Increasing Private Investment in Affordable Housing Development in Austin, Texas

Prepared for the Austin Housing and Planning Department

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On my honor as a student I have neither given nor received aid on this assignment.

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Executive Summary

Austin, Texas is in dire need of affordable housing. The state capital is known for being a rich cultural hub with a diversity of thought and people not usually seen in cities its size. The city has started to attract people and major companies from across the country, leading to a bustling economy. However, rapidly increasing housing prices in recent years are pushing out the original residents who give the city its distinct character (Root Policy Research, 2020). If this pattern continues, history threatens to repeat itself. The city has a long history of discrimination against its non-white and marginalized residents, banning them both implicitly and explicitly from living in desirable areas of the city. The people who are disproportionately being pushed out of the city are its Black and Hispanic residents (Way et. al, 2018). As the city continues to grow, policy must be enacted to ensure that long-time Austinites are able to remain in the communities they've called home for decades and they can receive their fair share of the city's newfound prosperity.

A common method to fight high housing prices and the ensuing displacement of marginalized communities is the construction of dedicated affordable housing. Austin must find ways to expand the money invested in its affordable housing stock in order to produce the units its residents need to stay in the city. This report evaluates four methods of increasing the funds available for affordable housing in Austin:

1. Expanding the city's density bonus program to allow more flexibility and higher fees.
2. Helping local major non-profit hospitals shift their mandatory community benefit expenditures towards affordable housing production.
3. Creating partnerships with major local employers to develop subsidized housing options for its employees and the community as a whole.
4. Initiating a new tax-increment reinvestment zone targeted at producing affordable housing.

This report **recommends that the city create a new tax-increment reinvestment zone (TIRZ) that will provide the upfront capital investment needed to produce new affordable housing units**. The TIRZ is the most promising option for its ability to create new investment in affordable units while maintaining the city's ability to influence how money is spent. Austin has created four successful TIRZs already. Adding a fifth one aimed at affordable housing is likely to see the same success.

Problem Statement

Austin, Texas is currently undergoing an affordable housing shortage. Like many other cities across the U.S., it has a history of inequitable housing policies that have displaced and harmed low-income and non-white residents. From 2000-2017, median rent rose by 117% (compared to 72% for Texas as a whole) (Root Policy Research, 2020). The recent passage of Project Connect, a massive investment in public transportation in Austin, threatens to further the displacement of marginalized communities in Austin. Project Connect guarantees $300M over 15 years in anti-displacement funds, but that is not nearly enough to address the undersupply of affordable housing. Austin must find creative new ways to expand investment in its affordable housing stock to prevent further displacement of historically marginalized communities and create a livable city for everyone.

Background

Austin Demographics
Located in South Central Texas, the Austin metropolitan area has a population of 2.1 million and is fairly diverse. The majority of residents are White at 52%, while 33% of the population is Hispanic and 7% of the population is Black (Census Bureau, 2018). However, these populations are not evenly distributed across the city. West Austin is primarily White, while Hispanic and Black neighborhoods historically have been concentrated in the downtown area and in the East and North of the city. A tech boom, a rich supply of cultural amenities and a bustling economy has resulted in Austin's population growing rapidly (City of Austin, 2021). On average 180 newcomers moved to the city every day in 2020 (Sandoval, 2020).

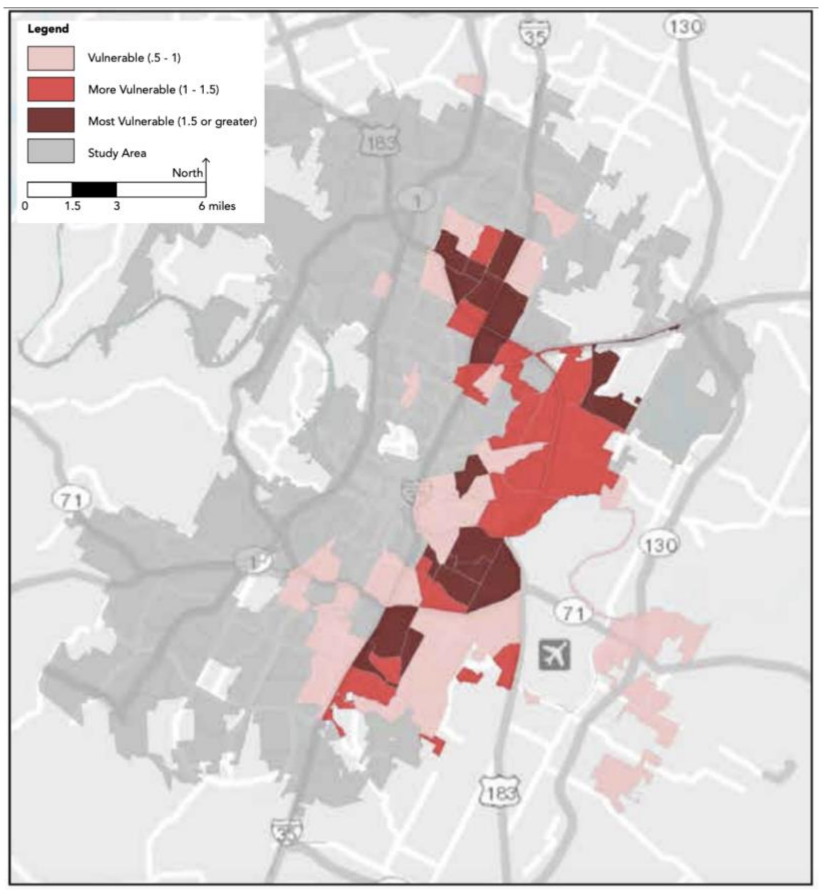


Figure 1: Census Tracts (2016) Vulnerable to Gentrification in Austin, Texas (Way et al., 2018)

History of Displacement
The current displacement of minority communities further away from the center of the city is only a continuation of historical trends in Austin. When the federal government drew up Home Owners Loan Corporation (HOLC) loan maps for Austin in the early 20th century, areas with mostly Black or Hispanic residents were nearly unilaterally designated as "hazardous." These areas are primarily to the east and west of the city's downtown. A decade later, the minority communities in the east were physically separated from the rest of the city by the building of interstate I-35. Although residents had not moved further from the rest of the city, it became

more difficult to connect with the economic opportunities in the city's downtown area (Zehr, 2021).

The local government in Austin took actions that have explicitly abused its minority communities. The city's "Freedman Towns," the historic settlements of former slaves and their descendants, were destroyed and replaced with new developments and building roads across the twentieth century. The communities generally relocated to East Austin. In 1928 the cities actions were written into law when Austin's Master Plan created a segregated "Negro District" that forced Black residents to the east. Other marginalized groups have suffered from city policy as well. Much of Austin's Hispanic population was relocated from the southwest area of the city after the Colorado River was dammed and their property became much more valuable (Burnette & Cruz, 2017). In modern times, the city has approved zoning plans that give developers a lot more freedom to build and change in Black and Hispanic neighborhoods than it does in White neighborhoods. While it is no longer written explicitly into city policy, race plays a major role in determining inequitable outcomes across Austin.

Gentrification in a Changing City

Historically Austin has been very diverse and affordable city, but recently much of that has been challenged as new industry has moved into the city and housing prices have soared. Home to Dell's headquarters, Austin also hosts significant presences from Apple, IBM, Google, and intel among many others. Soon, the city will also be host to the world headquarters of Tesla (Chokshi, 2021). The growing economy has attracted more people to Austin, particularly people with white-collar jobs and high incomes. As a result, the cost of living in Austin has been on the rise. Figure 1 shows tracts across the city according to how vulnerable they are to gentrification according to the city's recent Uprooted report (Way et. al, 2018). The median home sale price has exploded over the course of a decade, from $216,000 in 2011 to $536,000 in 2021 (Sandoval, 2021). The city's changing economy is pushing out the people who have made Austin a home for decades.

Project Connect

As the city continued to develop and grow, it became clear that a new public transportation network was needed. In 2020, Austin residents voted in favor of Project Connect, a fully revamped $7.1 billion public transportation system (Eubank, 2020). Paid for by a small tax rate increase, the project will be a mix of new metro rail, light rail, regular bus and bus rapid transit. The timeline for project completion is 13 years, with construction beginning in 2023. The main points of access connect north, south and east Austin to the downtown area.[1]

Project Connect has raised concerns about accelerating the gentrification and displacement that is already occurring in the city. Marginalized and low-income communities serve to benefit the most from access to low-cost public transportation. As such, many of the proposed routes will go through and stop in historically marginalized communities like Montopolis in southeast Austin. However, being located near new mass transportation stops is associated with an increase in rent and property value (John & Sirmans, 1996). Those stops may be doing more harm than good if the people it intends to serve are quickly priced out as rents rise. The city has allocated $300 million over the next 15 years for anti-displacement investments to address this issue. The city

[1] See appendix for the proposed project map.

must determine the best way to utilize the funds to support a healthy city that can retain the people who have made it the place it is today. However, these funds may not be enough to prevent the continued gentrification that has plagued the city. In response, Austin must investigate new instruments to source even more private capital to prevent displacement.

Evidence on Housing Programs

Housing affordability is hardly a new issue in the United States. There is a rich history over the past few decades of different kinds of programs that have been implemented at the national and local level to ensure that lower-income Americans stay housed (Olsen, 2003). The variety of programs and methods that are used to encourage affordable housing construction in the U.S. are successful in housing low-income Americans, but there is evidence of limitations on the programs' ability to generate new housing and whether the programs are able to truly prevent displacement. A short description of the most common programs to incentivize the private market to build affordable housing and a summary of the research on each program's effectiveness follows.

Low Income Housing Tax Credit (LIHTC)

The LIHTC program is one of the primary ways that affordable housing gets built in the United States. The program is funded federally but is administered by each state's affordable housing service. Every year each state is allocated funds to distribute to housing developers. The total dollar amount is equal to a dollar factor ($2.81215 in 2021) multiplied by the state's population. To qualify for LIHTC, 20% of a development's units must go to families making ≤ 50% of Area Median Income (AMI) or 40% of units must go to families making ≤60% AMI. New construction can qualify for a 9% federal tax credit over 10 year as long as the project satisfies the income restrictions for tenants for 15 years. Renovated properties or properties receiving other federal subsidies that satisfy the same conditions are eligible for a 4% federal tax credit over 10 years (Keightley, 2021).

In general, there are many more applications for LIHTC than there are funds available (Scally et. al, 2018). While some states use first come first serve or a lottery to determine which projects get funding, Texas uses competitive evaluation to select which projects receive approval for LIHTC each year (Texas Department of Housing and Community Affairs, n.d.).

After being established in the 1986 Tax Reform Act, the LIHTC program has been a key tool for building new affordable housing units across the country. The program has generated 2.6 million affordable housing units over its lifetime, 2.4 million of which are still in service (McClure, 2019). It is clear that these units provide below market rate housing to residents who make less than the median income in their area. It is less clear whether the program generates more overall housing. In the traditional economic model, housing becomes less affordable when demand increases faster than supply can respond and rents are bid up. There is a variety of evidence that new units built using LIHTC crowds out new market rate housing that would have been built in the absence of the program (Malpezzi & Vandell, 2002; Eriksen & Rosenthal, 2010). However, there is some evidence that the crowd out effect is less than one-to-one (Sinai & Waldfogel, 2005; Baum-Snow & Marion, 2009). Baum-Snow & Marion (2009) take advantage of policies that give additional tax incentives and an improved chance of winning LIHTC credits for developments located in census tracts that have a median income that is less than 50% of the surrounding metropolitan area. Using a regression discontinuity design, the authors identify a causal effect of LIHTC developments increasing overall housing. The study's approach limits our interpretation of the effect so that it can only be applied to moderately impoverished neighborhoods.

The crowding out of market rate housing is important because after 15 years LIHTC units can have their affordability restrictions lifted. In practice, property owners take advantage of the removal of restrictions – over 40% of former LIHTC units move towards market rate pricing after their affordability period ends, especially in low-poverty neighborhoods (Khadduri et. al, 2012). Low poverty neighborhoods are more likely to have been gentrified, and Baum-Snow and Marion (2009) find that the crowd out effect of LIHTC on market-rate housing is even stronger in gentrifying neighborhoods. With expiring affordability requirements and no impact on increasing overall levels of housing units available, LIHTC may just be kicking the can down the road on housing affordability. Furthermore, the worse outcomes in gentrifying areas increases the concern about LIHTC's ability to serve residents who are particularly at risk of being displaced. However, the concerns about equity may not be as severe as this suggests. Horn & O'Regan (2011) find that housing segregation by race is not associated with LIHTC projects. LIHTC's impact on housing equity needs to be investigated further in the literature before any causal claims can be made.

Housing Bonds

Another way state and local governments can encourage the development of affordable housing is by issuing bonds. Government bonds finance the purchase of property, the rehabilitation of buildings, or new construction (Riemann, n.d.). These help to create financing for affordable housing projects. Furthermore, housing bonds are exempt from federal taxes which makes them more competitive relative to other investments. Housing bonds are usually used in conjunction with other programs like the 4% LIHTC to finance affordable housing. Austin has issued housing bonds in the past, but the program alone is unlikely to cover the full need for affordable housing (Craver, 2019).

Data and information for affordable housing bonds' impact on affordable housing is sparser than the previous policy. This is unsurprising considering local government bonds are the policy least directly tied to affordable housing of the policies evaluated in this report. Bonds can be intended to raise money for affordable housing efforts, but don't necessarily direct the funds towards specific projects. Traditionally, the money issued by bond sales would be used to directly create public housing (Basolo & Scally, 2008). Direct construction of public housing is much less common in the modern day, but bonds are still consistently used to bridge financing gaps that private capital needs to construct affordable housing (Keating, 2018). This is indicative that bonds are still a good tool for raising money for affordable housing.

Inclusionary Zoning

Inclusionary zoning policies are usually set and defined at the local level, although state governments occasionally intervene. Inclusionary zoning policy specifics can vary a lot from locality to locality, but they share the same general characteristics. Inclusionary zoning requires new developments to include a certain number of affordable units in addition to the market rate units they build. Occasionally cities will relax zoning requirements in exchange for the new affordable units that are built by the developer (Schneider, 2018). In Texas, mandatory inclusionary zoning policies are illegal by state law (Clifton, 2020). To get around this restriction Austin offers a density bonus program, a special kind of inclusionary zoning that incentivizes new development projects to include affordable units. Density bonuses are when the locality loosens zoning restrictions to allow bigger, higher-value developments in exchange for a developer's voluntary contribution to affordable housing goals. For example, a locality may allow a developer to build two stories higher than the property is zoned for (and thus benefit from an additional 2 stories of rent payments) in exchange for promising that a portion of the extra units will be rented out at affordable, below-market rents to residents who demonstrate need.

Inclusionary zoning is a particularly useful tool because it can be managed independently of federal policies and work at deeper causes of increased housing prices. One of the leading causes of high housing prices in localities are restrictions that prevent developers from adequately increasing the supply of housing (Glaeser et. al, 2005; Glaeser et. al, 2006). Inclusionary zoning programs can vary widely across jurisdictions. The main lines of difference are whether they are voluntary, what types of developments are affected, details on affordability like how many units and for how long, and the types of residents who qualify for the units (Schuetz et. al, 2009; Freeman & Schuetz, 2017).

In general, inclusionary zoning is attributed with increasing affordable housing units in jurisdictions where it is present (Sturtevant, 2016; Thaden & Wang, 2017). However, Ramakrishnan et. al (2019) show that there is evidence that the benefits vary significantly across jurisdictions, a fact that is likely due to both the different environment the programs are in and the diversity in the specific characteristics of each inclusionary zoning program. Evidence of inclusionary zoning's impact on the housing market is mixed with studies showing both increases and no effect of the policy on prices and production (Ramakrishnan et. al 2019). More recent and data rich studies have shown that the effect of inclusionary zoning on housing supply is statistically indistinguishable from zero (Schuetz et. al, 2011; Thaden & Wang, 2017).

The evidence on whether inclusionary zoning is effective at reducing displacement is also marginal. In a study of inclusionary zoning's effects on the racial makeup of neighborhoods in Montgomery County, Maryland and Suffolk County, New York, Kontokosta (2014) finds the policy is associated with improved integration. This could be evidence of fighting displacement since people of color are not being concentrated away from gentrifying areas. However, it should be noted that the inclusionary zoning policies studied are different from the ones that exist in other localities. Additionally, the results are based on matching neighborhoods which allows for a limited claim that the impact is causal. However, it is important to stress that inclusionary zoning programs are tailored to their setting. If Austin would like to see the same results it should prioritize identifying what works best in its own setting. Furthermore, most research that exists covers mandatory inclusionary zoning programs, so Austin's inability to mandate the policy adds another layer of uncertainty to the policy's efficacy.

Tax Increment Financing (TIF)

Tax Increment Financing (TIF) first came into existence in the 1950s in California and has since expanded into most states across the country in some form (Ikromov et. al, 2019). The purpose of TIF is to generate new development in a specific geography that would have trouble happening without government assistance. TIF uses the promise of future increases in property value (and the resulting increase in property taxes) to make funds available in the present. The structure of TIF is best understood through a simple straightforward model as seen in Figure 2: First, a municipality and a developer decide to build on a plot of land. The city assesses the current value of the land and what the value of the land will be after the new build. The municipality calculates how much additional property tax (the tax increment) that would create over a given period. Then the municipality takes out a loan for the total value of the increased value of future property taxes and gives it to the developer to build with. Once the new build is completed, the municipality uses the larger property taxes to service the debt until it is completely paid off (Merriman, 2018; Ikromov et. al, 2019).

How TIF works

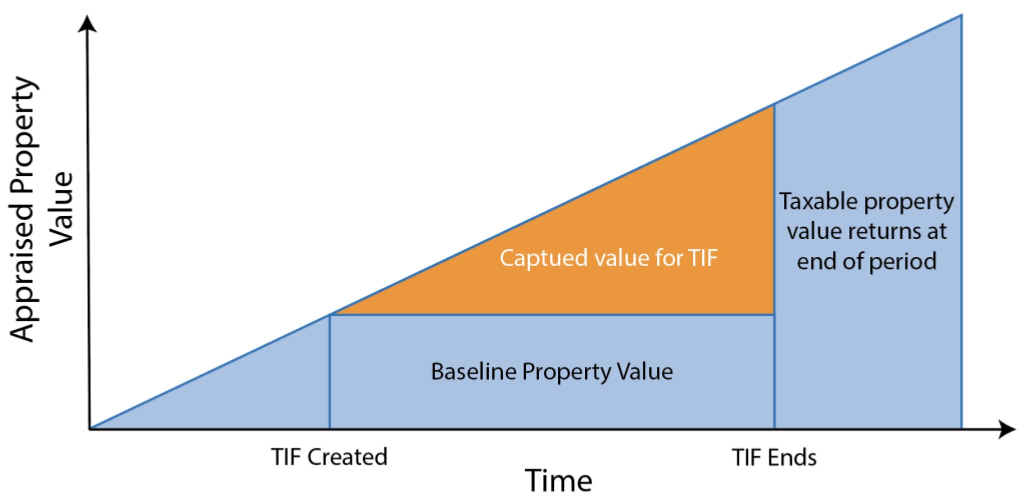


Figure 2: Visualization of TIF's financial structure (Schneider, 2019)

The laws that govern TIF are set at the state level, although municipalities are given the freedom to adjust their policy on top of the state requirements. State TIF laws often require designating a district within the city for tax increment financing. States require that a district be "blighted" and unlikely to be developed by the free market to allow TIF use. However, these requirements are loosely defined and rarely prevent TIF projects from moving forward (Guthridge & Way, 2019; Ikromov et. al, 2019). Other details about the structure of TIF, like the kind of taxes they can collect, vary state by state. Outside of these details, municipalities are free to develop their own TIF programs with their own requirements for development and investment in affordable housing.

The theory behind TIF rests on rising property values, and rising property values harm naturally occurring affordable housing. Because of this, it is important to include dedicated affordable housing programs within TIF projects. TIF programs can be targeted at generating affordable housing, which promote other kinds of economic development. High housing costs are known to harm economic growth. For example, a study by Chang-Tai Hsieh and Enrico Morretti (2015) found that a lack of affordable housing slowed GDP growth in the U.S. from 1964-2009. If there were adequate affordable housing, GDP would have been 13.9% higher.

Tax Increment Financing was developed in order to promote local economic growth broadly. It has been used as a tool to restart ailing economies in cities that have lost industry. There is broad research on TIF. The diverse nature of programs across states and localities make it difficult to definitively outline TIF's effectiveness. Research on the program's effectiveness overall is mixed, and it is best evaluated along a couple of different outcomes. Literature generally holds that TIF districts are effective at generating employment growth within the TIF district (Man 1999; Byrne 2010; El-Khattabi & Lester, 2019). However, looking at the municipality more broadly, TIF appears to create local winners and losers by shifting the locations of jobs across the city rather than exclusively generating new jobs (Dye & Merriman, 2000; Merriman et.al, 2011). In Byrne's (2010) study of Illinois municipalities the positive employment effective only occurred for industrial jobs. Retail employment on the other hand was harmed by TIF. Yadavalli & Landers (2017) examine find no impact on employment through TIF programs in Indiana. At best, the research supports that TIF only supports city-wide job growth on a case by case basis since programs are distinct enough from one another.

Tax Increment Financing is much more effective at increasing property values. Controlling for exogenous factors (e.g. municipalities may choose the most promising tracts for TIF, tracts which may have experienced growth without TIF), TIF causes appreciation in property values (Man & Rosen, 1998; Merriman et.al, 2011; Yadavalli & Landers, 2017). However, it varies widely by case whether the difference in growth rate is meaningful. Additionally, there is variation by program which kinds of properties see the greatest increase in value, with non-residential land seeing the most consistent increases (Merriman, 2018).

Community Land Trusts

Government driven programs are not the only way affordable housing gets produced across America. An option used across the United States are Community land trusts (CLTs). These organizations are often non-profit providers of housing options to families who meet income requirements. The intention of CLTs are to ensure that affordable units remain affordable over the long-term and low-income households can enjoy the equity benefits of appreciating home values. In order to provide affordable housing, community land trusts take housing they own and lease it to low-income households at an affordable rate. The low-income household is then allowed to treat the house as their own until they want to move. When they move, they are allowed to sell their home and keep a portion of the increased home value for a limited profit. The profit is limited because the home must be sold at a below-market rate to another family in need. Once the home is passed on to the new family, the cycle restarts keeping the home affordable for the long-term (U.S. Department of Housing and Urban Development, 2019).

Community land trusts have been found to be an effective method of supporting affordable housing. They ensure that low-income families have reasonable access to homeownership. Furthermore, they help support affordable housing for traditionally marginalized groups the most, particularly minority and woman-led households (Wang et.al, 2019). Importantly, the presence of CLT programs is associated with slowing gentrification and easing the pressures that it puts on communities (Choi et. al, 2017). A major drawback of CLT programs is that they require a large upfront investment to create affordable housing. The nonprofits that usually run CLTs often rely on grants or public subsidies, but the programs could be more effective with consistent and sustainable funding (Palmer, 2019).

Partnering with Anchor Institutions

A new concept that has gained influence in recent years is the possibility of partnering with major local non-profit institutions to help cash-strapped localities provide affordable housing. The main focus of this movement has been on non-profit hospital networks. Since the passage of the Affordable Care Act, non-profit hospitals have been required to periodically run community health needs assessments and use that information to develop community benefits programs. Hospitals that fail to do so are at risk of losing their federal tax-exempt status (Somerville et. al, 2013). As a result of the legislation, the community benefits hospitals provide to their service areas have expanded from simple programs like free clinics which trace a clear path from service to improved public health. New programs attempt to address social determinants of health like poverty, food access and housing affordability. There is a wealth of research considering affordable housing relationship with human health and wellbeing.

The research overwhelmingly shows that physical and mental health are extremely related to housing status (Maqbool et. al, 2015). Some of the association between health and housing stability could operate in the opposite causal direction, where people in better health are more equipped to successfully earn money and make rent. The Moving to Opportunity study, a large-scale randomized control trial that used a lottery to assign participants to receive affordable housing vouchers, shows that moving to better neighborhoods with affordable housing is associated with improved health outcomes (Ludwig et. al, 2011; Struhl, 2015). This relationship exists for a variety of housing instability types, ranging from homelessness to constant moves to even simply having difficulty in paying bills even if the tenant avoids eviction (Bergard et. al, 2012).

This relationship has emboldened hospital systems to look into funding affordable housing as a way of meeting their community benefits requirement. For example, in 2011, Stamford Hospital in Connecticut partnered with the local housing authority to convert its property into 7 mixed use and mixed income housing complexes (Miller, 2017). Nationwide Children's Hospital in Columbus, Ohio similarly invested with a local nonprofit to directly build out affordable housing complexes and units (Scally et. al, 2017a). These examples show that it is possible for hospitals to partner with local governments and nonprofits to develop affordable housing. However, this is a new system and there is no empirical evidence measuring program outcomes or comparing it to other methods of building affordable housing.

Evidence in review

There is a long history of institutions stepping in to provide affordable housing to communities in need. How successful these programs are at generating housing that otherwise wouldn't be built varies, but each one has the effect of creating affordable units that are guaranteed to be rented at an affordable rate. Austin makes a meaningful use of successful programs like LIHTC and housing bonds already. However, LIHTC is limited by federal allowances and where the state review board decides to approve LIHTC projects. Moreover, the city is finance constrained and there is a limit to the amount of debt it is willing and able to take out through bonds to unilaterally finance affordable housing. With these constraints in mind, the city must look to available policies to leverage financial investment from private sources. Among these are inclusionary zoning policies, charitable giving and investments by nonprofits and local employers, and TIF. The following section outlines selected policy options available to Austin in more detail.

Policy Options

Density Bonus Expansion

The City of Austin could promote an expansion of its existing density bonus program in order to increase the funds flowing into affordable housing. Density bonuses are common tool used across the country to increase affordable units in the absence of the ability to mandate affordable units with inclusionary zoning. The policy gives concessions on building height and other restrictions due to the property's zoning (i.e. density bonuses) to developers in exchange for the developers converting some number of the new units into affordable housing. There are currently 14 density bonus programs in Austin. With the density bonus, developers are often willing to take on the financial burden of renting units below market rate and thus subsidize more units than there would have been in the programs absence. New density bonus projects arise on a case-by-case basis through discussions between private developers and the city.

This policy option recommends a number of adjustments to Austin's current density bonus program. The Austin Housing and Planning Department could contribute more resources to forming new density bonus partnerships in order to increase the funds going into affordable units. To support this goal, all density bonus zones could be adjusted to include an option for developers to contribute to the Austin affordable housing fund rather than convert any units from their own projects into affordable units. The current fees developers must pay per square foot under the density bonus program ranges from $5 to $18 (Austin Downtown Commission, 2021). Adjustments to the price per square foot that Austin developers are asked to pay into the housing fund in lieu of creating on site affordable units could be increased to better reflect the value of real estate in Austin and the fee could be put on a regular readjustment schedule to ensure the density bonus program is providing as much support to affordable housing funds as possible.

This policy option works well to support affordable housing without creating displacement. With a payment in lieu of on-site affordable housing, new developments can be built anywhere in the city with a density bonus zone and still contribute to affordable housing in gentrifying neighborhoods. This could be particularly effective as an influx of skilled workers increases demand for new apartments in Austin's downtown neighborhood. Affordable units that density bonuses would previously mandate be built on site in downtown would be redirected to traditionally marginalized neighborhoods that are facing the pressures of gentrification.

Nonprofit Hospital Community Benefit Investments

The community benefits requirement contained within the Affordable Care Act creates an interesting opportunity for the city to help redirect some of those funds. The funds are used for a slew of health-related programs, and there is a strong case that affordable housing investments qualify for community benefits spending as a strong social determinant of health. Austin could use this evidence to promote the idea of contributing funds to affordable housing as a way to meet community benefits requirements with its local nonprofit hospitals.

There are many nonprofit hospitals in the Austin metropolitan area to serve its population of nearly 2.3 million. Any of these hospitals could be viable partners with whom Austin HPD could craft an affordable housing program. The City of Austin cannot legally coerce the hospitals into shifting funds towards affordable housing. Instead the city could set up meetings with local hospital systems. In these meetings the city will inform hospital administrators of the possibility of investing in affordable housing and its benefits. The city would encourage hospitals to weigh affordable housing against their current community benefits programs and consider shifting spending towards affordable housing. To support uptake, the city would also contribute a dedicated stuff member from its housing department for the project. The staff member will help the hospitals get connected with nonprofit housing developers, train the hospitals to make decisions about investments, and finally consult in directly on projects to provide more security to the hospital that a development is a good deal.

Impact Investing by Major Local Employers

The city can support and encourage private companies to direct funds towards developing affordable housing by building it into the negotiation with companies when they are relocating to Austin. Large companies often have a philanthropic arm within their organization. Austin's government could promote their city's need for affordable housing and request that companies direct their donations and investments towards the city's affordable housing ecosystem. Austin's economy is growing quickly and attracting an increasing presence from large companies (Egan, 2021). Companies, and tech companies in particular, recognize the impact they can have on housing prices. They've already seen how rents skyrocket without responsible corporate behavior in Silicon Valley (Ghaffary, 2019). As a result, they may be willing to listen to Austin's recommendations – both for the good of their own employees and to maintain goodwill with the communities they will be occupying.

There is already a precedence set for major companies investing directly in affordable housing in their local communities. For example, Google recently invested $30 million in affordable housing in the Bay Area in partnership with Housing Trust Silicon Valley. Companies that have been in Austin for years like Dell Computers have already donated millions to housing nonprofits in the area. The city could seek out willing partners among the incoming large corporations and housing nonprofits in order to facilitate these kinds of donations and get them started as quickly as possible. For the cities city's role, they could begin to maintain a database of non-profit developers, housing charities, and large companies located in the region. The city would become a matchmaker, finding projects that either completely lack funds or that just need a little more financing and connecting them to private companies' philanthropy that are looking for a new investment.

The Austin government could produce a guide for incoming companies about how to invest in affordable housing and dedicate a staff member to help guide funds to where they will get the most housing built. A key point in the city's guidance should be pointing wealthier companies to donate to community land trusts (CLTs). CLTs are highly effective at producing lasting affordable housing that direct profits towards program beneficiaries. However, they are highly capital intensive and Austin needs more of them (Hedman et.al, 2017). Small investments would not generate much progress, but with the direction of Austin HPD large companies have the resources to cover a large expansion in CLT projects.

New Tax Increment Reinvestment Zone aimed at Affordable Housing

Another policy the city can pursue to expand the amount of money going towards affordable housing is expanding its TIF program in areas that are at risk of gentrification and displacement. Tax increment financing has existed for decades and has successfully generated affordable housing in cities across the United States (Merriman, 2018). In its limited use in Austin so far TIF has been successful (Clifton, 2020). The policy leverages the expected future increases in land values in outlined underserved neighborhoods to produce present capital that wouldn't otherwise exist. Tax increment financing projects usually see the government take on debt and service it themselves with the tax increment (Ikromov et. al, 2019). In order to bring in private capital, the city of Austin could adopt the newer developer financed or "pay-as-you-go" model of TIF. In this model, private developers take out the loans themselves and the city refunds the tax increment on property value so that the developers can service their loans. This shifts both risk and the need to produce the initial capital away from the city and on to developers. Austin can bridge the gap of between available funds and needed funds to generate affordable housing with the new TIF program.

In Texas there are specific guidelines for using TIF. They require that there is "blight" in the designated area and that the TIF can only be used for value increases that wouldn't happen in its absence. If a proposal outlines an area that meets these conditions, then it can be turned into a tax increment reinvestment zone (TIRZ) (Guthridge & Way, 2019). A TIRZ is the physical footprint within Austin where new developments are allowed to use the specified tax increment financing system. If a development is outside of the outlined area in Austin, it will have to pursue financing through traditional means.

If Austin establishes a new affordable housing-focused TIRZ in an area at risk of gentrification then it can mitigate the displacement of current residents of that neighborhood. Previous TIRZ's in Austin like the Mueller TIF district have required as many as 25% of built units be affordable housing (City of Austin Office of the City Auditor, 2020). The new affordable-housing focused TIRZ would ensure at 30% of all housing units are affordable. Along with affordable housing, the creation of the TIRZ would introduce more economic opportunity to the area which can make jobs more accessible to lower income residents and help distribute the benefits of the city's rapidly expanding economy more equitably.

Criteria

In order to evaluate the policy options on a level setting, it is important to establish common evaluative criteria. The following section outlines and describes 3 criteria that are important for an affordable housing policy to be successful: Effectiveness, Equity, and Likelihood of Take-Up. These three criteria will be used to weigh the merits of the policy options described earlier.

Effectiveness – Does this program lead to an increase in money put towards affordable housing?

The most important goal of this project at its base is to prevent the displacement of Austin residents. As housing prices continue to rise with demand and new infrastructure raises land value, many historical residents are pushed out. Effective policies will produce new capital investments that go towards constructing affordable housing units across the city so that legacy Austinites are not forced to move away from their traditional neighborhood. Partial consideration will be given to programs that allow low-income Austin residents to remain in the city but in a different neighborhood. This criterion will be measured by the level of dollar investments or housing units produced. Estimates will be informed using evidence from past iterations of the policies in Austin as well as in other settings.

Equity – Are benefits distributed proportionally to the racial and socioeconomic groups that currently reside in Austin?

Austin is home to a diverse range of racial and ethnic groups that come from a variety of socioeconomic backgrounds. However, people of color are overrepresented in the lower income areas around downtown Austin and in East Austin. Affordable housing projects should ensure that people of color are overrepresented in who is receiving benefits. This will be measured by a simple high to low scale. The measurement will consider the ability of each program to create and enforce specific equity guidelines. Example equity guidelines include the ability to direct the profits from development towards members of marginalized communities.

Likelihood of Take-Up – What is the probability the policy will be actively used and consistently produce new affordable housing investments?

The Austin government has special enforcement power that private organizations do not have. This criterion will evaluate policies on the degree of control it gives the city government to direct the flow of affordable housing funds to areas in the city that most needs it. The ideal policy will give the city the power to induce private funds to flow into affordable housing production at will. A policy's mechanisms will be evaluated to understand how far city actions are removed from the actual investment of capital into affordable housing units. Additional consideration will be given to the effort it will take from the city to initiate a new investment. Each alternative will be scored on a Likert scale from extremely unlikely to extremely likely.

Findings

Density Bonuses

Effectiveness:
Academic research indicates that inclusionary zoning style programs like density bonuses are effective tools for generating new affordable housing (Schuetz et. al, 2011; Thaden & Wang, 2017). However, outcomes vary widely and hinge on program design. Austin has had 11 different forms of density bonus programs since 2004 (City of Austin Housing and Planning Department, 2021). Over the time they have been active, the programs have generated over 24,000 new affordable units (Denver, 2020). This accounts for two thirds of Austin's over 35,000 active affordable housing units (Affordable Housing Inventory, 2022). This is indicative of Austin having an effective design for its density bonus programs. If Austin continues to use a similar model for its density bonus program there is no indication that there will be any drop off in developer take-up. If developers continue to participate in the program and more of those developers have an option to pay a fee rather than build on-site affordable units, the program will increase the amount of funds the city has available for building affordable housing. The magnitude of the altered density bonus program will depend on developer take-up and the update rate developers must pay per square foot. Adjusting the density bonus program would be moderately effective at increasing the amount of funds going towards affordable housing in Austin.

Equity:
Expanding the density bonus program's fee in lieu of on-site housing option would have an important impact on expanding the possibilities of where affordable housing can be built. Without fees, affordable units must be collocated with new market rate developments. New developments would have to be placed in neighborhoods at high risk of displacement as a preventative measure. The new developments in gentrifying neighborhoods with added on-site affordable housing would prevent displacement but will also alter the character and demographics of the neighborhood. By shifting benefits requirements away from the rigid affordable unit requirement to the more flexible fee system, this alternative will promote building affordable housing in neighborhoods at risk of displacement while minimizing the need to introduce gentrifying market rate apartments into those same neighborhoods. However, while marginalized communities are likely to benefit, the profits from new developments remain concentrated in the hands of real estate developers. This policy option generally promotes equitable outcomes but underperforms relative to other options.

Likelihood of Take-Up:
Austin's existing density bonus programs are well used and have produced tens of thousands of affordable units over the last two decades. Expanding the fee option for the density bonus program will not decrease affordable units. Developers will still have the option to build on-site affordable units. However, developers and the city will now have the added option to use a fee in exchange for the density bonus. The added flexibility would improve the city's ability to negotiate for affordable housing contributions and may entice developers who were not interested in on-site affordability to participate. Additionally, real estate developers have stated

that they prefer the stability of the fees being revisited on a set schedule (Lee, 2021). The new fee schedule would further support developer take-up into the program. Because the program is optional, unforeseen future shifts in the housing market could lead developers to stop participating in the program. However, if current trends continue developers are unlikely to suddenly begin opting out at a higher rate. This policy option ranks as medium to high likelihood of take-up.

Nonprofit Hospital Community Benefit Investments

Effectiveness:
Case study evidence shows that local government partnership with hospitals can succeed in producing new affordable housing units (Miller, 2017; Scally et. al, 2017a). However, these examples use strategies where hospitals have a direct involvement in funding and developing affordable housing. Austin would be asking hospitals to invest capital but be less directly involved in the housing construction. The hospitals' money is most effective if it is paired money from other private sources (Reynolds et. al, 2019). But hospitals must be strict about following IRS guidelines where they can show direct health impact, which may prevent them from participating fully in this investment strategy (Ayala & Trocchio, 2018). In case study examples hospitals have been more involved in the project and partnered with a larger investor to ensure the project would satisfy the community health requirement. With the city as a partner, hospitals may be more willing to participate in the program and feel less need to be extensively involved. Finally, while hospitals are a stable community institution, all else equal it is unclear whether their size will change relative to the city's population. Functionally there will be a cap on the amount of funding that can be derived from hospital community benefit payments tied to how much health services are demanded. Overall, this alternative has low-to-average prospects for effectiveness.

Equity:
This alternative focuses heavily on ensuring that benefits go to those who are worst off and demonstrate the highest need. The community benefit requirements are structured in a way that emphasizes improving public health as a result of expenditure. Housing programs that earn the biggest improvements to public health are aimed at homeless and extremely low-income populations. Homelessness is heavily correlated with poorer health (Burgard et. al, 2012). Programs that reduce homelessness like permanent supportive housing have been shown to drastically reduce indicators of poor health (Hunter et. al, 2017). In addition to promoting equity in services by income, housing initiatives will promote racial equity in Austin. Austin's Black population is overrepresented among the city's homeless (ECHO, 2021).

There is less causal evidence connecting affordable housing investments for low income individuals to improved health. In part because of this, hospitals have avoided and will likely continue to avoid investing in broader housing initiatives (Reynolds et. al, 2019). While all residents in Austin deserve to have an affordable place to live, those who demonstrate the most need and could benefit the most from affordable housing are those who are homeless and at the greatest risk of homelessness. Hospital programs should be monitored to ensure that the white homeless population isn't advantaged over the non-white homeless population in accessing the housing programs. If this is true, then impact investing by local non-profit hospitals will be a highly equitable alternative.

Likelihood of Take-up:
Hospitals will be hesitant to take part in the program because of the lack of evidence behind it. Even with city backing, it's unclear whether all contributions will count as community benefit and importantly exactly home much their contributions will improve community health. Hospitals have voiced that their primary concern being health and saying it is up to housing groups to convince them to contribute (Reynolds et. al, 2019). Furthermore, this approach hinges on the hospital remaining convinced that affordable housing does the most good for public health with their money. Changes to community needs can occur; for example a recession that causes people to lose their jobs and healthcare, subsequently driving up the need for access to medical bill forgiveness. It is unlikely that the program will consistently be used because of the changes that occur in community needs. The likelihood that Austin would be able to partner with local non-profit hospitals to develop and maintain additional investments in affordable housing is low.

Impact Investing by Major Local Employers

Effectiveness:
Large U.S. companies, particularly those in tech, have made major commitments to making affordable housing investments in the communities they occupy in recent years. Companies have made these commitments across many geographies, from Microsoft in Seattle to Google in Oakland Valley to Amazon in the D.C. metropolitan area (Cheslow, 2019; Wakabayashi & Dougherty, 2019; Weise, 2019). Austin has increasingly become a destination for prominent companies. Tesla and Oracle are already moving to the city and joining major companies that already call the city home like Dell and Samsung, and more may soon follow (Gruca, 2021; Lee, 2022). This indicates that there will be a rich field of successful private companies that Austin can use to support its affordable housing goals. This policy would have a medium level of effectiveness.

Equity:
Incoming major companies are in part responsible for the under provision of affordable housing in Austin. The high wage workers they brought in have bid up prices, and large private investors have come in and bid up prices higher in anticipation of more incoming high wage workers (Rastegar, 2021). It also creates the dangerous dynamic of relying on private companies to deliver an important public good. If the city becomes dependent on companies voluntarily providing money for local affordable housing, the companies will be able to leverage this fact to gain favorable outcomes elsewhere with the city, which could end up hurting the city's most disadvantaged populations. However, funds from private companies are a lot more flexible than ones tied to government programs and can be rapidly redeployed as needs change in order to help those most in need. This policy ranks as having medium equity because of the tradeoff in bargaining power to private organizations for the ability to quickly readjust to Austinites' needs.

Likelihood of Take-Up:
When a new company moves into Austin there is a large opportunity to ask for affordable housing contributions. Usually major companies move to cities partly due to packages of incentives presented by the city. Austin could ask for affordable housing investments as a condition of receiving those incentives, much like Arlington, Virginia did when Amazon relocated there (Cheslow, 2019). However, once a company has relocated, the city won't have much power to compel investments in affordable housing. Some companies may be interested in maintaining their public image or have values where they want to support affordable housing, but these will likely be piecemeal measures that will be subject to termination at any point. Because the city loses significant influence once a company has already relocated, this policy has a low-to-medium likelihood of take-up.

New Tax Increment Reinvestment Zone aimed at Affordable Housing

Effectiveness:
Tax Increment Financing has been used in Austin and in other cities in Texas before to successfully build out more affordable housing units. A recent review of Austin's four TIRZs has concluded that they are all on track to meet their declared goals, including their commitment to building affordable housing. Dallas is one of the largest users of TIF programs in Texas. From 2005 -2016 its projects generated over 2,300 affordable housing units (City of Dallas Office of Economic Development, n.d.). Other cities across Texas have similarly seen success in leveraging TIF to get private investment for affordable units (Guthridge & Way, 2019). Creating a new TIRZ for affordable housing has a high level of effectiveness.

Equity:
Tax Increment Finance projects are unique from the other policy options in that they propose to generate two benefits: affordable housing and jobs. The evidence is mixed on how effective the TIRZs would be at delivering jobs (Merriman, 2018). However if the program simply reallocates local jobs to where the TIRZ is, it will promote economic access for those who are in need of affordable housing. TIRZs in Austin are subject to a few requirements: a minimum of 20% of its generated housing units as affordable, a representative of the community must be on its board, the plan must go through an extensive community review process. These will all go far to ensure that the benefits of the TIRZ are being distributed to community members as fairly as possible. The new TIRZ promotes a medium level of equity.

Likelihood of Take-Up:
The recent success of TIRZs in Austin will make the city more willing to pursue the same strategy in the future. The city recently increased the maximum allowable amount of its tax base that can be located within a TIRZ from five percent to ten percent (City of Dallas Office of Economic Development, n.d.). There have been some worries on City Council about being overly reliant on TIF, but overall the government us in favor of expansion (Clifton, 2019).

Outcomes Matrix

Policy Alternatives	Effectiveness	Equity	Likelihood of Take-Up
Expanded Density Bonuses	Medium	Medium	Medium-to-High
Nonprofit Hospital Community Benefit Investments	Low-to-Medium	High	Low
Impact Investing by Private Companies	Medium	Medium-to-High	Low-to-Medium
Tax Increment Reinvestment Zone (TIRZ) Aimed at Affordable Housing	High	Medium	Medium-to-High

Recommendation

Austin should pursue expanding its Tax Increment Financing program. The program has not been used extensively in the city, but it has been successful the places it has operated. The expanded TIF program will be the most effective at driving new private capital into affordable housing and creating new units in Austin. Additionally, this policy can be geographically targeted to help areas of the city most in need. By virtue of being a geographically targeted program TIF benefits all who live and work in the TIRZ, but certain parameters like affordable housing requirements and equity goals can make sure the zone disproportionately benefits marginalized and low-income residents. Austin's efforts to expand private investment in affordable housing are best focused on expanding its TIF programs in order to produce the upfront cash needed to build new affordable housing units in a rapidly growing city.

Implementation

The creation of TIF projects in Texas is a prescribed process. It allows some creativity but requires jurisdictions to follow a certain series of steps. Before initiating that process, the City of Austin will spend a year investigating areas of the eastern part of the city to determine a couple of eligible block groups for the program. The city council should create a special taskforce made up of members from the Housing and Planning Department and the Economic Development Department to identify neighborhoods to propose for TIF.

Figure 4

In order to be eligible for TIF in Texas, the land must exist where private investment won't occur on its own in the near future and where there are signs of "blight," although these criteria are subjective and rarely pose a meaningful hurdle for a project (Guthridge & Way, 2019). My preliminary recommendation is to consider the Martin Luther King and Montopolis neighborhoods as prime locations for a TIRZ. Both neighborhoods have areas that could meet the TIF requirements, are located along proposed transit lines from Project Connect (the Green and Blue Lines, respectively) and both are neighborhoods that the city's Uprooted report identified as vulnerable to gentrification (Way et. al, 2018).

No more than 15% of a city's tax base can be committed to a TIRZ in Texas, and in Austin that limit is 10%. The task force should whittle down the areas for a pilot program to ensure the city stays below the 10% threshold. Additionally, smaller TIRZs will allow the city to experiment with different formats during a pilot period that can inform the ideal qualities for TIRZs in Austin. (City of Austin Financial Services Department, 2013).

The special task force will create a preliminary draft of the project and financing plans. The project plan will have focus on building new housing units. The plan will set a minimum share of affordable units per housing project as well. A good model for this is Austin's Mueller TIRZ, which is on track to build 4,900 housing units, a quarter of which are dedicated affordable. There is a shortage of affordable rental units in Austin by 25,000 units (Root Policy Research, 2020). The program will not completely solve the housing shortage, but it can make a significant impact. The housing-focused TIRZ should build even more units and have a commitment to higher affordability levels. It is subject to change depending on the size if the TIRZ, but the project should aim for generating 8,000 housing units, half of which will be required to have affordability support (up to 100% of TIRZ funds can be directed towards affordable housing).

When rolling out TIF, the city must be careful to make sure the program is having an overall positive impact. Tax increment financing is tricky when aimed at generating affordable housing because it is a system that relies on expected increases in property value. This means that any affordable housing TIF program must generate affordable housing to address the existing crisis and make up for the increased property values it will cause. Additionally, TIF schemes tie up future money for the city and give it less flexibility on expenditures in the future. This could cause problems for other public services like public transportation, schools, parks and utilities. The plan can include commitments to investments in schools, public services and job creation to assuage concerns about missed gains in those areas. It's doubly important to ensure there is investment in creating job growth within the TIRZ to support increased property values as well as making sure those in affordable housing have access to economic opportunity. To minimize the risk of these adverse outcomes, the proposed TIRZ will go through an additional year of well-advertised public hearings to inform the project draft and work towards a final plan. If public hearings are insufficiently well attended, then the public hearing period may be extended. With public input in hand, the final project plan will be best suited to avoid negative outcomes.

In Austin, the city council acts as the board of directors for TIF projects so all they will need to do is appoint a local representative from any tax districts within the TIRZ and then approve the final project. The new TIRZ will last 30 years, similar to timelines of existing TIRZs in Austin. The board should take special care to have yearly reviews of the TIRZs performance and equitable outcomes, something that most TIRZs in Texas fail to do (Guthridge & Way, 2019). After five years, the city should evaluate whether any major changes are necessary in the program. If not, the city will begin planning for new TIRZs to follow in the pilot program's footsteps. Following the same timeline, more affordable housing TIRZs can begin production after seven years.

Implementation Timeline

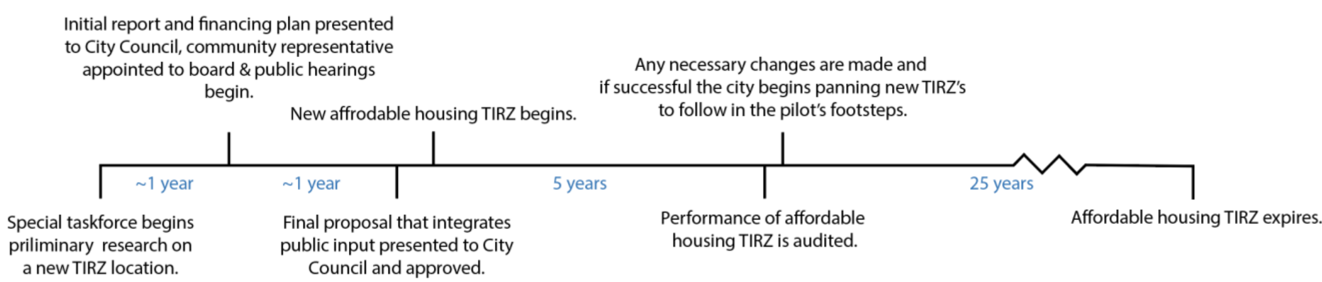
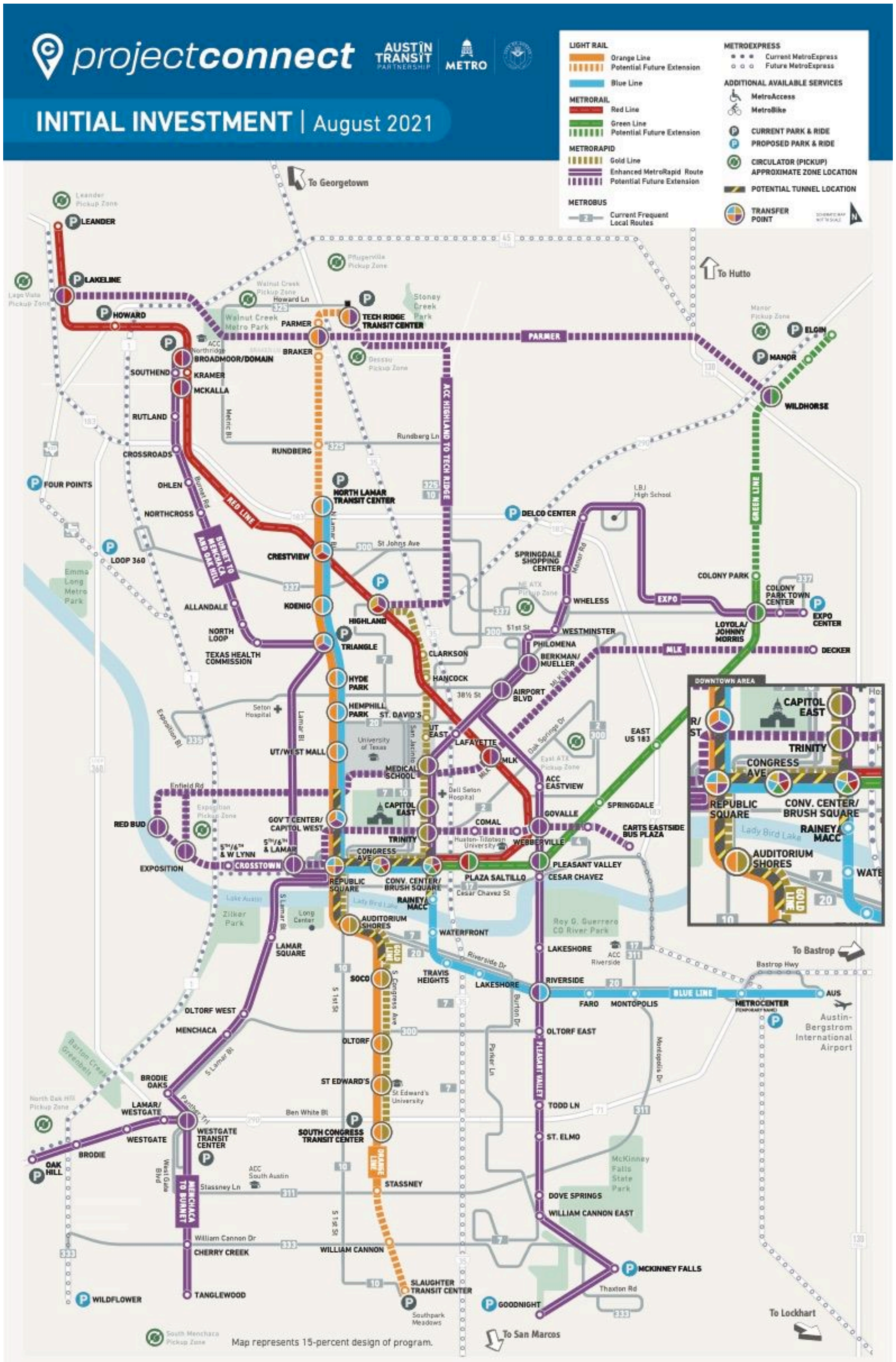


Figure 5

Conclusion:

Tax increment finance projects can generate much needed capital investment for affordable housing in Austin. Creating a new TIRZ must follow a process designated by Texas, but the details of how the TIRZ is structured is up to the city. Austin will start a pilot TIRZ aimed at generating affordable housing in East Austin. After going through process of internal review and public comment, the TIRZ will be best prepared to avoid pitfalls that have been identified with TIF projects in the past. If the pilot program is successful, the city will create new TIRZs. If TIF programs grow the city should consider creating a dedicated board for TIRZs and developing relationships with local major employers to get the most housing out of the policy.

Appendix



Initial map of Project Connect (City of Austin, 2021)

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