contract monitoring procedures include detailed accounting reports.

MANAGEMENT RESPONSE: Concur.

- Projects are set up in the NHCD application database and in HUD Integrated Disbursement Information System at the time the application is received.
- Task orders are assigned to staff to track their time associated with the project.
- The current contract review process is being updated to ensure purchasing accountability, contract and systems staff are signing off on contract contents and providing funding information prior to contract execution.
- Project information will be available to program staff through the Controller's Website.
- Conversations have begun between NHCD and Finance to load projects on eCapris in order to track project timelines and costs more easily. Although these project are not Capital Improvement Projects, NHCD projects are similar – multiyear projects, layered funding, construction-related, etc.

Liquidity challenges, reliance on the City for income, and inconsistent financial planning have adversely impacted ARA's long-term viability.

While we attempted to find other organizations comparable to ARA in terms of time in existence, form of business, mission and activities, and annual budget, we did not identify another organization that was similar enough to warrant direct comparison of financial performance. Instead, we analyzed ARA's financial performance on its own merit, evaluating trends and incorporating industry standards and expectations as appropriate. In addition, we conducted this analysis based on ARA's audited financial statements from 1998 to 2008. Consequently, events and actions subsequent to December 31, 2008 are not included in our trend analysis.

In reviewing ARA's financial data for 1998 to 2008, we found that ARA does not have sufficient funds and revenue streams to support its operations and program services in the long term. Although the City expected ARA to be a sustainable and self-reliant organization, supported by funds other than City and federal funds, ARA is still reliant on the City as a source of revenue. Finally, our review of ARA's current five-year financial plan shows that the financial plan is unrealistic. As previously mentioned, delays in project financing may have contributed to ARA's financial condition.

ARA is experiencing liquidity problems and does not have sufficient funds and revenue streams to support its operations and program services in the long term. In our review of ARA's audited financial statements for the years 1998 to 2008 we noted that ARA has not consistently increased its net assets on an annual basis. In addition, ARA is experiencing liquidity problems and is relying heavily upon debt to finance its operations.

<u>ARA has not consistently generated an increase in net assets</u>. While non-profits are not profit oriented, they should still focus on increasing their net assets, to create enough funds from operations to allow them to replace fixed assets as they wear out, purchase new fixed assets as

revenues grow, service debt, and provide for the needs associated with growth. Net assets equals total assets less total liabilities and is the measure for the net worth (fund balance) of an entity. The change in net assets for any particular period is calculated by subtracting total expenses from total revenues. This calculation takes into account non-cash expenses such as depreciation and amortization.

EXHIBIT 7
ARA Change in Net Assets, 1998 to 2008

CY	1998	1999	2000	2001 [a]	2002 [a]	2003	2004	2005	2006	2007	2008
Change in Net Assets	$284,228	($57,607)	$8,613	$421,862	$99,792	($151,174)	$1,183,594	($356,904)	($355,448)	($246,363)	($262,792)

SOURCE: OCA analysis of ARA Consolidated Audited Financial Statements
Note [a]: 2001 and 2002 figures include prior period adjustments of $330,000 and $835,869 made in 2002 and 2003 respectively.

Exhibit 7 above shows ARA's change in net assets trend from 1998 to 2008 and reflects that ARA has not consistently increased their net assets on an annual basis. In fact, ARA has sustained an average loss of $305,377 each year since 2005.

ARA's liquidity is steadily decreasing. Liquidity is the ability of an entity to pay current debts as they become due or how fast the entity can turn their assets into cash. Current assets are those assets to be converted to cash within one year or within the normal operating cycle of an entity, whichever is greater, whereas, current liabilities are debts due within one year. The current ratio (current assets/current liabilities) is a measure of an entity's solvency or liquidity. The ratio indicates how many times an entity's current assets exceed or fall short of their current liabilities. Thus, the current ratio measures an entity's ability to meet their short term obligations using only their current assets.

In the for-profit and government sectors, a ratio of 2:1 is desirable; however, a ratio of 1.2:1 is a more appropriate goal for a non-profit entity. A ratio of less than 1.0 indicates that the entity does not have sufficient current assets to meet current payment obligations. Entities with a ratio of less than 1.0 must rely on other sources, including but not limited to borrowing money to meet their current debt obligations.

We found that from 2000 through 2008, ARA's current ratio has consistently been less than 1.0. In addition, ARA's current ratio has been steadily decreasing in the past four years from .41:1 in 2005 to .21:1 in 2008. Exhibit 8 below shows ARA's current ratio trend from 2000 to 2008.

EXHIBIT 8
ARA Current Ratio trend for the period from 2000 to 2008

Calendar Year	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Current Ratio	0.12	0.12	0.19	0.57	0.39	0.41	0.86	0.53	0.21

SOURCE: OCA analysis of ARA Consolidated Audited Financial Statements
* At the end of 2008, ARA had completed but not closed on four Juniper-Olive houses, which were classified as Construction In Progress. If ARA had classified these as Inventory, the ratio for 2008 would have been higher.

This trend suggests that ARA's ability to meet its current debt obligations is steadily decreasing. This situation becomes more significant over the next four fiscal years due to ARA's increased debt obligations for each year and the culmination of the Operations Agreement, under which the City has provided ARA with funds for operations since 1996. The last of these funds are to be provided to ARA during the recently negotiated 6-month extension to the Operations Agreement.

As of December 31, 2008 ARA had three lines of credit. One line of credit for $468,405 matured on November 30, 2008 and another line of credit for $463,502 matured on January 31, 2009. ARA sold three houses subsequent to December 31, 2008. The proceeds from the home sales were used to payoff one line of credit and reduce the remaining balance of the other line of credit to $268,645. The third line of credit expired on March 30, 2009, after which it was renewed at $95,000.

Additionally, we noted that ARA has not paid all of the property taxes it owes for the Eleven East building at 1000 E 11th Street. In April 2009, it owed $136,236 (including penalty). It has been making regular payments: as of June 2, it owed only $103,151, and as of September 8, it owed only $51,018.

ARA is relying heavily upon debt to finance its operations. The debt-to-net asset ratio is a measure of an organization's financial leverage. It indicates an entity's reliance upon debt to finance their operations. A ratio above 5:1 is a cause for concern for a community development corporation. Exhibit 9 below shows ARA's debt to net assets ratio trend from 1998 to 2008.

EXHIBIT 9
ARA Debt-to-Net Assets Ratio trend for the period from 1998 to 2008

Calendar Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt-to-Net Assets	0 : 1	0 : 1	1 : 1	2 : 1	4: 1	14 : 1	9 : 1	10 : 1	14 : 1	18 : 1	27 : 1

SOURCE: OCA analysis of ARA Consolidated Audited Financial Statements

Our analysis shows that ARA's debt-to-net assets ratio for 2008 was 27:1. A forgivable loan of $2,230,077 is included in the 2008 calculation. Provided that ARA satisfies the loan requirements and the debt is forgiven, the debt-to-net assets ratio would be reduced to 23:1. This high ratio suggests that ARA is relying heavily upon debt or City of Austin subsidies to finance its operations. Furthermore, ARA's debt-to-net assets ratio steadily increased between 2004 and 2008, which indicates that ARA has steadily increased its reliance upon debt over the past four years. This high debt-to-net asset ratio is also an indication that ARA is over-leveraged.

ARA's long-term assets, though income-producing, are not available for quick liquidation to meet its current debt obligations on an annual basis. At December 31, 2008 ARA's long-term assets primarily consisted of property, plant, and equipment; construction in progress; and property held for development valued at $11,805,472, $1,412,477, and $219,038 respectively. Collectively these long-term assets are valued at a historical cost of $13,436,987. This long-term asset value less the long-term notes payable and lines of credit amount of $13,399,218 results in a net value of $37,769. Historical cost reflects what was actually paid to acquire the assets and may not be a reflection of market value. Market value may be more or less than historical cost; however, market value is predicated on supply and demand as well as economic growth cycles.

Although these assets may be worth more than their historic cost, these assets will not be available to satisfy short-term cash flow requirements given the amount of time necessary to convert these assets into cash. In addition, the largest of these assets, property, plant, and equipment, supports ARA's rental income, which is its main source of revenue. If these assets were converted to cash, ARA's need to identify additional sources of revenue would dramatically increase.

Additionally, ARA has long-term debt obligations for the period from 2009 through 2012 requiring payments totaling over $5.5 million. The majority of this amount is due in December 2012 in an amount exceeding $4.9 million. ARA management plans to refinance this amount and indicates that refinancing in this way is a standard practice in commercial development; however, there is no guarantee that refinancing will be available when the amount becomes due. As a result, ARA may have to meet the debt obligation using their assets or other means.

Although the City expected ARA to be a sustainable and self-reliant organization, supported by funds other than City and federal funds, ARA is still heavily reliant on the City's rental revenue. When entering into the Operations Agreement with ARA, the City expected ARA to be a sustainable and self-reliant organization, supported by funds other than City and federal funds. In reviewing ARA revenue source trends from 1998 to 2008, we noted that although ARA is less reliant on grant/support contracts from the City, it is still heavily reliant on the City as a source of ARA rental revenue.

Beginning in 2005 ARA shifted from being reliant on grant support/contracts (primarily from the City) and contributions/public support to being more reliant on rental income. As shown in Exhibit 10 below, rental income accounted for 63% of ARA's total revenue in 2005, and 83% of ARA's total revenue in 2008.

EXHIBIT 10
Major Sources of ARA Revenue for the Years 2005 to 2008

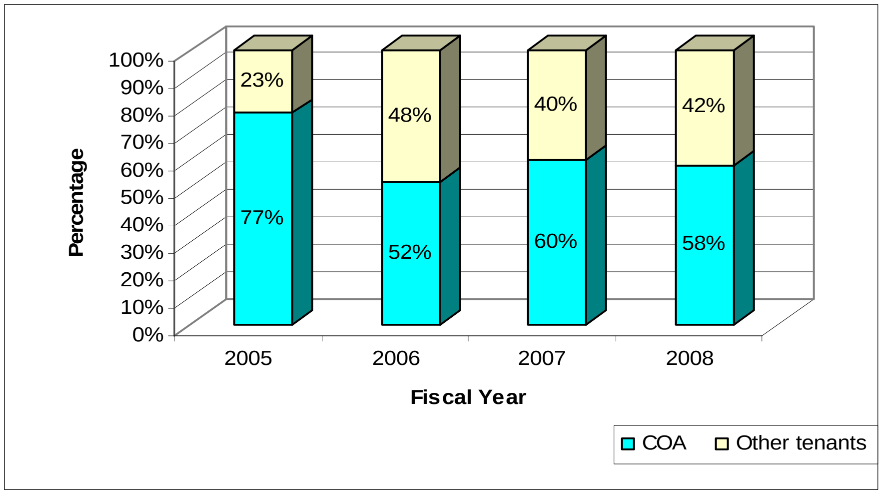
Calendar Year	2005		2006		2007		2008	
Revenue Source	**Amount**	**% of Total Revenue**	**Amount**	**% of Total Revenue**	**Amount**	**% of Total Revenue**	**Amount**	**% of Total Revenue**
Rental Income	$ 943,826	63.0%	$ 1,326,089	60.7%	$ 1,423,691	70.7%	$ 1,539,826	83.1%
Grant Support/Contracts	$ 492,485	32.9%	$ 325,256	14.9%	$ 472,757	23.5%	$ 246,926	13.3%
Contributions/Public Support	$ 2,089	0.1%	$ 324,689	14.9%	$ 15,039	0.7%	$ -	0.0%
Project Management Fee	$ 24,506	1.6%	$ 131,851	6.0%	$ 82,000	4.1%	$ -	0.0%
Miscellaneous Revenue/Other Income	$ 22,600	1.5%	$ 72,168	3.3%	$ 20,330	1.0%	$ 63,425	3.4%
In-Kind Contributions	$ 12,772	0.9%	$ 3,250	0.1%	$ -	0.0%	$ 1,818	0.1%
Total Revenue	$ 1,498,278	100.0%	$ 2,183,303	100.0%	$ 2,013,817	100.0%	$ 1,851,995	100.0%

SOURCE: OCA analysis of ARA Consolidated Audited Financial Statements

ARA receives almost half of its total revenue from the City's lease agreement for office space in the Street-Jones building. From 2005 through 2008, the City lease agreement represented an average of 62% of ARA's annual base rental revenue and an average of 43% of ARA's annual total revenues. Exhibit 11 below compares base rental revenue paid to ARA by the City to the base rental revenue paid by other tenants for 2005 to 2008. The City currently has a ten-year lease that expires in 2014. As of October 2009, the City occupies 79% of rented office space in the Street-Jones building which represents 55% of rented office space in Eleven East as a whole.

The portion of revenue from the City is higher than the City's portion of rented space because ARA has made lower rates available to small and minority businesses that occupy the building.

EXHIBIT 11
ARA Base Rental Revenue from the COA Lease Agreement Compared to Other Tenants' Base Rental for 2005 through 2008



SOURCE: OCA analysis of ARA Consolidated Audited Financial Statements

Ineffective financial planning and misstated information in the financial statements may have contributed to ARA's financial condition. Our review of ARA's current five-year financial plan shows that the financial plan has not been approved and has not been updated to reflect actual conditions. A financial plan should be updated on at least an annual basis in order for an entity to be able to adjust its operations to the changing environment. As requested by the City, ARA developed a five-year plan for the period 2008 to 2012. However, this plan has not been approved by the ARA board and a comparison of the 2008 figures presented in the plan to the actual 2008 audited financial statements revealed several issues. First, the financial plan suggested that ARA would have more than $1.6 million more in cash than it actually did at the end of 2008. In addition, the financial plan presented more than $10 million more in Construction in Progress assets than ARA maintained at the end of 2008. The variance between the projected and actual amounts of these accounts demonstrates that ARA's financial planning has been ineffective. We also noted that ARA management has not periodically reviewed and updated the financial plan to ensure that it reflects its actual financial performance.

In addition, in the early 2000s, ARA had two prior period adjustments that lowered its net assets by over $1 million. Prior period adjustments are revisions resulting from misstatements or errors on prior year financial statements. A prior period adjustment should have no effect on the current year. In 2002 a prior period adjustment of $330,000 that reduced net assets was recorded because a note payable was inappropriately recorded as grant revenue. In 2003 a prior period adjustment reducing net assets by $835,869 was recorded that was primarily related to revenues that should have been reported as a liability. Prior period adjustments may be indicative of a misrepresentation or lack of oversight of ARA's financial position by ARA management. As mentioned previously, ARA has not had accurate financial projections. Inaccurate financial projections combined with misstated financial statements could have portrayed an inaccurate financial condition to ARA management and external stakeholders.

The City has taken precautionary measures to protect its investment in the redevelopment area. ARA's financial condition and the City's subordination agreement appear to jeopardize the City's investment in the redevelopment corridor; however, the City has safeguards in place that mitigate this risk. Specifically, if ARA defaults on the Eleven East loans, the City has the option to assume the remaining debt and take ownership of the corresponding property. Exhibit 12 shows ARA's outstanding loans.

EXHIBIT 12
List of ARA's Outstanding Loans

Lender	Amount	Purpose
ESIC (Chase)	$5,300,835	Refinanced construction of Eleven East Building
ESIC (Chase)	$2,230,077	Refinance Eleven East Building for New Market Tax Credit
City of Austin	$4,387,242	Construction of Eleven East Building
City of Austin	$293,175	Construction of Eleven East Building
Chase Bank	$155,982	Purchase of Haehnel Building
Chase Bank	$468,405	Line of Credit – Juniper Olive Homes
Chase Bank	$463,502	Line of Credit – Juniper Olive Homes
Wells Fargo Bank	$100,000	Line of Credit – Operating
City of Austin	$132,000	Outstanding Balance on Eleven East Predevelopment Activities
TOTAL	$13,531,218	

SOURCE: OCA Compilation of 12/31/08 ARA Financial Statements

Recommendations:

07. In order to further protect the City's investment in the Redevelopment Area and its current financial resources, the City Manager should evaluate redevelopment options and associated financial risks prior to entering into new contractual agreements for the Redevelopment Project.

MANAGEMENT RESPONSE: Concur.

- Evaluation criteria for projects proposed on URB land and with City financing includes ensuring a successful applicant has the experience, capacity and financial strength to complete a project.
- In areas beyond single-family construction, where the City has extensive experience, real estate finance consultants are hired for an independent review of the finalists' strength.

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08. In the event that the City decides to continue the relationship with ARA, in order to ensure that ARA management has the financial capacity to meet its future debt obligations and support program services in the long term, the City Manager should request that ARA management develop a realistic comprehensive plan that details how ARA management will meet its financial obligations, finance future planned developments, and generate additional income.

MANAGEMENT RESPONSE: Concur.

- On February 12, 2009, CMO staff and the NHCD Director briefed City Council on findings of the operational assessment of ARA conducted at the City Manager's request.
- One proposed recommendation was to secure temporary staff and/or consultants to assist ARA in creating a five-year business plan.
- This recommendation has been delayed until Office of City Auditor's report was released.

While responsible parties have taken steps to include the community in redevelopment efforts, ARA's financial condition and need to pursue viable projects, combined with delays and market conditions, have resulted in community dissatisfaction with some proposed development and with slow progress in the Redevelopment Area.

While the City and ARA have taken steps to include community members in the Redevelopment Project, ARA has proposed some development that does not satisfy some area residents. In addition, delays have resulted in some community dissatisfaction. These have resulted in tension between neighborhood groups and ARA.

The City and ARA have taken steps intended to include surrounding neighborhoods in decisions made as part of the Redevelopment Project. Development should reflect community input, and as previously mentioned, the City and ARA have taken several steps intended to include surrounding neighborhoods in decisions made as part of the Redevelopment Project. Early in the Redevelopment Project, ARA's board of directors was expanded to include positions for representatives of each of the surrounding neighborhoods, as well as providing a forum for both the neighborhood groups and individual homeowners to provide input at several stages within the process. In addition, the process for updating the URP involves ARA soliciting community feedback, then seeking recommendations from the URB and the Planning Commission, followed by a vote from City Council. At each step in the process, residents and community organizations have the opportunity to raise concerns or offer support. However, none of the three voting bodies is required to vote in accordance with neighborhood preferences. Additionally, different neighborhood groups have different priorities for revitalization, such as increased commercial property values as opposed to affordable housing.

ARA has proposed some development that does not satisfy area residents, and delays have further contributed to resident dissatisfaction. According to the Central East Austin Master Plan, "At all times, publicly assisted redevelopment will follow community-based priorities and will seek to maximize financial participation of existing property owners, residents and tenants." However, many area residents feel that ARA's work does not reflect community input and desires. In addition, delays have resulted in little development available to evaluate in terms of reflecting community input and desires.

As previously mentioned, the construction of Eleven East provided primarily office space with some retail space. Residents have indicated that office space, especially large scale office space, is not desirable because offices are empty in the evenings and on weekends which may increase security concerns and does not add to the customer base for area businesses. In addition, because the majority of the office space in one of the buildings is leased by NHCD, the office building did not generate significant employment opportunities for neighborhood residents.

As another example, in 2008, ARA proposed changes to the URP for Block 18, with the intention of developing mixed-use buildings on that block. Community groups, including nearby neighborhood associations and the East End Merchant's Association, strongly opposed both the proposed changes and the intended development. Their concern was that the resulting buildings would be too tall and dense to be compatible with current development and would have too much office space and not enough affordable housing.

ARA representatives have stated that development compatible with some community desires would not be financially feasible. According to those representatives, 2008 market conditions, including construction costs and prior residential development, meant that only densely-built office space, rather than residential or low-rise office space, would yield sufficient revenue.

The City's expectations that ARA should become a sustainable and self-reliant organization, supported by sources other than City and federal funds, is apparent in both the 1996 and 2004 Operations Agreements. In those agreements, the City required ARA to present a plan that would detail how ARA would become a self-reliant organization. However, as described above, ARA has been unable to attain financial self sufficiency and is in need of additional funding or revenue streams. Because the City did not intend to fund ARA operations in the long term, ARA focused on pursuing development that would support its operations as well as additional program services. Given market conditions for development in East Austin over the last several years, ARA indicated that it needed to pursue specific types of development, such as development of large-scale office space, in order to generate sufficient revenue to cover costs and facilitate additional development.

Though the City Council did not approve the proposed URP changes to Block 18, the conflict resulted in increased resident dissatisfaction with ARA and the redevelopment process. It also raised questions about the feasibility of the expectations that ARA be both financially self-sufficient and responsive to the needs of the community.

Delays in completing redevelopment projects, as previously described, also contribute to community dissatisfaction. Many property owners on 12th Street have expressed frustration with the delays in developing 12th Street and the perception that resources have been inequitably distributed between 11th and 12th Streets. In addition, delays in construction of Juniper-Olive houses led to potential buyers dropping out of the process and meant that the remaining buyers had to wait much longer before acquiring their houses. ARA has acknowledged that delays have reduced customer confidence in ARA and its ability to carry out its mission.

In addition, dissatisfaction with various aspects of the Redevelopment Project has created tension between ARA and surrounding neighborhood groups. Neighborhood groups also have differing priorities for the corridor. For example, some groups are focused on job creation and others are focused on the type of development (e.g. mixed used). Differing goals and ARA's focus on development that contributes to their self-sufficiency have resulted in community dissatisfaction. Also, we found that several surrounding neighborhood groups have stopped serving on ARA's board of directors, and instead have sought other methods of providing input. Finally, the URB is currently made up of several members from one neighborhood, while other surrounding neighborhoods do not have representatives on the URB. Representation on the URB but not the

ARA board results in tension between those URB members and the ARA which is sometimes apparent in conversations between the parties at monthly meetings.

Recommendation:

09. In order to ensure that all parties are meeting the goal of providing individual redevelopment projects that are acceptable to the citizens most affected, the City Manager and the NHCD director should clarify or modify expectations for ARA's self-sufficiency.

MANAGEMENT RESPONSE: Concur.

- Discussions with ARA, URB and COA officials to clarify and potentially modify the goals and roles and responsibilities of all parties will help to determine projects to be undertaken by ARA.
- This information combined with ARA's five-year business plans will help to determine the organization's revenue outlook.
- The City can then modify the timeline for self-sufficiency.

APPENDIX A

MANAGEMENT RESPONSE

MEMORANDUM

To: Corrie Stokes, Acting City Auditor

From: Anthony J. Snipes, Chief of Staff AJS

Date: November 2, 2009

Subject: Response to Audit Recommendations

I have reviewed and approved the Neighborhood Housing and Community Development's response to the audit recommendations in OCA's draft report titled "E. 11th & 12th Street Redevelopment Project" (AU09103). Attached is the Department's response to the audit recommendations.

cc: Margaret Shaw, Director, Neighborhood Housing and Community Development

MEMORANDUM

To:	Corrie Stokes, Acting City Auditor
From:	Margaret R. Shaw, Director Neighborhood Housing & Community Development Office
Date:	November 2, 2009
Subject:	Response to Audit Recommendations

I have reviewed and approved the Neighborhood Housing and Community Development's response to the audit recommendations in the Office of the City Auditor's draft report titled "East 11th & 12th Street Redevelopment Project" (AU09103). Attached is the Department's response to the audit recommendations.

cc: Anthony J. Snipes, Chief of Staff

ACTION PLAN
E 11th & 12th Street Revitalization Project Audit

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person	Proposed Implementation Date
01	In order to ensure that the Redevelopment Project is successful as envisioned in the Master Plan, the City Manager and NHCD director should re-vision the Redevelopment Project, incorporate input from recent plan amendments, and determine the individual steps required to fully implement the Master Plan.	Concur	The Master Plan was not developed by the City alone and therefore cannot be updated and re-envisioned without input from the URB, ARA, and community stakeholders. ▪ Chief of Staff Snipes in recent months has initiated facilitation discussions with Board Chairs and Vice Chairs of ARA and URB with representatives from the City Manager's Office and NHCD to discuss collaboration and more coordinated efforts for the 11th and 12th Street corridors. ▪ These discussions should outline the amendments to the TriParty Agreement, which expires October 1, 2010 with an option for two one-year extensions to 2012. ▪ After the three partners agree on the goals and roles and responsibilities going forward, the City can facilitate a meeting with community stakeholders in East 11th and 12th Street corridors for their input on next steps. ▪ Based on recent meetings, each entity has discussed the possibility of having a standing agenda item at their board meetings to discuss work plans and projects.	Under discussion	Anthony Snipes, Chief of Staff	February 2010

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person	Proposed Implementation Date
02	In order to ensure that the goals of the Redevelopment Project as envisioned in the Master Plan and the Urban Renewal Plan are met, the City Manager and NHCD director should ensure that a detailed implementation plan that outlines the steps to be taken is created.	Concur	Once the three partners establish overall goals, it is the City's responsibility to ensure implementation plan is developed.	Pending discussion and consensus from key stakeholders	Margaret Shaw, NHCD Director	April 2010
03	In order to ensure that all partners in the Redevelopment Project understand their roles within the Redevelopment Project, the City Manager and the NHCD director should ensure that all contracts and associated agreements are updated to clearly define the roles and responsibilities of each of the partners, especially with regard to providing leadership and development of implementation plans.	Concur	Once the goals for the next phase of the Redevelopment Project are outlined, then the Triparty and other contractual agreements between the City, the URB, and the ARA will be updated by the Law Department to reflect the new goals and timeline(s).	Pending discussion and consensus from key stakeholders	Margaret Shaw, NHCD Director	August 2010

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person	Proposed Implementation Date
04	In order to ensure the success of the Redevelopment Project, the City Manager should appoint a project "champion" at the Executive or CMO level who is tasked with overseeing the Redevelopment Project implementation plan and ensuring that necessary resources (including those from other City departments) and oversight are provided.	Concur	Since October 2009, the City Manager has tasked both Assistant City Manager McDonald and Chief of Staff Snipes to provide executive oversight and championing the East 11th and 12th Street efforts. As the next phase of the Redevelopment Project is outlined and finalized, City Manager's Office staff will continue to provide leadership, resources, and oversight of the effort.	Underway	Anthony Snipes, Chief of Staff	Ongoing efforts will continue; timeframe for other efforts TBD based on Council action.
05	In order to ensure that NHCD properly manages the Redevelopment Project as a whole, the City Manager should ensure that a project coordinator at NHCD is tasked with monitoring and ensuring that the Redevelopment Project implementation plan is properly executed.	Partially concur (implemented with modification)	In the past, NHCD has maintained one project coordinator to administer and oversee the redevelopment of East 11 and 12th Streets. Given the complexity and enormity of the project, current management incorporated the project in to a department-wide reorganization by function. This divides the workload more evenly among NHCD divisions and ensures for auditing purposes that there are ample checks and balances for decisions. The ultimate accountability lies with the NHCD Director. *For a list of new functional responsibilities and the full text of response to this recommendation, see p.25 of audit report.*	Underway	Margaret Shaw, NHCD Director Lauraine Rizer CLMD	July 2009

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person	Proposed Implementation Date
06	In order to ensure that project expenses are tracked properly, and to aid the project coordinator in monitoring the Project, the NHCD director should ensure that contract monitoring procedures include detailed accounting reports.	Concur	▪ Projects are set up in the NHCD application database and in HUD Integrated Disbursement Information System at the time the application is received. ▪ Task orders are assigned to staff to track their time associated with the project. ▪ The current contract review process is being updated to ensure purchasing accountability, contract and systems staff are signing off on contract contents and providing funding information prior to contract execution. ▪ Project information will be available to program staff through the Controller's Website. ▪ Conversations have begun between NHCD and Finance to load projects on eCapris in order to track project timelines and costs more easily. Although these project are not Capital Improvement Projects, NHCD projects are similar – multiyear projects, layered funding, construction-related, etc.	Partially implemented	Margaret Shaw, NHCD Director	January 2010

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person	Proposed Implementation Date
07	In order to further protect the City's investment in the Redevelopment Area, the City Manager should evaluate redevelopment options and associated financial risks prior to entering into new contractual agreements for the Redevelopment Project.	Concur	▪ Evaluation criteria for projects proposed on URB land and with City financing includes ensuring a successful applicant has the experience, capacity and financial strength to complete a project. ▪ In areas beyond single-family construction, where the City has extensive experience, real estate finance consultants are hired for an independent review of the finalists' strength.	Underway	Margaret Shaw, NHCD Director	June 2009 (solicitation for Block 16)
08	In the event that the City decides to continue the relationship with ARA, in order to ensure that ARA management has the financial capacity to meet their future financial debt obligations and support program services in the long term, the City Manager should request that ARA management develop a realistic comprehensive plan that should, at a minimum, detail how ARA management will meet their financial obligations, finance their future planned developments, and generate additional income.	Concur	▪ On February 12, 2009, CMO staff and the NHCD Director briefed City Council on findings of the operational assessment of ARA conducted at the City Manager's request. ▪ One proposed recommendation was to secure temporary staff and/or consultants to assist ARA in creating a five-year business plan. ▪ This recommendation has been delayed until Office of City Auditor's report was released.	On hold until OCA report released	Anthony Snipes, Chief of Staff; Margaret Shaw, NHCD Director	TBD

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person	Proposed Implementation Date
09	In order to ensure that all parties are meeting the goal of providing individual redevelopment projects that are acceptable to the citizens most affected, the City Manager and the NHCD director should clarify or modify expectations for ARA's self-sufficiency.	Concur	▪ Discussions with ARA, URB and COA officials to clarify and potentially modify the goals and roles and responsibilities of all parties will help to determine projects to be undertaken by ARA. ▪ This information combined with ARA's five-year business plans will help to determine the organization's revenue outlook. ▪ The City can then modify the timeline for self-sufficiency.	Pending discussion with key stakeholders and receipt of ARA's five-year business plan	Anthony Snipes, Chief of Staff; Margaret Shaw, NHCD Director	June 2010

APPENDIX B

LETTER FROM
AUSTIN REVITALIZATION AUTHORITY (ARA)

Austin Revitalization Authority
RESPECT. RESTORE. REVITALIZE.
Dr. Charles E. Urdy, Ph. D. – ARA Board Chair | Gregory L. Smith - Interim President

November 3, 2009

Austin City Council
Audit and Finance Committee
301 West 2nd Street
Austin, TX 78701

Re: East 11th and 12th Street Redevelopment Project Audit

Dear Committee Chair Cole and Members of the Audit and Finance Committee:

We have reviewed the East 11th and 12th Street Redevelopment Project Audit that will be presented to the Committee and would like to share our perspective on some of the issues raised therein. We agree with several of the conclusions/recommendations identified in the audit, particularly:

i. We concur with the audit's assessment that, "redevelopment in the project area has significantly improved the overall conditions in the project area."

ii. We agree that to ensure the success of the Redevelopment Project, the City Manager should appoint a project champion at the Executive or CMO level who is tasked with overseeing the Redevelopment Project implementation plan.

iii. We agree that a clarification of the roles and responsibilities of each of the partners in the Tri-Party Agreement is required. In order for financial planning and development to proceed this must take place.

However, there are several points that we disagree with, feel need more context, or that lack emphasis. Attached you will find two addenda regarding: a) ARA's planning and revitalization activities, project development and delays, and the impact of those delays, and b) ARA's financial status today. We believe that this information illustrates:

i. The development of and all amendments to the Central East Austin Master Plan and the East 11th and 12th Street Community Redevelopment Plan/ Urban Renewal Plan (CRP/ URP) were made after a process of reaching community consensus. The community approved amendments needed to build ARA's Eleven East mixed-use buildings, those that were meant to encourage development on 12th Street, and other amendments requested for specific projects.

ii. ARA, the Neighborhood Housing and Community Development Office (NHCD), the Urban Renewal Agency (URA), and Chase Bank worked together to develop a plan to complete the development of five projects on East 11th Street as a package, working through them roughly in sequence: 1) the Haehnel Building, 2) 11th Street Infrastructure Improvements, 3) Eleven East, 4) Live/Work Lofts, and 5) Juniper-Olive Affordable Homes.

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iii. The partnership successfully completed the first three of those five projects.

   a. The Haehnel Building- rehabilitation of an abandoned building as 4,400sf of office space, completed 2001- $849,000

   b. East 11th Street Infrastructure Improvements– upgrade of water infrastructure (financed by Chase), burial of overhead utilities and award-winning streetscape improvements, completed 2003- $3.9 million

   c. Eleven East Mixed-Use Buildings– 57,000sf of retail and office space with a two-story parking structure, completed 2004-05- $12.4 million.

iv. Delays outside ARA's control are mentioned in several areas of the audit as a factor that "may have" impacted ARA's ability to complete projects and our current financial status. The fact is that these delays, which began in conjunction with NHCD personnel change in 2005, have played a major part in projects remaining unfinished and in our current financial status, as well as a host of other issues, and should be examined carefully.

   a. Live/Work Lofts– 24 units (on blocks 17 and 18) designed to provide a transition between Eleven East and the adjacent neighborhood. Construction documents were complete in 2002. Chase was prepared to move forward with financing as construction of Eleven East was coming to a close in 2004. The land was not transferred by NHCD. As a result ARA incurred $500,000 in predevelopment costs and has foregone $1,380,000 in fees.

   b. Juniper-Olive Affordable Homes– three-phase project including the rehabilitation of eleven historic homes and construction of eight new homes for affordable housing. Grant funds were approved by Council for the project were approved in August 2002 (though not provided at that time) and construction documents for the first houses were completed in 2003. NHCD transferred some land in 2005-06 and some in 2008-09; twelve houses have been completed to date. Delays in transferring land and that the third phase was not constructed have resulted in ARA incurring $1.3 million in costs and forgoing $940,000 in fees.

v. ARA has experienced substantial financial damage from the failure of the City to transfer land for the planned projects and provide support that would have allowed for timely completion of the same.

   a. ARA has carried the debt for the project cost of predevelopment. Two Lines of Credit were secured with J P Morgan Chase to provide the necessary funding. As time has passed the interest costs have become an expense that ARA has been required to shoulder.

   b. In planning for the completion of these projects, ARA projected some revenues which have not materialized. The forgone revenue and complications in the tri-party relationship have prevented planning for and pursuing any new projects.

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vi. Even while experiencing financial damage, ARA has managed to:
   a. Reduce operating expense through reduction of staff to the level presently needed and obtaining new agreements for office overhead expenses.
   b. Pay down debt – reducing the short term Lines of Credit from $1,031,907 at 12/31/08 to $359,937.32 at 11/01/09. Within the next month ARA expects to pay an additional $69,500 to further reduce the two remaining Lines of Credit. Accounts Payable has also be reduced from $467,841 at 12/31/08 to $355,523 at 11/01/09.
   c. Maintain a break-even position with the management of cash flows.
   d. Receive unqualified opinions in its financial Audits each year which report in the statement of cash flows that the organization is at breakeven cash flow notwithstanding the unexpected financial burden placed on the organization.

vii. ARA can once again play a pivotal role in the revitalization of East 11th and 12th Streets, however, that will require a thorough review of the roles and responsibilities of each project partner in the Tri-Party relationship. This must include a review of the land transfer process as well as the construction of a mechanism to ensure each party performs in a timely manner to meet agreed upon project deadlines that will ensure successful completion.

We appreciate the work of the Office of the City Auditor in examining the revitalization efforts over this past year. We appreciate your time and efforts in considering these matters and hope that they will lead to renewed progress in revitalizing the East End. Should you have any questions or need additional information please contact Gregory L. Smith, ARA's Interim President, at (512) 773-4694.

Sincerely,

Dr. Charles E. Urdy
Board Chair

Attachments: Addendum I: Planning and Revitalization Activities, Project Development, and Impact of Delays
Addendum II: Financial Information

ADDENDUM I

PLANNING AND REVITALIZATION ACTIVITIES,
PROJECT DEVELOPMENT AND
IMPACT OF DELAYS

Austin Revitalization Authority
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Planning and Revitalization Activities

The Subrecipient Agreement is the mechanism by which the City has provided funding to ARA to undertake a variety of measures to encourage revitalization on East 11th and 12th Streets. The agreement, which has provided $3.2 million in funding over 13 years, reimburses ARA for staff time spent on contract performance measures, a portion of operational costs, and some direct costs associated with revitalization efforts.

Under this agreement ARA has carried out clean and green activities; provided development assistance to property owners, non-profit organizations, and private entities interested in developing in the area; provided technical assistance to micro-enterprises (52 businesses in the past five years); carried out market studies of the area; and branded the area as the East End. Most importantly the Subrecipient Agreement funded efforts needed to develop the Central East Austin Master Plan (CEAMP) and the East 11th and 12th Streets Community Redevelopment Plan (CRP) (which was later adopted as the East 11th and 12th Streets Urban Renewal Plan (URP)).

Development and Management of the Central East Austin Master Plan (CEAMP) and the East 11th and 12th Streets Community Redevelopment Plan (CRP):
The CEAMP and CRP/URP were the result of a three-year planning process that included extensive public input. The documents were adopted by City Council in 1999. The CRP/URP is a living document and since its adoption ARA has been responsible for managing the process to amend the CRP/URP, which has been funded through the Subrecipient Agreement. This process has included holding series of community meetings to discuss ideas and come to a consensus on desired changes. Additionally, ARA facilitated the development of the 12th Street Neighborhood Conservation and Combining District (NCCD) in order to align that corridor's zoning and the CRP/URP. The CRP/URP was amended in 2001, 2003, 2005, and 2008; changes have occurred largely as a result of community consensus to: a) accommodate a specific development project, b) loosen CRP/URP restrictions in order to encourage development, and/or c) reflect the community's changing vision of the kind of development it would like to see on the streets. Some examples:

a) To accommodate a specific project:

Block 17 Eleven East (ARA project)- changes were needed to allow for more commercial space, greater density, more parking, and residential uses (live/work lofts)

Block 19 East Village (private developer) – changes were needed to allow residential units, decrease the amount of commercial space required, and accommodate parking needs

b) To encourage development:

East 12th Street– stakeholders increased height limits, removed FAR requirements, and eliminated certain compatibility requirements for many properties along the street (these measures also fit with a changing vision for the street)

Block 16– controls related to commercial and residential spaces were deleted and the FAR was increased to allow more flexibility for potential developers

c) To reflect the community's changing vision

East 12th Street– changes allow for a mix of uses on many properties that originally had a specific, single use

Project Development

In order to implement the recently approved Urban Renewal Plan (URP), the City of Austin, the Urban Renewal Agency, and ARA entered into the Acquisition, Development and Loan Agreement (known as the Tri-Party agreement). The agreement, which was originally signed in 1999 and was amended and restated in 2007, laid out basic development roles for each of the entities. The City of Austin was to provide funding to the URB for the purchase of land, provide low-interest loan funds to assist in development of the area, and work with other City departments to bring together resources available to support revitalization efforts. The Urban Renewal Board was to use City funds to acquire and hold land, evaluate ARA proposals for development of URA land and if approved transfer land to ARA, and make recommendations to City Council regarding proposed changes to the URP. ARA was to provide development expertise, utilize the City's low interest loan funds to build 40,000 sf of commercial space, leverage private resources as possible, and propose changes to the URP as needed.

Partnership with Chase Bank

In order to secure private financing to augment the public funds designated for the East 11th and 12th Street corridors, ARA approached several banks about providing financing to the revitliazation area projects. Of those Chase Bank made a commitment to provide financing for several of the projects planned for 11th Street bundled together as one package. In order to minimize risk, funds were to be loaned roughly on a rolling basis- as one project was being completed funds would be loaned to the next project. The project sequence was: 1) rehabilitation of the Haehnel Building, 2) interim financing for water improvements portion of the East 11th Street infrastructure improvement project, 3) the Eleven East buildings on Blocks 17 and 18, 4) live/work lofts on Juniper Street, and 5) the Juniper-Olive affordable houses.

6

The Haehnel Building

In 1999 ARA began design work on its first bricks-and-mortar project the rehabilitation of the historic Haehnel Building. The $849K project was funded with a grant from NHCD, financing from Chase Bank, and a grant from the Austin Convention and Visitors Bureau. The project turned an abandoned building into 4,400 square feet of office space and was completed in 2001. Debt related to this project will be extinguished in 2011.

Before and After– Haehnel Building

East 11th Street Infrastructure Improvements

ARA worked with Capital Metro to secure a $1.25 million federal grant for streetscape improvements on East 11th Street and signed on as the project manager in 1999. ARA approached the Austin Water Utility about proceeding with improvements known to be needed on the street and worked with Austin Energy to fund the burial of the overhead utilities on the street at the same time. ARA managed the $3.9 million project which was done in two phases, the first completed in 2003 and the second in 2005. The award-winning project created the iconic murals, clock tower, and arch that now define the street and provided the utility infrastructure without which development on 11th Street would not have been possible.

Before and After– Urdy Plaza

Eleven East Mixed-Use Buildings

ARA was originally charged with creating 40,000 sf of commercial space utilizing the $9 million in loan funds secured by NHCD from HUD. The Eleven East project, carried out with NHCD and the URA under the Tri-Party Agreement, includes two buildings with retail space on the ground floor and offices above and a two-level parking structure and provides 57,000 sf of space. Construction was financed with a $4.7 million HUD loan and a $7.7 million loan from Chase Bank. The buildings were completed in 2004 and 2005. Eleven East is currently 94% leased with a lease for the final 6% under negotiation. It generated $188,000 in property taxes in 2008.

Eleven East Mixed-Use Buildings cont.

In the development and operation of the building ARA has worked to encourage small businesses, which currently occupy 40% of the building space. ARA provides 15% of the total building space at a reduced cost to small businesses. This has allowed a small business that had been on 11th Street for 30 years to remain on the corridor and made it possible for a non-profit organization that works to assist small businesses to locate in the building. Eleven East was designed to preserve the historic Arnold Bakery, which was sold to and then rehabilitated by a small business. Small and large businesses in the buildings provide services specifically desired by the community including a restaurant, bank, and art gallery.

Before and After– Eleven East

Live/Work Lofts and Juniper-Olive Affordable Homes

The fourth project in the bundle of projects to be financed by Chase Bank was to be the live/work lofts. The lofts were originally planned as market-rate units and were to be entirely privately financed. Roles in the project were as outlined in the Tri-Party Agreement: ARA provided development expertise and secured private funding for the project, the URA had already given an initial approval of the project and would need to give a final approval to sell the property to ARA, NHCD was to carry out the sale transaction at fair market value, which at that time was $600,000.

NHCD was then going to use the $600,000 to make a grant to the Juniper-Olive Streets affordable homes project (negotiation and execution authorized by City Council on August 8, 2002), which was to rehabilitate eleven existing historic homes and construct eight new homes for use as affordable housing. NHCD was also to transfer land to ARA to carry out construction. Private financing for the project was provided by Chase Bank. ARA was to carry out the project in three phases, with proceeds of sales in the earlier, less expensive phases, funding the last phase which included the more difficult rehabs and the bulk of ARA's fees for the entire project.

With the tri-party roles laid out ARA proceeded with the project in the anticipation that the NHCD/URA/ARA partnership would function successfully in the same way it had for the Eleven East project. ARA secured a line of credit to finance predevelopment activities for the live/work lofts including construction documents (completed August 2002) and initial site grading. Additionally, ARA used a line of credit to develop a master plan for the Juniper-Olive project (2002), develop construction documents, purchase property to enhance the project, and construct a needed retaining wall and alley (2004).

Live/Work Lofts and Juniper-Olive Affordable Homes cont.

In early 2005, as ARA and NHCD were working through some final technical issues that needed to be resolved in order to undertake the various transactions needed to move forward with construction, there was a personnel change at NHCD. As a result there was a loss of institutional knowledge/expertise and a shift in approach regarding the development projects. NHCD did not carry out tasks agreed upon prior to the personnel change in a timely manner. For example the live/work loft sales contract was to be finalized in 2005, but the first draft was not completed until late 2006. Once completed the draft contract included provisions that made development far too onerous such as a clause that stated that if for any reason ARA was not able to finish the project in a given time period it would be required to sell the property back to NHCD at 80% of the fair market value, pay liquidated damages in the amount of $500,000, and terminate all other contracts with NHCD/URA. Additionally NHCD insisted on unbundling the projects to be financed by Chase Bank. This required revisiting the entire structure of the live/work loft and the Juniper-Olive projects.

NHCD was able to transfer some land for the Juniper-Olive project which allowed the first phase of the project to be constructed in 2005-06. While ARA was financing all the predevelopment and construction of the houses NHCD did not provide its grant contribution. Of the $600,000 approved by City Council ARA only received $240,000 in late 2006. NHCD put the project on hold again, as interest continued to accrue. The second phase was not started until 2008.

In 2009 NHCD recognized the financial burden placed on ARA due to project delays beyond its control. It agreed to purchase construction documents and predevelopment services at a cost of $281,000 and to buy the land ARA had purchase for the project at fair market value (which is now less than the ARA's expense of purchasing and holding the land). After these steps are taken ARA's loss on the project will be $137,000.

Before and After– Juniper-Olive Affordable Homes

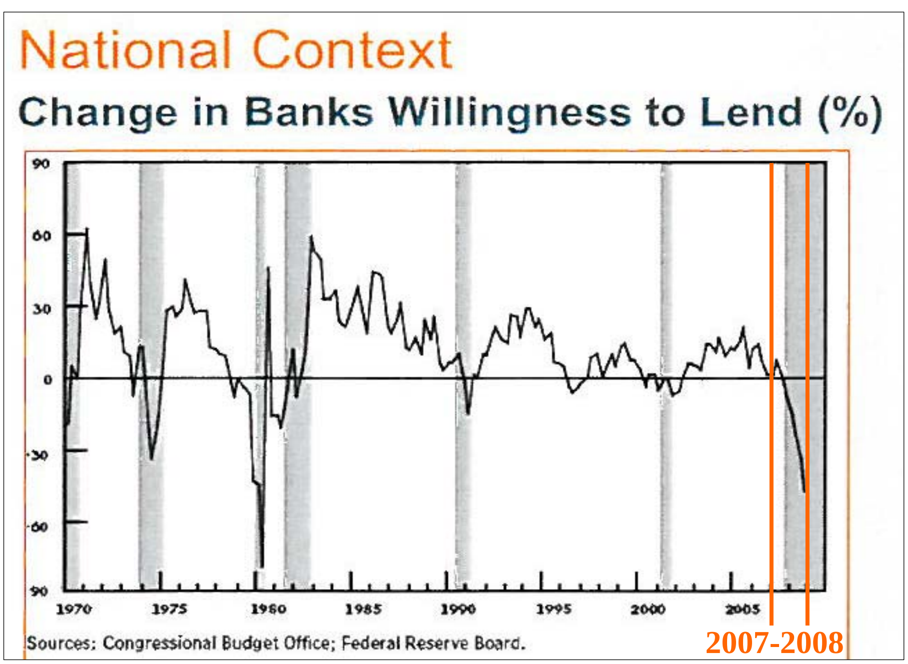
Live/Work Lofts and Juniper-Olive Affordable Homes cont.

While the Juniper-Olive project moved forward slowly, no progress was able to be made on the live/work lofts. In early 2008 Chase Bank was still willing to provide all the financing for the live/work project though under more conservative terms given delays in the project. But upon meeting with ARA and NHCD in March 2008 and hearing that: a) NHCD was still unwilling to commit to selling the land for the live/work lofts and b) there would be further delays related to Juniper-Olive project (which Chase was also financing), Chase decided that it could not risk funding the project particularly so considering also the tightening economy.

At that point ARA was left with no financing, \$500,000 in predevelopment debt (with interest accruing), and a May 2008 deadline to complete the purchase of the land after which it would lose its option to develop on the URA property. Between March and May ARA was able to get initial commitments from a private investor and a bank interested in funding the project and asked for a deadline extension. The URA extended the deadline to October.

Rendering of Live/Work Lofts

Between May and October of 2008 the tightening economy underwent an historic collapse. ARA's private investor indefinitely postponed participation and the bank ceased making loans to any project with a residential component. Given the market conditions ARA asked for another deadline extension in October 2008. The request was denied by the URA, which then directed NHCD to begin work needed to issue an RFP for development of the property.



"The Economic Climate Influencing Austin with Implications for COA"
Jon Hockenyos,
Texas Perspectives
Presented to Austin City Council
April 22, 2009

(notation highlighting years 2007-2008 added by ARA)

Impact of Project Delays

The impacts of decisions and delays related to the live/work lofts and the Juniper-Olive project have been far ranging and include:

1. ARA has been carrying all costs and interest expenses associated with the live/work lofts– a total of approximately $500,000 with interest continuing to accrue.

2. ARA was not been able to earn fees from the live/work lofts project which were estimated at the beginning of the project at $1,380,000.

3. ARA has financed $1.3 million in project costs associated with the Juniper-Olive project. Even after NHCD's latest steps to mitigate the burden on ARA are taken, there will still be a loss of $137,000.

4. ARA was not able to earn the full amount of fees related to Juniper-Olive which were estimated at $940,000.

5. ARA's financial planning was carried out and its work plan developed with the assumption that NHCD and the URA would carry out their roles in the development partnership. Because of their inaction ARA's revenue projections were significantly below the actual revenue, which is now being used to suggest that ARA has ineffective financial planning.

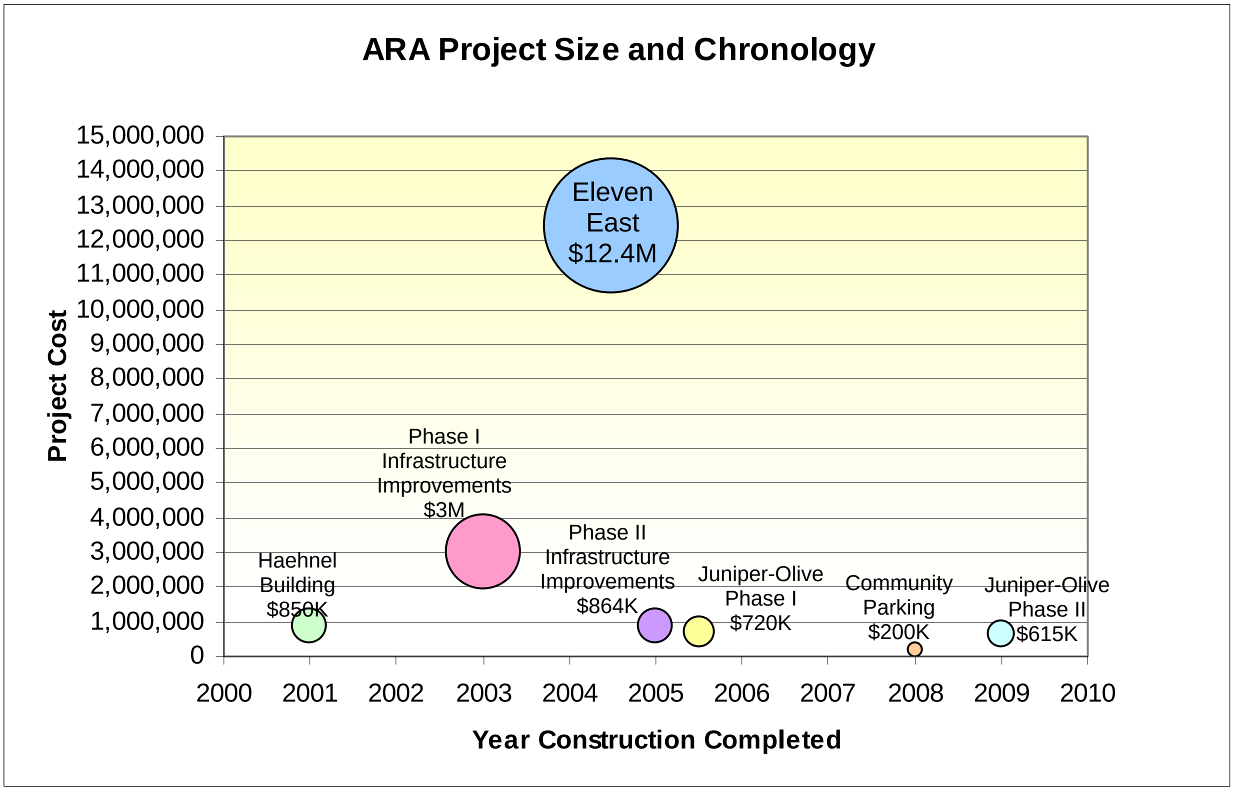
6. Delays related to Juniper-Olive resulted in homebuyers waiting an excessive amount of time to be able to buy their homes. Some homebuyers who had waited for long periods were, at the end of the process, no longer eligible for the affordable housing because of life changes. Deposits taken for live/work lofts had to be refunded.

7. Delays associated with and the ultimate disposition of both projects contributed significantly to the loss of community confidence in ARA's ability to deliver projects.

8. A $50,000 grant from the National Trust for Historic Preservation and HGTV was rescinded, this took money away from the project and harmed ARA's ability to apply for funds in the future

9. The remaining Juniper-Olive houses to be rehabbed continue to blight the neighborhood, provide a haven for drug use and prostitution, and grow more expensive to complete.

10. ARA's relationship with Chase Bank has been dramatically affected.



ARA made significant progress on construction projects through 2005.

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<u>ADDENDUM II</u>

FINANCIAL INFORMATION

Austin Revitalization Authority
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Financial Information

ARA is a unique entity, not a comparable CDC to others. The combination of development projects from infrastructure improvement projects, to building and managing a 57,000 square foot commercial office building, to building and rehabbing affordable housing sets ARA apart from most CDC's. ARA/EEC has developed some unique financing agreements that include the New Market Tax Credit program which allowed EEC to refinance debt in 2005 and greatly reduce the monthly debt service requirements. The New Market Tax Credit in the amount of $2,230,077 will be forgiven in January 2013 saving EEC a large amount of interest and principal.

ARA is required to provide Audited Financial Statements each year. These audits must be performed by a Certified Public Accounting Firm. ARA has complied with this requirement and presented to NHCD a copy of the audit by June 30th with the exception of one year. The 2005 financial audit was delayed due to the spin-off of the Eleven East Corporation which required major accounting adjustments and account separation, and the creation of the separate books for EEC. The spin-off occurred at the end of 2005 and the completion of the audit delayed until Feb 2007. All of the audits of ARA (ARA/EEC) have produced unqualified audit opinions indicating "the audited financial statements present fairly, in all material respects, the financial position of ARA and its affiliate, EEC… and the changes in their net assets and their cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America."

In 2007, ARA prepared a 5 year financial projection covering the years 2008-2012. This plan was based on ARA's assumption that the partners in the 11th and 12th Streets redevelopment, i.e. the City and the Urban Renewal Agency of the City of Austin, could be relied on to provide land transfers as needed to complete the planned projects, and provide assistance in the completion of Phase I and Phase II of the Block 18. The projects to be accomplished in this 5 year plan related to the Live/Work Lofts (Legacy), the Juniper Olive Project, and the development of Block 18. To date, Nov. 3, 2009, the required land transfers have not occurred and the progress of the development of Block 18 is in limbo. Without cooperation of its partners, ARA cannot complete these projects. The land for development is the key. Therefore the 5 year projections have not been met. Not as a result of poor planning, but rather a result of lack of help and cooperation of the partners under the Tri-Party agreement. At this date, ARA cannot make a 5 year financial projection. ARA has been placed in a stall position that ARA cannot remedy alone. Once the responsibilities of the parties in the Tri-Party agreement are clearly defined and the plans and intensions of the City and the Urban Renewal Agency are also made clear, then ARA can plan for its future in the continuing development of the 11th and 12th Streets area.

The measure of an entity's liquidity relates to the liquid assets available to meet the currently due obligations. Liquidity does not relate to the change in net assets from one year to the next. And no conclusion can be drawn about liquidity by analyzing increased and decreases in net assets. The best analysis of liquidity is examination of the changes in cash or cash equivalents each year. ARA's changes in cash or cash equivalents can be found in the audited Statement of Cash Flows each year. These amounts are presented in Exhibit A.

Exhibit A

ARA Changes in Cash or Cash Equivalents for the Years 1998 to November 1, 2009

Year	1998	1999	2000	2001	2002	2003
Beginning of Year	$ 31,950	$ 98,413	$ 55,417	$ 13,669	$ 58,063	$ 89,983
Increase (Decrease)	$ 66,463	$ (42,996)	$ (41,748)	$ 44,394	$ 31,920	$ 49,593
End of Year	$ 98,413	$ 55,417	$ 13,669	$ 58,063	$ 89,983	$ 139,576

Year	2004	2005	2006	2007	2008	Nov. 1 2009
Beginning of Year	$ 139,576	$ 120,476	$ 153,994	$ 283,501	$ 232,533	$ 257,917
Increase (Decrease)	$ (19,100)	$ 33,518	$ 129,507	$ (20,968)	$ 25,384	$ 200,058
End of Year	$ 120,476	$ 153,994	$ 283,501	$ 262,533	$ 257,917	$ 457,975

Source: ARA Consolidated Audited Financial Statements

This analytical basis excludes all non-cash items, i.e. depreciation and amortization, and presents a better picture of cash available for current operations. In specific to the ARA operations this presents a better picture from 1998 through 2008 by excluding the depreciation and amortization which is included in the net assets. Starting in 2005 and forward about $500,000 in depreciation each year was recorded when the Eleven East Office buildings were finished and put into use. ARA's current cash and cash equivalents as November 1, 2009 are $457,975.

Financial statement ratios are not alone the measures of an entities condition or viability. A study of the particular organization and its uniqueness or differences, its mission and goals, must also be evaluated. As mentioned earlier, ARA is a unique entity. The "industry standards" for comparison of ARA's ratios can only present a small part of the picture of ARA's financial position. Uncontrollable and unexpected delays which have prevented ARA from completion of projects have had a major impact on its financial position. Not with standing, ARA has carried the burden of the development financing and taken aggressive actions to manage the short falls in the anticipated income from these projects.

ARA has reduced the outstanding short term Lines of credit from $1,031,907 at 12/31/2008 to $359,937.32 at 11/01/2009. Within the next month ARA/EEC expects to pay an additional $69,500.00 to further reduce the two remaining lines of credit. The A/P for ARA have been reduced from $467,841 at 12/31/08 to $355,523 at 11/01/2009.

At 11/01/2009, ARA has a current ratio of .62 : 1. The debt to net asset ratio at 11/01/2009 (excluding the forgivable debt mentioned above) is 26 : 1.

ARA does not need to quickly liquidate any long term assets to meet its current debt obligations. The office buildings are income producing and provide income sufficient for ARA's current operational needs and cover debt service. In addition to paying off the Lines of Credit, ARA has been able to reduce operating costs through reduction in staff to the level presently needed and by obtaining new agreements for office expenses such as telephones, insurance, machinery and supplies.

Exhibit B

Major Sources of ARA Revenue for the Years 2005 to November 1, 2009

	2005		**2006**		**2007**		**2008**		**Nov. 1, 2009**	
Revenue Sources	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Rental Income	$ 943,826	63.0%	$ 1,326,089	60.7%	$ 1,423,691	70.7%	$ 1,539,826	83.1%	$ 1,427,730	89.5%
Grant Support, Contracts	$ 492,485	32.9%	$ 325,256	14.9%	$ 472,757	23.5%	$ 246,926	13.3%	$ 140,672	8.8%
Contributions, Public	$ 2,089	0.1%	$ 324,689	14.9%	$ 15,039	0.7%	$ -	0.0%	$ -	0.0%
Project Management Fee	$ 24,506	1.6%	$ 131,851	6.0%	$ 82,000	4.1%	$ -	0.0%	$ 14,572	0.9%
Miscellaneous Revenue, Other Income	$ 22,600	1.5%	$ 72,168	3.3%	$ 20,330	1.0%	$ 63,425	3.4%	$ 12,213	0.8%
In-Kind Contributions	$ 12,772	0.9%	$ 3,250	0.1%		0.0%	$ 1,818	0.1%	$ -	0.0%
Total Revenue	**$ 1,498,278**	**100.0%**	**$ 2,183,303**	**100.0%**	**$ 2,013,817**	**100.0%**	**$ 1,851,995**	**100.0%**	**$ 1,595,187**	**100.0%**
Total Expenses	$ 1,800,321		$ 2,538,751		$ 2,260,180		$ 2,114,787		$ 1,689,466	
Depreciation and Amortization	$ (268,209)		$ (479,615)		$ (489,506)		$ (492,635)		$ (461,552)	
Total Expenses w/o Depreciation	**$ 1,532,112**	**102.3%**	**$ 2,059,136**	**94.3%**	**$ 1,770,674**	**87.9%**	**$ 1,622,152**	**87.6%**	**$ 1,227,914**	**77.0%**

ARA's debts are decreasing rather than increasing. The audit report suggest that ARA is relying on debt to finance operations. ARA is not borrowing to finance operations. This is an inconsistent notion when the organization is paying down debt. The rental income from the Eleven East buildings provides income to ARA for management of the building. The percentage of rental income from the Eleven East buildings has increased since 2005 due to several factors. The building is now 94% rented and the leases in place have escalation clauses. The rental income figure of $1,539,826 for 2008 also includes the operating expense portion of each lease (the triple net) which has increased each year through 2008. The percentage of rental income has also increased due to the absence of other types of income, such as Project Management Fees. It is clear that the income of ARA was reduced substantially by the level of grant support from the City of Austin and NHCD from 2005 through 2008. Rental income from NHCD is a large part of the rental revenue from the Eleven East buildings and should be since NHCD occupies more that 55% of the total rentable space in the buildings and rents 42% of the total parking spaces. If NHCD were not leasing this space another tenant in this space would generate equivalent rental revenues.

In Dec 2012, ARA will refinance the office buildings located on 11th street. This will coincide with the forgiveness of the New Market Tax Credit as mentioned earlier, and allow ARA to obtain long term financing. The obligation to ESIC for the loan on the 11th street buildings is tied to the New Market Tax Credit and has a term of 7 years in total. With long-term leases in place and equity in the property, EEC will have the financial strength to obtain the needed financing.

It should be noted that in 2002 and 2003 there were prior period adjustments made. These two adjustments resulted from a rather technical classification error. ARA was given a "grant" for predevelopment activities of the Eleven East buildings and Block 18 in 2001. This was recorded as a grant believed to be for NHCD's participation in the predevelopment.

Subsequent in 2002, this amount of $330,000 was determined to be merely a loan from NHCD which ARA would be required to pay back. The prior period adjustment made in 2002 to re-classify “grant” to a loan was made. Since in 2001 there was an addition to net assets ($330,000 included in income in 2001) and in 2002 with the prior period adjustment there was a decrease in net assets, there was a zero effect. ARA paid back $198,000 of this loan when the Eleven East buildings were finished and closed. The remaining $132,000 of the loan is still outstanding and related to the predevelopment costs of Block 18. ARA is currently paying back this amount at the request of the City even though the predevelopment of Block 18 in not complete and is still on going. The prior period adjustment recorded in 2003 related to the infrastructure improvement funds received by ARA in 2002 and classified as Temporarily restricted net assets. These funds were advances made to ARA to finance the assets being constructed for the City as infrastructure improvements. This amount of $927,818 increased net assets in 2002 and as a result of the prior period adjustment in 2003 a decrease of the same amount was recorded. Again this addition to net assets in one year and the decrease in the subsequent year, the overall effect was zero. The amount of $927,818 was always understood to be advanced funds for the infrastructure development, not a loan to be paid back nor a grant for some other purpose. Prior period adjustments are corrections of an error or misclassification and are not in any way a misrepresentation or lack of oversight. Since these prior period adjustments corrected completely in two years there were no long term effects on net assets, the financial projections or financial planning.

ARA’s future in the revitalization of 11th and 12th Street depends on the successful resolve of the issues identified with the Tri-Party agreement and the timely and dependable execution of the agreement in the years to come. With dependable , reliable and predictive partners, ARA can once again provide the planning of the development of this area. Getting the project completed is the goal.

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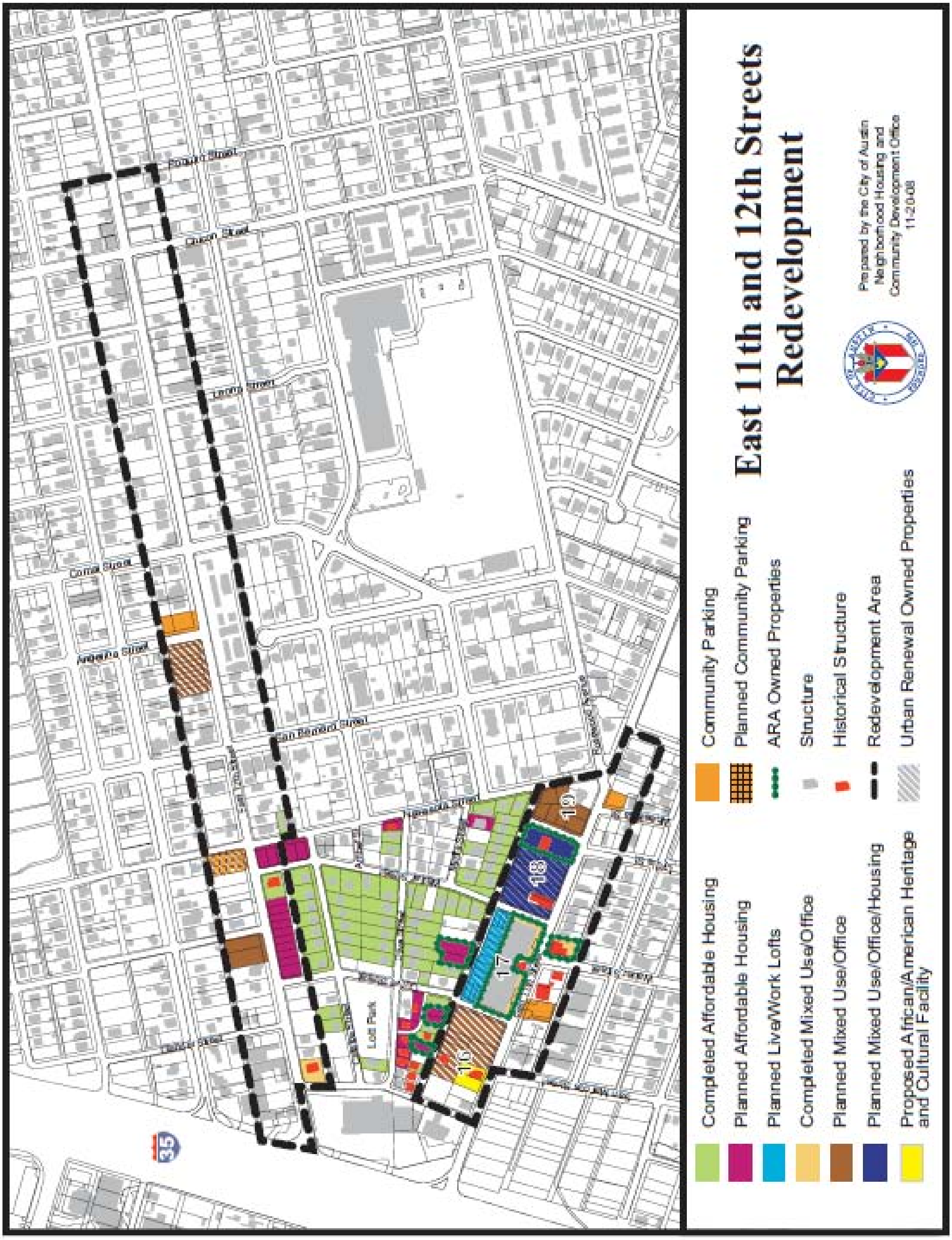
APPENDIX C

MAP OF THE EAST 11TH AND 12TH STREET REDEVELOPMENT AREA



East 11th and 12th Streets Redevelopment
Prepared by the City of Austin Neighborhood Housing and Community Development Office 11-20-08
Completed Affordable Housing
Planned Affordable Housing
Planned Live/Work Lofts
Completed Mixed Use/Office
Planned Mixed Use/Office
Planned Mixed Use/Office/Housing
Proposed African/American Heritage and Cultural Facility
Community Parking
Planned Community Parking
ARA Owned Properties
Structure
Historical Structure
Redevelopment Area
Urban Renewal Owned Properties
Lott Park
15
17
18
19
35

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APPENDIX D

DESCRIPTION OF FEDERAL GRANT PROGRAMS

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Federal Grant Programs

The CDBG Program is authorized under Title 1 of the Housing and Community Development Act of 1974. CDBG funds are expended through grants for projects submitted to HUD by local governments, citizens, and other local organizations that meet the primary objective of the CDBG entitlement, which is to develop viable communities by assisting low-and moderate-income individuals to obtain decent housing, a suitable living environment, and expanded economic opportunities. Any project or activity funded by CDBG funds must also meet at least one of the three national CDBG goals: primarily benefit low-and moderate-income persons, aid in the elimination of slums and blight, and/or meet a particular urgent need.

Section 108 of the Housing and Community Development Act of 1974, as amended, is the loan guarantee provision of the federal Community Development Block Grant (CDBG) program. Through this program, the U.S. Department of Housing and Urban Development (HUD) sells bonds on the private market and uses the proceeds to fund Section 108 loans to eligible local governments. The program is a source of finance that enables local governments to fund economic development projects, large-scale public facility projects, and public infrastructure for CDBG-eligible activities. Under this program, local governments pledge their respective future CDBG allocations and other resources as security for repayment of the loan to HUD.

The HOME Program was created by the National Affordable Housing Act of 1990 and is designed to support the creation of affordable housing opportunities in the affected communities. The objectives of the HOME Program are to:

- Expand the supply of decent, safe, sanitary, and affordable housing to very low and low income people;
- Mobilize and strengthen the ability of state and local governments to provide decent, safe, sanitary, and affordable housing to very low and low-income people; and
- Influence private sector participation and expand the capacity of non-profit housing providers.

HOME funds can be used as either grants or loans from program income related to those grants. Additionally the loans can be “deferred”, which means that they are forgivable, depending on the uses of those funds. HUD and the City place stricter guidelines on the use of the funds when deferred loans are granted.

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APPENDIX E

ACQUISITION, DEVELOPMENT, AND LOAN TRI PARTY AGREEMENT: MAJOR DUTIES OF CONTRACTING PARTIES

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Acquisition, Development and Loan Tri Party Agreement : Major Duties of the Contracting Parties		
City of Austin	**Urban Renewal Agency (URA)**	**Austin Revitalization Authority (ARA)**
Provide the funding to URA for carrying out the URP		
Receive, review, and approve the URP	Authorize the City and ARA to begin the acquisition of the property and afterwards complete the acquisition in accordance with the URP, PAP and each PADP	Negotiate and acquire, on behalf of the URA, vacant redevelopment area in accordance with the URP, PAP and each PADP
Transfer contributed property from Austin Housing Finance Company to the URA	When authorized by the city, transfer property to ARA or to private developers and afterwards complete the disposition in accordance with the URP, PAP and each PADP	Acquire property from the URA in accordance with the redevelopment loan
Secure on behalf of the URB all other property through property acquisition	Acquire property using eminent domain	Manage the funds/loans provided by the City
Provide City staff assistance to the URB		
Design and construct necessary public infrastructure improvements in the redevelopment area		Make recommendations to the City concerning the types of public infrastructure improvements in the redevelopment area
Review and approve the retail/office plans		Construct retail/office improvements
		Upon completion of improvements to mortgaged property, operate/manage the property
Approve purchase price for the properties	At the City's expense, obtain and maintain an insurance policy	Carry and maintain applicable insurance
		Compile and file specific reports and applicable documentation to the City, such as: - Monthly Performance Reports, Budgeted to Actual Variance Reports, and Disbursement Form - Annual inventory of property
		Participate in monthly monitoring meetings with the City

Note: In addition to this agreement the City entered into other agreements with the URB and ARA

Legend:
URP Urban Renewal Project
PAP Property Acquisition Plan
PADP Property Acquisition and Disposition Plan
URA Urban Renewal Agency
URB Urban Renewal Board
ARA Austin Revitalization Authority

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APPENDIX F

SUMMARY OF PUBLIC INVESTMENT IN THE EAST 11[TH] AND 12[TH] STREET REDEVELOPMENT AREA

Public Investment
re: E. 11th & 12th Street Redevelopment Project

Description	Funds Expended
Property Acquisition Costs (incl Appraisal, Planning, Closing, etc.)	
E. 11th St. - Block 16	$1,361,739.41
E. 11th St. - Block 17	$384,976.00
E. 11th St. - Block 18	$129,064.00
E. 11th St. - Block 19	$303,257.02
Relocation Costs (for owners and tenants)	
E. 11th St. - Block 16	$406,400.32
E. 11th St. - Block 17	$13,537.80
E. 11th St. - Block 18	$30,000.00
E. 11th St. - Block 19	$40,228.53
Costs of Preparation for Bidding (Appraisal, Planning, etc.)	
E. 11th St. - Block 16	$12,500.00
E. 11th St. - Block 17	$3,500.00
E. 11th St. - Block 18	$0.00
E. 11th St. - Block 19	$4,225.00
Facade Improvement Grants	
E. 11th St. Businesses	$15,000.00
E. 12th St. Businesses	$121,190.00
11th St. Streetscaping - Sidewalk Easements Purchased	
E. 11th St. - Block 16	$65,344.19
E. 11th St. - Block 17	$5,000.00
E. 11th St. - Block 18	$0.00
E. 11th St. - Block 19	$5,000.00
Infrastructure Improvement Contracts	
Electrical Infrastructure Improvements	$512,703.47
Telecommunications Infrastructure Improvements	$335,455.83
Water / Wastewater Infrastructure Improvements	$1,947,374.16
Major Street / Sidewalk Improvements (through Public Works)	2,940,000.00
Capital Metro Construction (Not paid by City)	$913,623.11
Capital Metro Field Work (Not paid by City)	$331,588.10
Property Improvement Contracts	
Haehnel Bldg Asbestos Removal	$71,540.97
Acqusition/Renovation Haehnel Bldg/Shorty's Bar	$731,014.24
Demolition of Juniper Olive Structures	$19,072.85
House Move - 1117 E 12th St	$39,173.48
Community Parking Lots	$193,653.05
Juniper Olive Historical Houses	$231,757.16
Finish out for City occupied building space	$380,912.00
CDBG Deferred Loans	
For Purchase of Contributed Properties	$838,377.00
Juniper Olive - Phase I (Redevelopment)	$240,000.00
For Finish Out Costs - Snell Bldg (1011 E 11th St)	$47,000.00

Description	Funds Expended
Sec 108 Redevelopment Loan Program - Regular Loans	
Street Jones Bldg - Predevelopment Activities	$330,000.00
Street Jones Bldg Construction (Qualifing Loan)	$303,788.00
Street Jones Bldg Construction Loan	$4,400,000.00
Juniper Street - New Construction	$101,207.60
Assistance to Business in Redevelopment Area (Mrs. B's Restaurant)	$100,000
Assistance to Business in Redevelopment Area (Primizie Restaurant)	$100,000
Rehabilitation of Connelly-Yerwood House on E. 12th (NHCD)	$382,583.44
NCMP Loans	
Assistance to Business in Redevelopment Area (East Austin Econ Dev Corp)	$480,000.00
Assistance to Business in Redevelopment Area (Mrs. B's Restaurant)	$150,000.00
Assistance to Business in Redevelopment Area (Primizie Restaurant)	$100,000.00
Operations Agreements	
1996 - 2004 Operations Agreement	$2,380,198.54
2004 - 2009 Operations Agreement	$1,004,927.33
Subrecipient Agreeement between City and URB	
Property Acquisition (see above)	See Above
2000 - 2008 URB Operational Expenses (Ins, etc.) & lot maintenance	$506,987.03
2009 URB Operational Expenses	$2,848.35
Professional Services Agreement between URB and ARA	
2004 - 2008 Lot Maintenance Contract	$296,343.47
2009 Lot Maintenance Contract	$13,089.73
	$ 23,326,181.18

APPENDIX G

PROJECT-SPECIFIC CONTRACTS AND AGREEMENTS BETWEEN CITY OF AUSTIN AND ARA

Project-Specific Contracts and Agreements between City of Austin and ARA

Date	Source of Funding	Agreement or Amendment	Description	Amount
Sep 1997	CDBG-funded grant	Agreement	Purchase and rehabilitation of the Haehnel building (Shorty's Bar) at 1101 East 11th Street	$300,000
Jun 1998		Amendment 1	Reduced to $5,765 for purchase of Haehnel/Shorty's (because ARA obtained a grant from the Texas Historical Commission) and re-directed the balance to "acquire & maintain properties at 1124 E 11th and 1154 Lydia, and to secure architectural, engineering and other services necessary to design and implement the restoration of the Haehnel Building"	no change
Apr 2000		Amendment 2	Additional $335,000 for Haehnel Building renovations	$335,000
Dec 2000		Amendment 3	Additional $50,000 for Haehnel Building Renovations	$50,000
Apr 2001		Amendment 4	Additional $37,375 for East Room Architectural and Engineering costs	$37,375
			TOTAL = $722,375	
Aug 2000	CDBG –funded grant	Agreement	Removal of asbestos and demolition of properties at 1103 Curve/1102 E 11th, 1008 E 11th, and 1124 E 11th	$71,541
			TOTAL = $71,541	
Feb 2001	CDBG –funded loan	Agreement	Pre-development planning and engineering of Blocks 17 (1000 block of E. 11th Street) and 18 (1100 block of E. 11th)	$330,000
			TOTAL = $330,000	
Jan 2002	CDBG-funded Deferred Loan	Agreement	Purchase contributed property (portions of 1000 Block of # 11th Street) from the City	$600,000
Feb 2002		Amendment	Purchase of additional contributed property on 1000 and 1100 blocks of E 11th Street	$126,987
Jun 2002		Amendment	Purchase of additional contributed property on 1000 and 1100 blocks of E 11th Street	$111,390
			TOTAL = $838,377	
Jan 2002	Austin Energy, the Austin Water Utility, Public Works, A T & T Comm, Cap Metro	Agreement	Cost Reimbursement contract to manage Water/Wastewater, Electrical, Telecommunication, and other Utility Facilities improvements on E. 11th Street and other streets within the Redevelopment Area	$2,795,533
			TOTAL = $2,898,248	
Apr 2003	Section 108 Redevelopment Area Loan	Agreement	Construction of a 57,000 square foot retail and office space on the 1000 block of E. 11th St. The two office buildings built became known as the Street-Jones and Snell Office Buildings, or "Eleven East"	$4,400,000
Apr 2003	Section 108 Redevelopment Area Loan	Agreement	Funds availed to ARA in order for it to lower its debt service coverage ratio to below 1.25: 1, enabling ARA to qualify for a $7,700,000 private loan from JP Morgan Chase bank. ARA only borrowed $303,788 of the additional $1,100,000 loan funds.	$303,788
			TOTAL = $4,703,788	

Table continued on next page

Date	Source of Funding	Agreement or Amendment	Description	Amount
Aug 2003	CDBG-funded grant	Agreement	Demolition of a house located at 1011 Juniper Street	$20,000
			TOTAL = $20,000	
May 2004	Section 108-funded grant	Agreement	Phase I (Planning and Engineering) of the Juniper Olive project (reconstruction of existing older homes for re-sale)	$240,000
			TOTAL = $240,000	
Jan 2005	HOME-funded grant	Agreement	Move of a historical house from 1117 E. 12th Street to 909 Juniper Street	$39,173
			TOTAL = $39,173	
Mar 2006	CDBG-funded grant	Agreement	Demolition of a house located at 916 E. 11th St	$16,271
			TOTAL = $16,271	
Feb 2007	Section 108-funded grant	Agreement	Assist small and minority tenants of the Snell Building with finish-out costs	$47,000
			TOTAL = $47,000	
Jun 2007	CDBG-funded grant	Agreement	Construction of community parking lots at 1205 E. 11th Street and 1400 East 12th Street.	$167,133
Nov 2007		Amendment 1	Additional funds for construction of community parking lots	$24,097
Apr 2008		Amendment 2	Additional funds for construction of community parking lots	$2,423
			TOTAL = $193,653	
Nov 2007	HOME-funded loan	Agreement	Phase II of the Juniper Olive Project (New Construction Development)	$120,000
			TOTAL = $120,000	
May 2009	AHFC Housing Assistance funds	Contract negotiations are under way	Purchase of pre-development materials and site improvements related to the Juniper St Historical Houses Renovation Program	$281,776
			TOTAL = $281,776	
			Total Contracts w/ ARA – Funding Sources	
			HUD – CDBG Grants	$1,023,840
			HUD – CDBG Loans	$330,000
			HUD – CDBG Deferred Loans	$838,377
			HUD – Sec 108 Redevel. Area Loans	$4,703,788
			HUD – Sec 108 Grants	$287,000
			HUD – HOME Grants	$39,173
			HUD – HOME Loans	$120,000
			AHFC – Assistance Funds	$281,776

SOURCE: Compiled by OCA, September 2009