



HR&A

HR&A Advisors

**Laredo Inner City  
Revitalization Study  
August 2020**

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Great Cities have great Downtowns; Great Downtowns require People



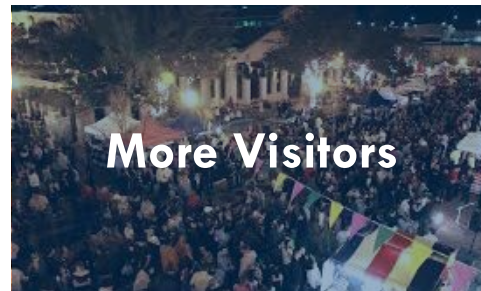
Photo Credits: Laredo CVB

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Laredo has long sought to unleash economic momentum and liveliness by attracting more visitors to the downtown area — shoppers, diners, destination sightseers, event attendees, etc.

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## Vibrant Inner City



**More Visitors**

**Destination Attractions**

**Events**

**Attractive Retail**

**Variety of different reasons  
to come downtown**

**Agreeable/Interesting  
space to linger**

*Photo Credits: Main Street Laredo Instagram & Laredo EDC Website*



Self-sustaining vibrancy requires a **variety of users**, including Inner City residents and workers who support a baseline level of economic activity every day.



Photo Credits: Main Street Laredo Instagram & Laredo EDC Website

New housing development in Inner City Laredo is **better for the economy** and **better for the City's fiscal health** than housing development on untouched land in the outskirts of Laredo.

### Less of a fiscal burden over the long term

No impact on Fire department response times, meaning no incremental pressure for **new fire station**, new fire equipment, an expanded Fire FTEs.

No impact on **major commuter arterials**, meaning no incremental pressure for road widening.

No incremental pressure to acquire land, construct, and operate additional resident-serving amenities (**parks, libraries, transit stops**), with all the associated asset maintenance responsibilities.

No incremental pressure on **El Metro transit** to extend service lines.

No **new infrastructure** lines with the associated maintenance responsibilities (roads, water/sewer).

Minimal impact on police response times, meaning no incremental pressure for **new police substations**.

Minimal impact on **solid waste** collection capacity.

### Greater ripple effects on Laredo's economy

Greater ripple effect on **nearby properties' assessed values**, due to neighborhood density and integrated streetscape.

Strengthen the market case for businesses to invest in **consumer retail** (including grocery stores) in parts of the city that are currently underserved.

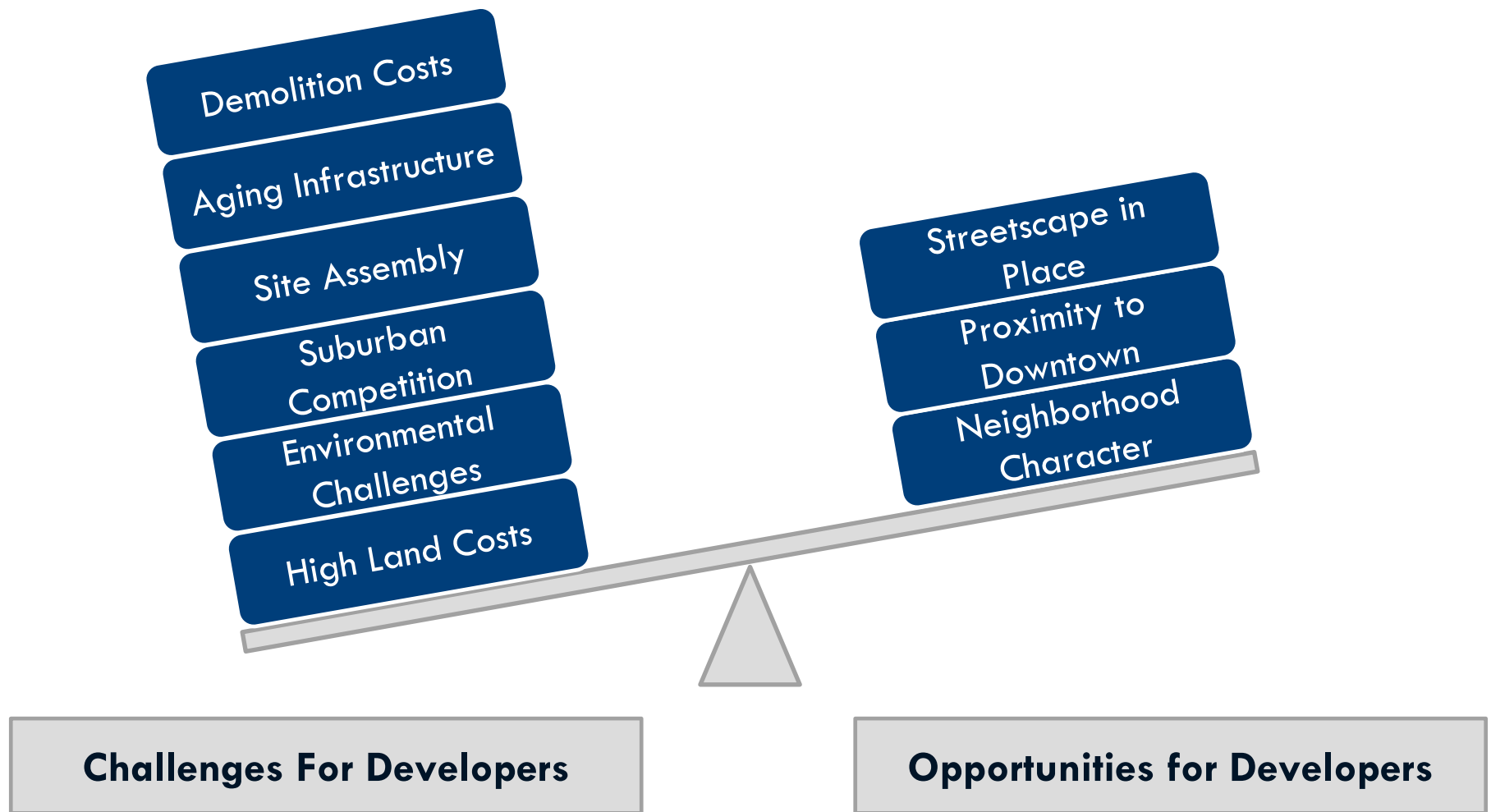
Greater likelihood that residents will take advantage of current light touch placemaking efforts (farmer's market, public seating, historic squares), adding **everyday vibrancy** beyond expensive, large scale special events.

Preservation and investment in historic neighborhoods of interest to **heritage tourism**.

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Unfortunately, most Developers are **deterred by the added costs and inconvenience** of an Inner City location, compared to untouched lots on Laredo's outskirts.

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# What will it take to accelerate Inner City revitalization?

## Purpose of this Study

Working collaboratively with the Laredo Housing Authority (LHA), HR&A determined that Inner City proponents need answers to the following questions in order to direct their efforts most effectively:

- Are **current market conditions** in Laredo undermining the financial feasibility of Inner City private sector development?
- What **type and magnitude of policy response** would be sufficient to overcome market barriers?
- **What is the economic rationale** for prioritizing Inner City development?
- What policy tools have **other Texas cities** used to attract Inner City investment?

**Goal: Empower Inner City Proponents**



Residential construction begins at LHA's Russell Terrance, 2017  
Photo Credits: Danny Zaragoza/Laredo Morning Times

Due Diligence  
& Market Scan

Developer &  
Broker  
Interviews

Financial  
Analysis &  
Incentive Testing

Evaluation of  
Policy Tools

Strategies



INNER CITY DEVELOPMENT: WHY IT MATTERS

**MARKET SCAN**

DEVELOPMENT FEASIBILITY ANALYSIS

TOOLKIT FOR ACCELERATING REVITALIZATION

RECOMMENDATIONS

APPENDIX

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## Recent Trends

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Inner City Laredo has the potential to become a platform for regional visibility and business attraction, spurred by the **clustering of talent**. Elsewhere in Texas, developers, employers, and institutions are capitalizing on **changing generational preferences** by investing in new spaces, businesses, and infrastructure to further restore prominence to once neglected downtown cores.



- The **Inner City Summit** convened local and national experts around placemaking in Laredo's urban core.
- Adoption of commercial investments for food & entertainment venues on **Iturbide Street**.
- The **Downtown Tax Increment Reinvestment Zone (TIRZ)** is accumulating funds for capital investment.
- **San Agustin Plaza** activation events, along with streetscape and landscaping improvements.
- **2017 Comprehensive Plan** prioritized vacant building ordinance, adaptive reuse, and downtown development incentives.



- **Devaluation of the Peso** has deterred cross-border commerce.
- Mexican businesses increasingly **buy goods directly from Asia** rather than via the United States.
- Changing **border processing practices** render cross-border commuting increasingly cumbersome.
- Concerns about Federal politics and practices towards **Latinx immigrants**.
- **High crime rates in Nuevo Laredo** negatively impact cross-border tourism and shopping.
- Inner City Laredo is **overly dependent on retail demand** from low-income Nuevo Laredo residents.
- **Border security infrastructure** poses challenges for downtown wayfinding and accessibility.

# Inner City Residents

## Who lives in the Inner City?

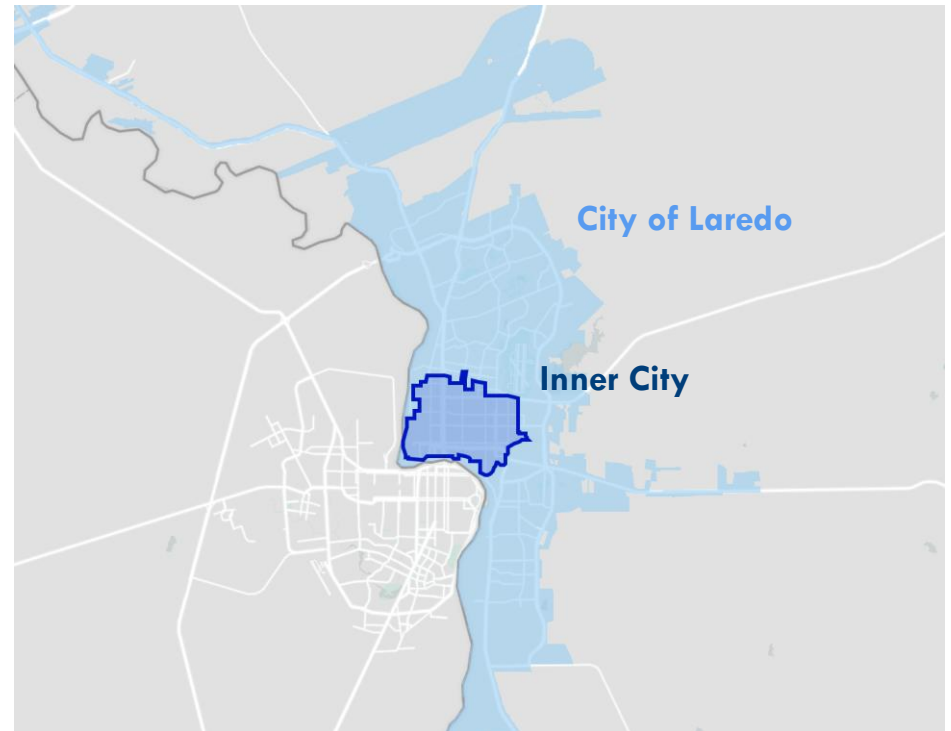
- Almost one-third of Laredo's children under 14 years old
- Almost 40% of Laredo's Baby Boomers and Seniors
- More than 25% of Laredo's Millennials

## Inner City Residents Face Harder Struggles

- Almost half live on less than \$25,000
- Almost 40% of adults have no high school diploma
- Higher concentration of singles, roommates, and solo parents

## How is the Inner City Changing?

- Population growth has flatlined except for Millennials and Seniors



## Inner City Residents ≠ Inner City Workers

Almost 75% of employed Inner City residents work outside the Inner City.

Only 25% of Inner City workers live in the Inner City.



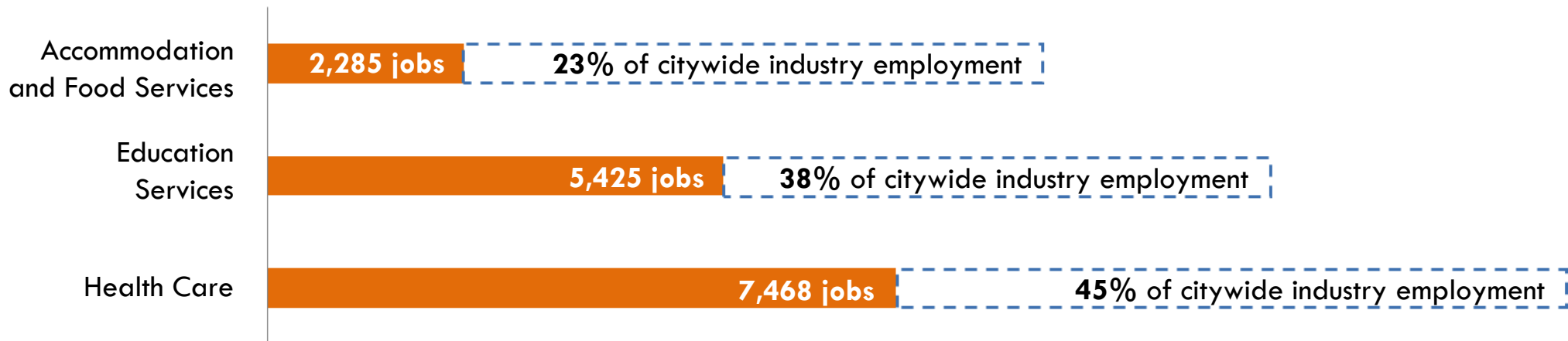
## In other words:

1. Inner City amenities and housing options ≠ the preferences of Inner City workers.
2. The Inner City lacks the kinds of jobs that are a good fit for its residents.



## Inner City Jobs

### Largest Industries by Employee Count in Inner City, 2017



### How is the Inner City's economy changing?

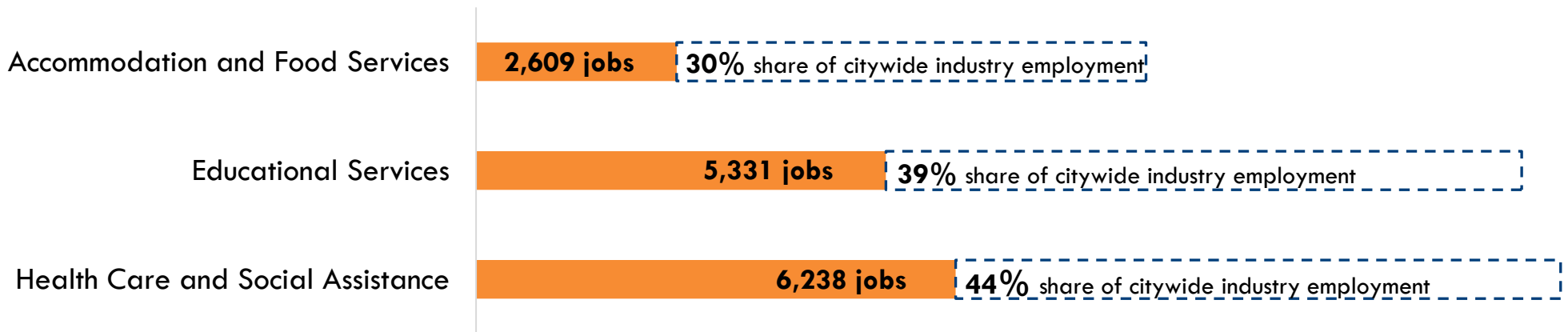
Laredo's job base has grown 13% since 2010, but **only 3% of that growth has occurred in the Inner City.**

Certain specific Inner City industries have grown by over 30% since 2010. However, this growth is but a fraction of the industry's citywide growth trends.

In other words, the **Inner City is not currently a growth engine.** Instead, it benefits from the ripple effects of citywide and statewide growth.

## Inner City Jobs – Update

### Largest Industries by Employee Count in Inner City, 2018



### How is the Inner City's economy changing?

Laredo's job base has grown 15% between 2010 and 2018. However, **Inner City jobs declined by nearly 6%** in the same time period.

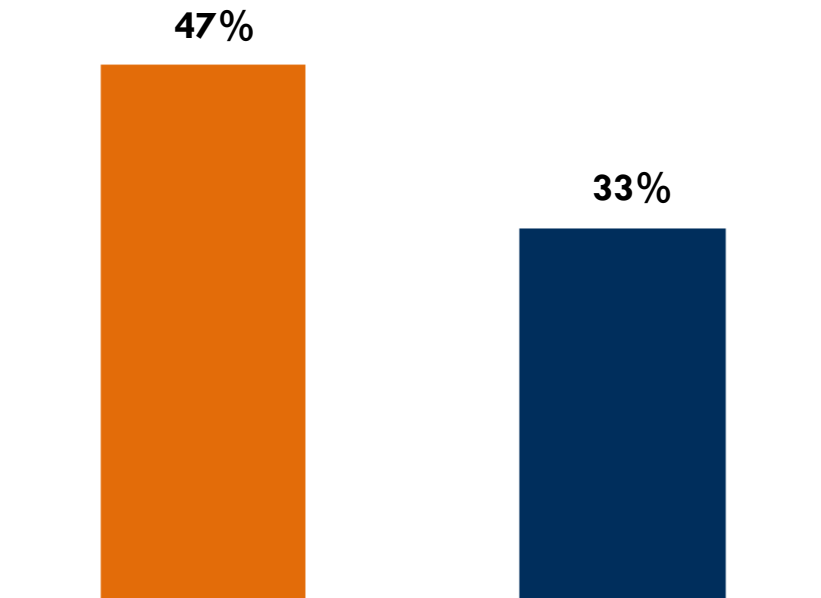
Certain specific Inner City industries have grown by nearly 30% since 2010 (Health Care and Social Assistance and Educational Services), outpacing citywide growth. The growth in these industries does not mitigate the effect of lagging growth in other industries.

In other words, the **Inner City is not currently a growth engine**. Instead, it benefits from the ripple effects of citywide and statewide growth.

Source: LEHD On the Map

# Rental Housing

Almost **half of homes in the Inner City are rentals**, compared to one-third for Laredo overall.

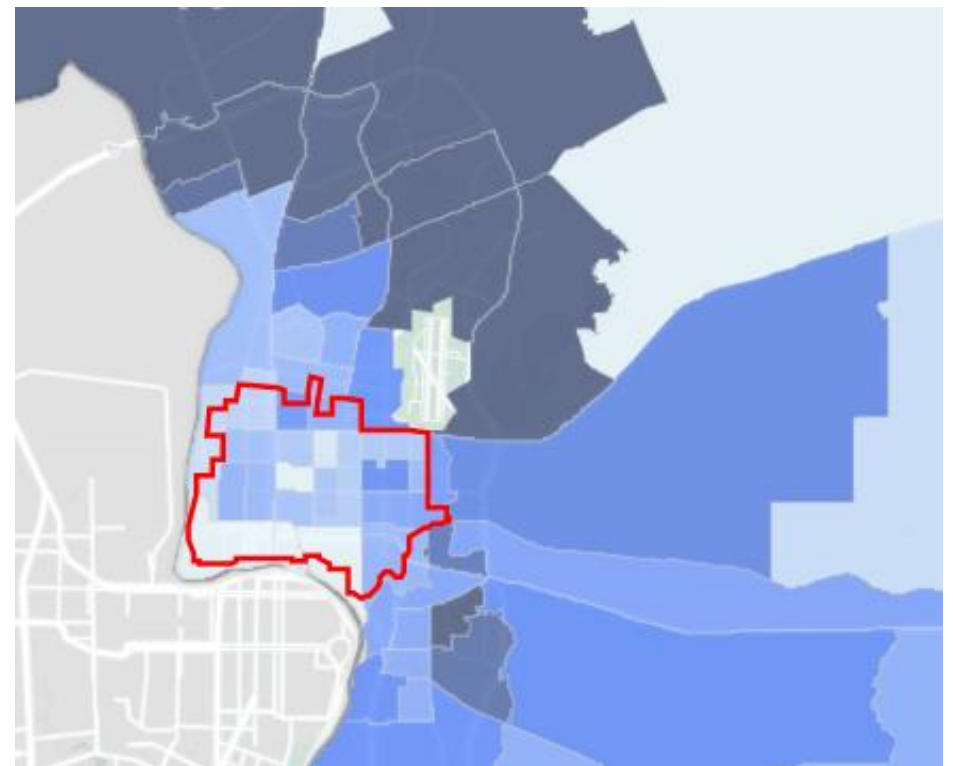


- % Inner City homes that are rentals
- % Homes that are rentals citywide

Source: American Community Survey 5-Year Estimates (2019)

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Laredo's **lowest cost rental housing** is clustered in the Inner City, where homes are older and more likely to be in need of repair.



Inner City Study Area



Rental Cost



Low

High

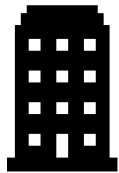


# Multifamily Housing

Inner City housing types **mirror Citywide trends.**



**2/3 single-family homes**



**1/3 duplexes and low-rise apartment buildings**

- **540** multifamily units in the Inner City
- **Over 85%** of units are 2 bedroom
- **<3%** of buildings are taller than 2 stories

The Inner City has **not seen any market rate multifamily construction** in over a decade.

For context, 2,536 multifamily units were constructed outside of the Inner City during that time period.

## What about single-family home construction?

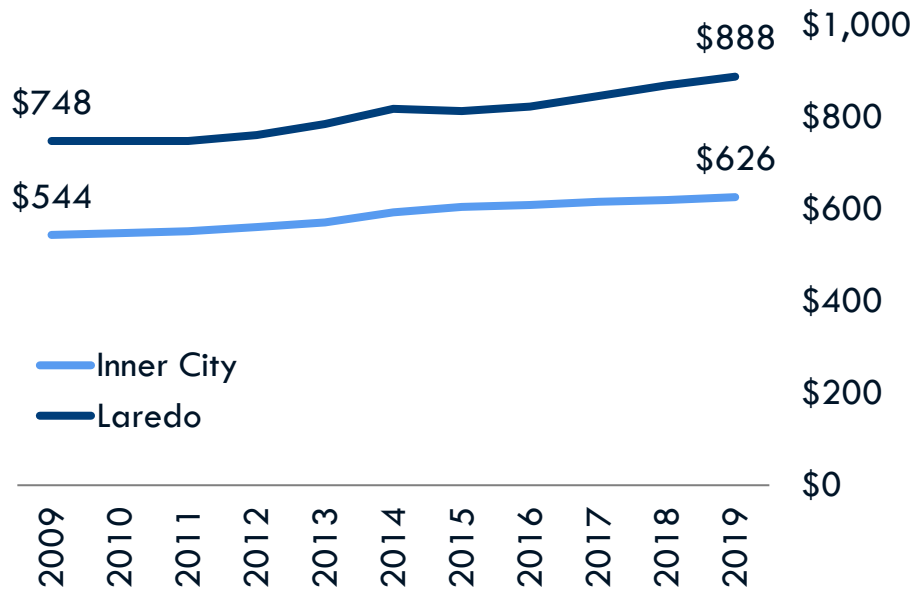
Single-family development has been robust throughout Laredo since the Great Recession. However, dramatic appreciation in citywide single-family sales prices through late 2019 suggests a need to increase affordable rental supply.

# Multifamily Housing | Stable but weak market

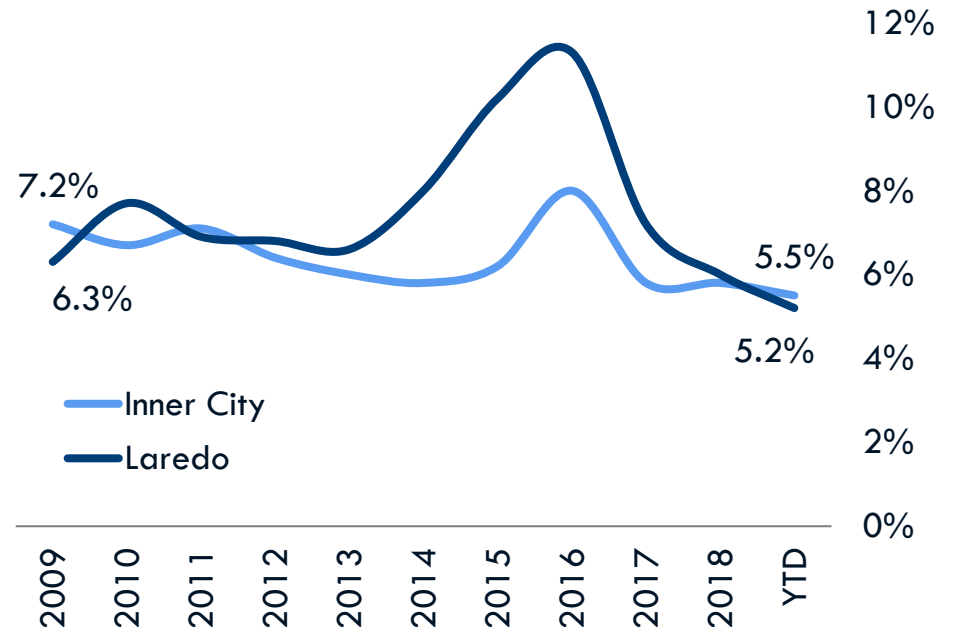
Multi-family rents in the Inner City have **consistently lagged** citywide trends.

The Inner City multi-family market has experienced **little fluctuation in vacancy rates** over the past decade, suggesting a **balance of supply and demand**.

**Average Multi-Family Monthly Rent (2009-2018)**



**Multi-Family Vacancy Rates (2009-2018)**



Source: CoStar

# Single-Family Housing

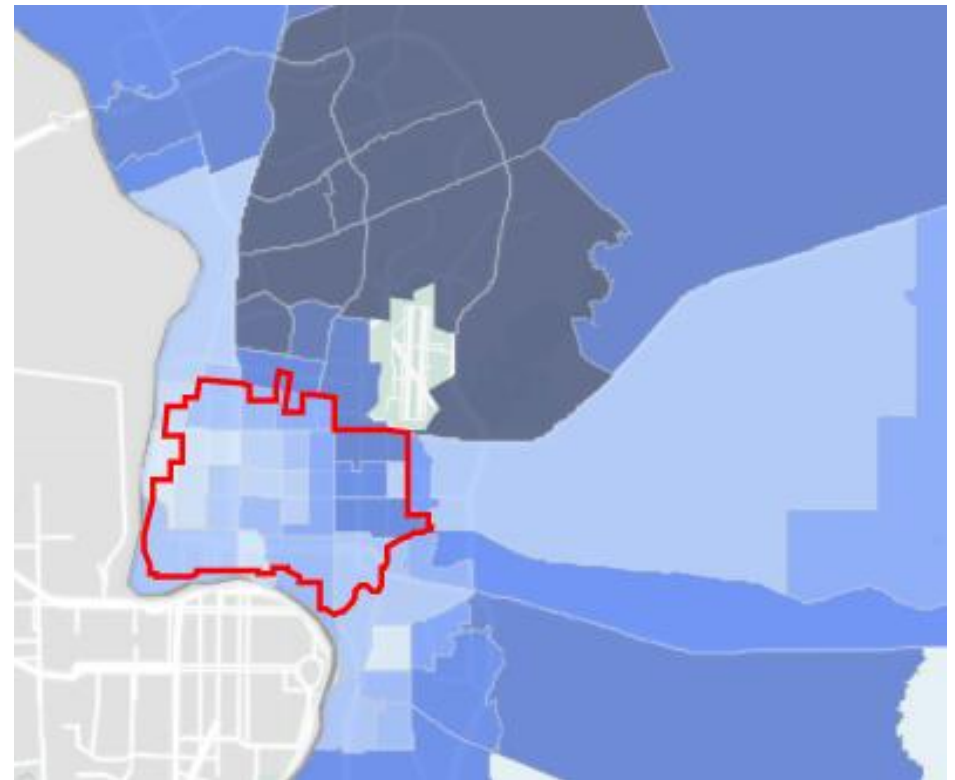
For sale listings for single family homes are **2x more expensive** outside of the Inner City.

**\$117K** VS **\$224K**  
Average listing price for single-family homes in the **Inner City** vs Average listing price for single-family homes in **Laredo**

**52%**

Average listing price for single-family homes in the Inner City relative to Laredo overall

Although the Inner City includes some of the least expensive homes in Laredo, **this housing stock is older** and in need of repairs.



Inner City Study Area

Single Family Home Value



Low

High

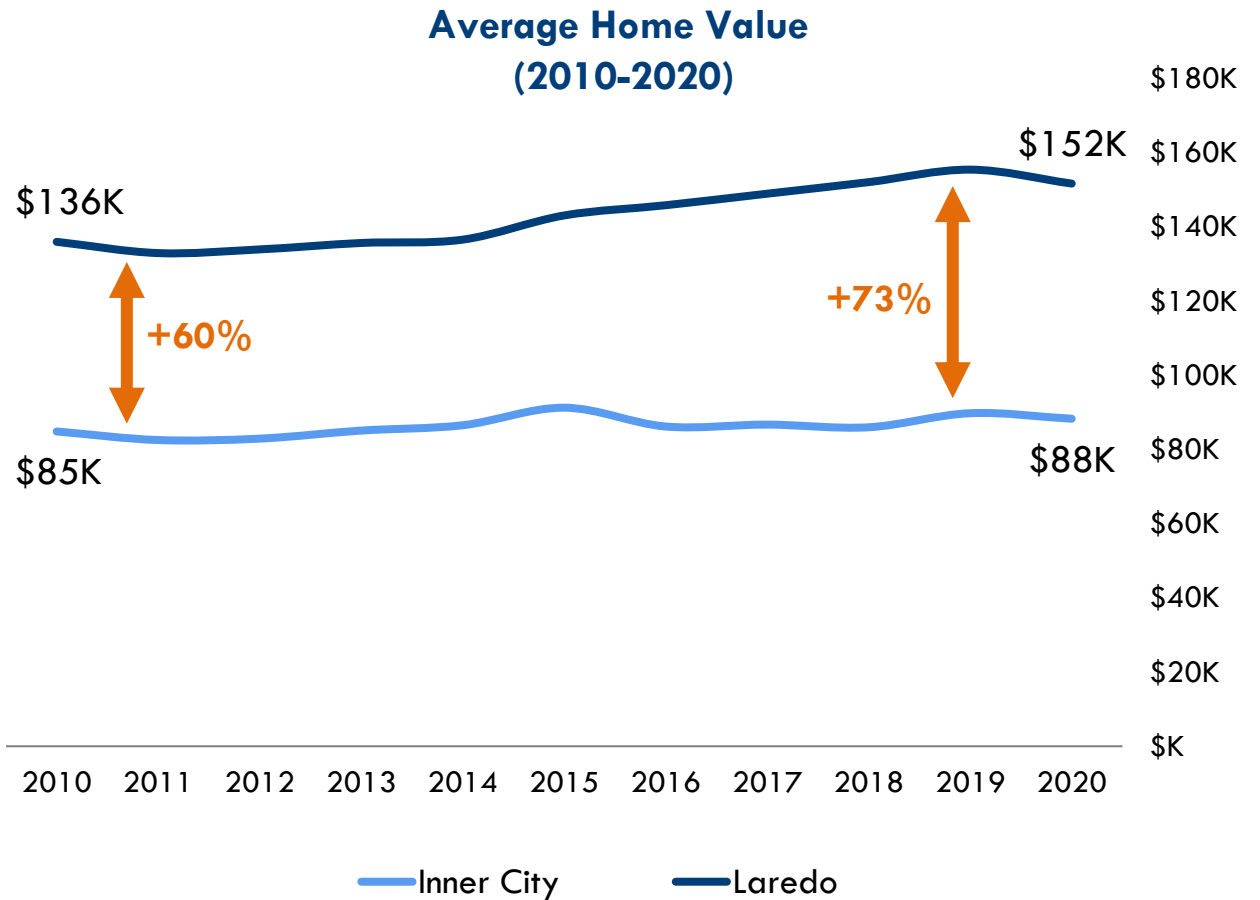
Source: American Community Survey 5-Year Estimates; Zillow



# Single-Family Home Values

Laredo has seen a **substantial citywide increase** in home values.

However, the **Inner City continues to lag** Citywide trends.

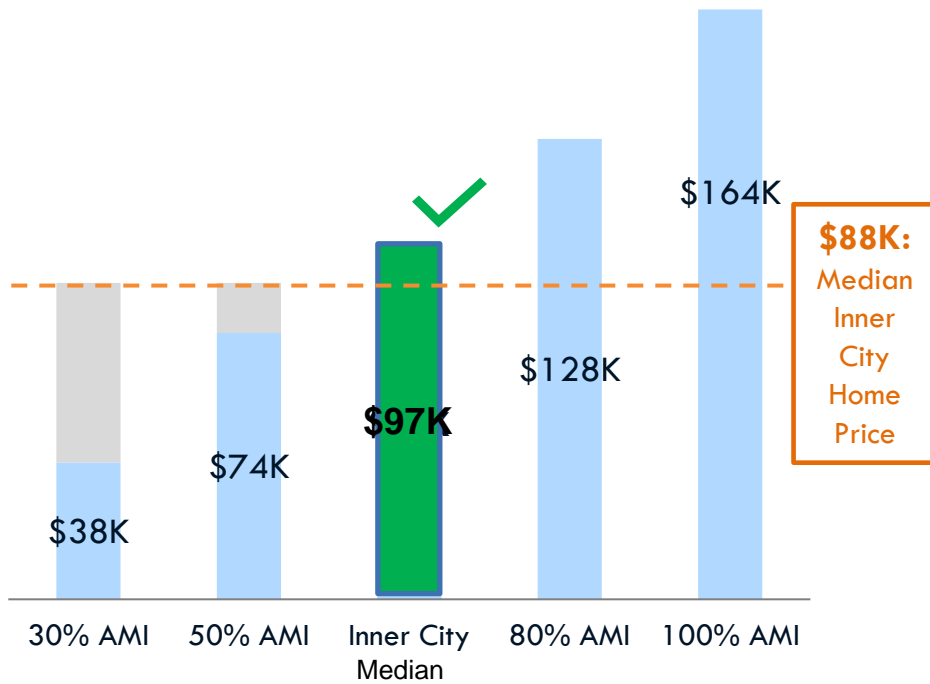


Source: Zillow

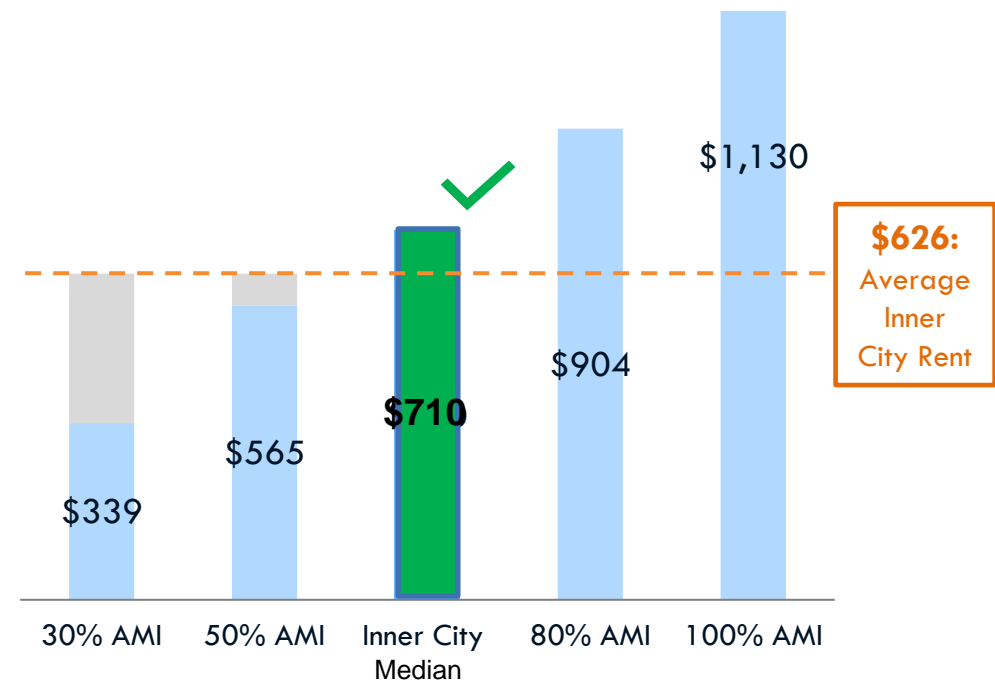
Metric: Home Value Index (ZHVI): A smoothed, seasonally adjusted measure of the typical home value and market changes across a given region and housing type.

# Housing Costs | All but very low-income households can afford to purchase or rent an Inner City home, though the property may be older and of lesser quality.

**Home Sales Prices that would be affordable at different Laredo Household Income Levels**



**Monthly Rents that would be affordable at different Laredo Household Income Levels**

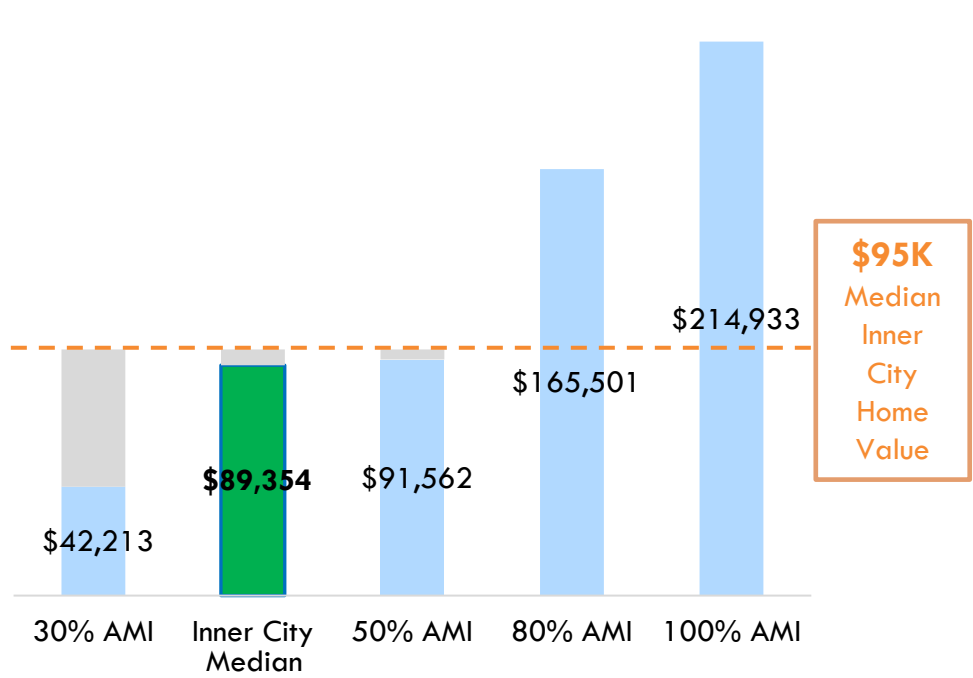


■ Affordable Price at Income Threshold  
■ Affordability Difference

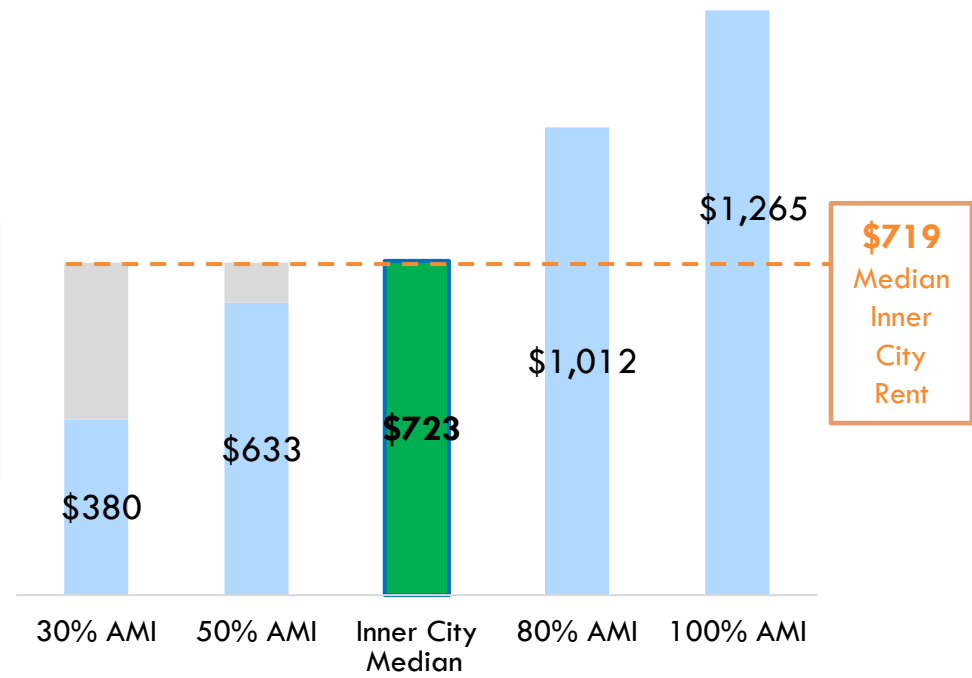
Source: American Community Survey 5-Year Estimates; Department of Housing and Urban Development

# Housing Costs | All but very low-income households can afford to purchase or rent an Inner City home, though the property may be older and of lesser quality.

**Home Sales Prices that would be affordable at different Laredo Household Income Levels (2020)**



**Monthly Rents that would be affordable at different Laredo Household Income Levels (2020)**



■ Affordable Price at Income Threshold  
■ Affordability Difference

Source: American Community Survey 5-Year Estimates; Department of Housing and Urban Development; Esri 2020



# Housing Costs | Given the Inner City's low income levels, market rate residential developers will either require subsidies or must take on the risks of building an unproven product type – higher end Inner City housing.

## Low Incomes

Under HUD rules, the median Inner City household would **qualify for "low income" affordable housing**, homes which require significant federal, state, and local subsidies to build.

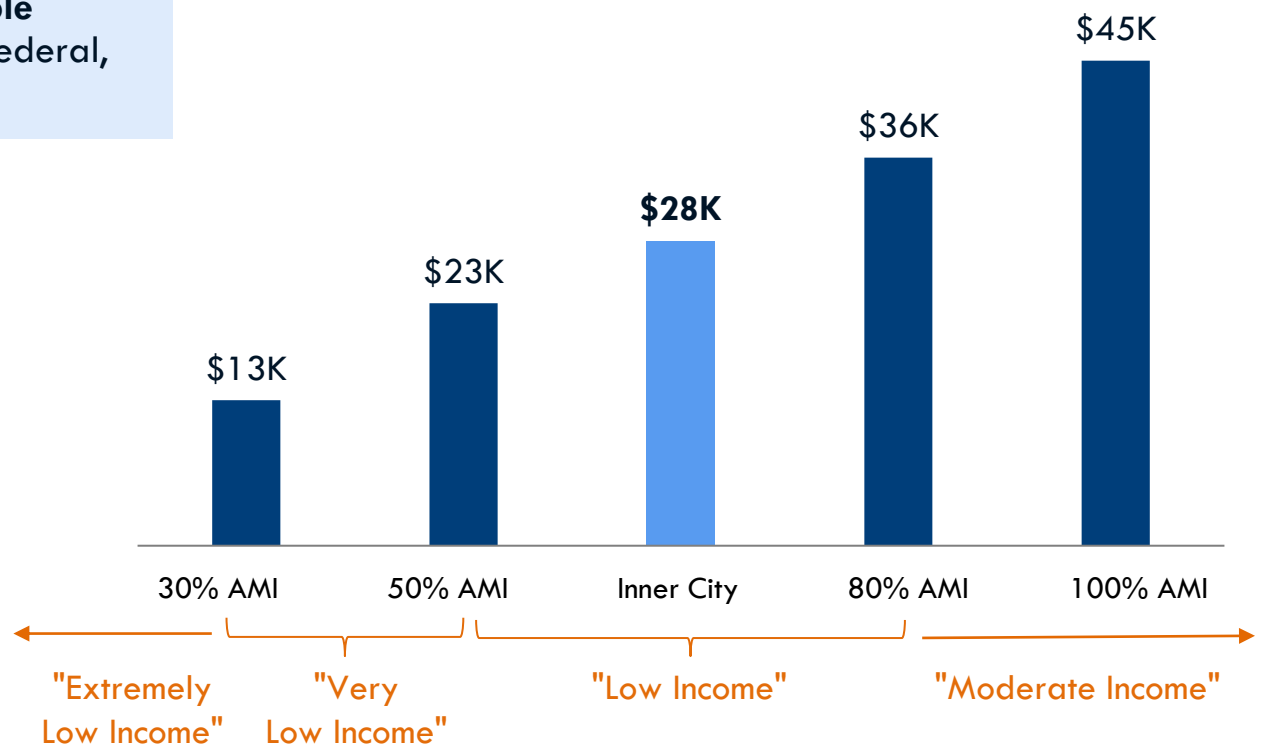


## In other words:

Any new market rate construction vying for current Inner City residents would need to offer **rental rates comparable to "low income" affordable housing** in order to be competitive.

The alternative is to introduce a higher end product to the Inner City at prices competitive to new rentals in Laredo's outskirts. This approach comes with a higher risk, as **demand for higher end Inner City rentals has yet to be proven.**

## Median Household Income (4-Person Family)



Source: American Community Survey 5-Year Estimates; Department of Housing and Urban Development

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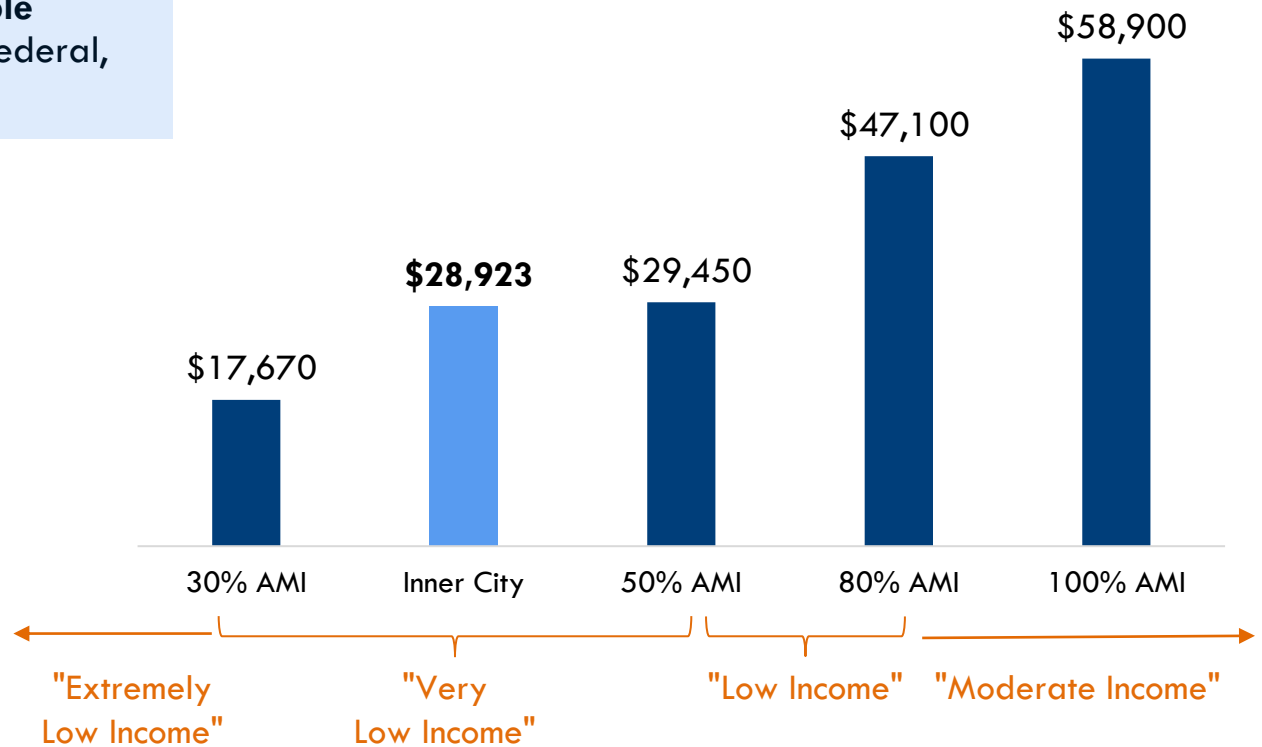


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Median Household Income (2020)  
(4-Person Family)



Source: American Community Survey 5-Year Estimates; Department of Housing and Urban Development; Esri 2020

INNER CITY DEVELOPMENT: WHY IT MATTERS

MARKET SCAN



**DEVELOPMENT FEASIBILITY ANALYSIS**

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HR&A developed two typologies to test Inner City development feasibility, basing assumptions on developer interviews, industry reports, and past experience.

Assumptions for the Financial Model	 <b>Multifamily Rental</b>	 <b>Single-Family Home</b>
<b>Total Units</b>	60 units <i>(citywide avg. for MF rental)</i>	1 home
<b>Average Unit Size</b>	900 sqft	1,230 sqft
<b>Hard Costs</b>	\$110,000/unit	\$110/sqft
<b>Rent or Sales Price</b>	\$900/Month	\$130/sqft
<b>Sales Value</b>	\$4.9 million	\$160,000

*Note:  
cost assumptions  
were sourced  
before  
the onset of  
Covid-19*

Photo Credits: Realtor.com



HR&A then determined whether these two typologies are financially feasible at current market prices.



### Single Family For Sale



### Multifamily Rental

Prices  
Required for  
Developer to  
Break Even\*

**\$220**  
Sales Price Per SF

**\$1,800**  
Rent Per Month

Q1 2020  
Market Prices

**\$130**  
Sales Price Per SF

**\$900**  
Rent Per Month

70%  
Gap

100%  
Gap

The economics of Laredo's real estate market have yet to make Inner City residential development feasible.

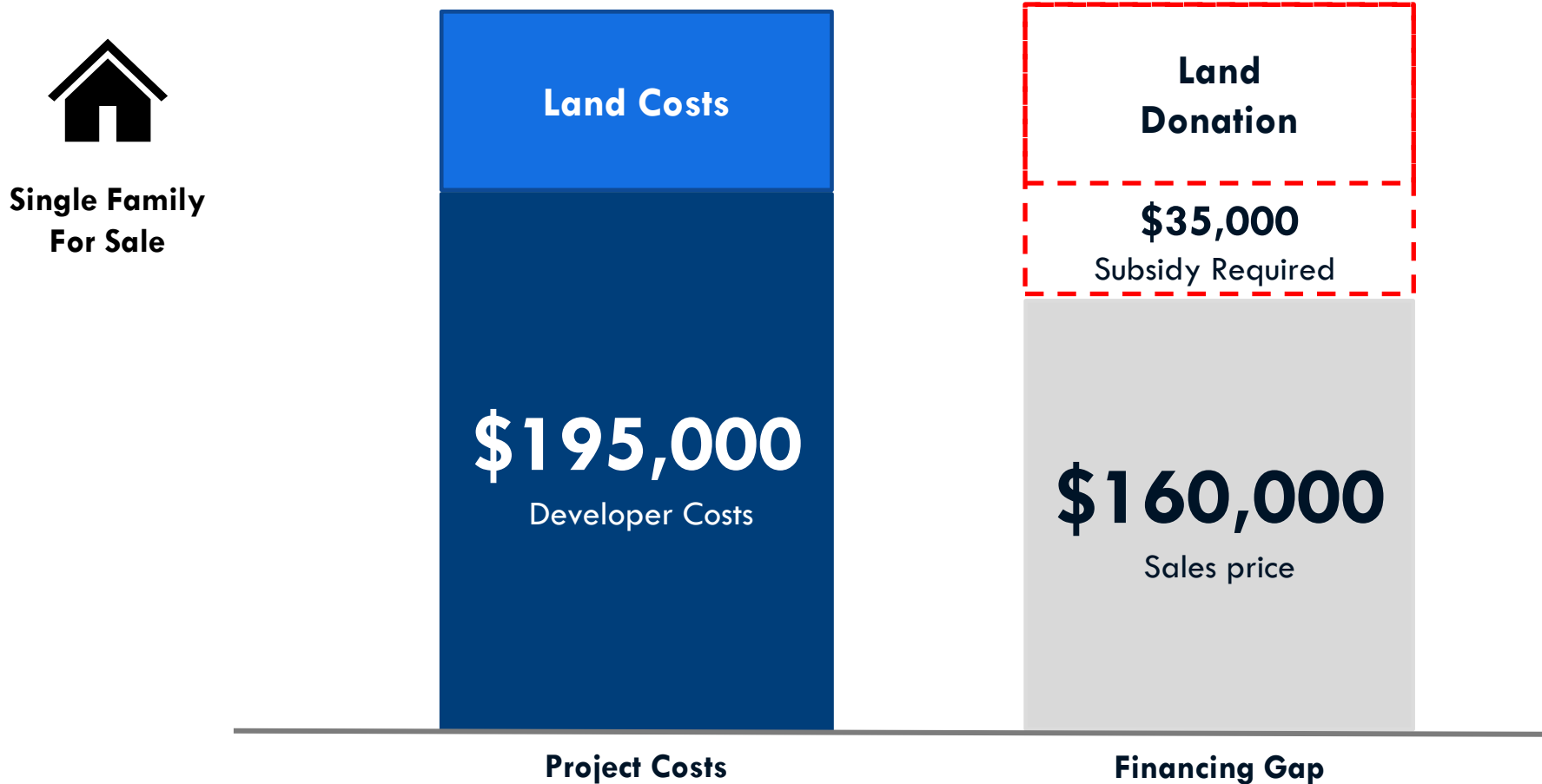


#### Options:

1. Lower break-even price via **subsidies**
2. **Wait** for market rents to increase

\* Detail on the methodology and assumptions used to estimate break even prices can be found in the Appendix.

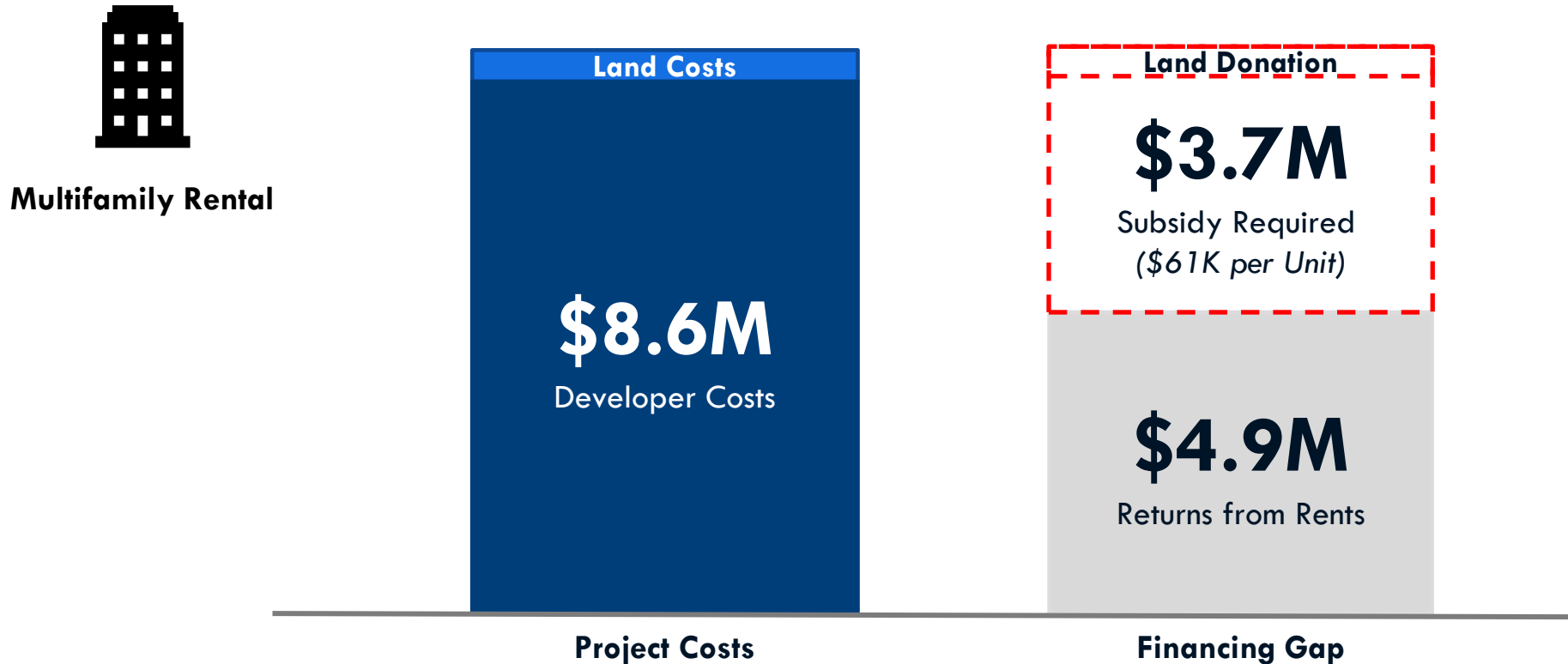
HR&A computed the magnitude of subsidy that would be required to make Inner City residential development financially feasible.



The construction of a single-family home in the Inner City would require both a **land donation** and a **\$35,000 subsidy**.

Graphic height is proportional to the relative magnitude of the funds represented.  
Land Costs assumed to total approximately \$50,000







HR&A computed the magnitude of subsidy that would be required to make Inner City residential development financially feasible.



The construction of a 60-unit multifamily development in the Inner City would require both a **land donation** and a **\$61k/unit subsidy**.

Graphic height is proportional to the relative magnitude of the funds represented.  
Land Costs assumed to total approximately \$500,000

Finally, HR&A determined which current City incentives might be available to bridge the financing gap.

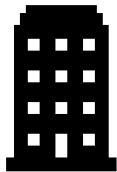
	Incentive	Max. Eligible Benefit	Estimated Cost Savings*
 <b>Single Family For Sale</b>	 <b>NEZ Fee Waivers</b>	Waivers on Bldg Permit, Plan Review, Plumbing, Electrical, Mechanical, Fire, Right-of-way, Floodplain, Water, Sprinkler, Plat, Demolition, Zoning fees	~\$1,200
	 <b>NEZ Tax Abatements</b>	None. The ~\$400/year in tax relief will benefit the homebuyer, not the developer	\$0
	 <b>New Development Match Grant</b>	None. \$15,000 per unit available only to developments with at least 25% affordable units	\$0
	 <b>HOME land acquisition funds</b>	None. Funds only available to support affordable housing	\$0
	 <b>Down payment Assistance</b>	None. All benefits incurred by the homebuyer, not the developer.	\$0

**Total City Incentives Available: ~\$1,200**

\*Estimates reported in Net Present Value.  
HR&A Advisors



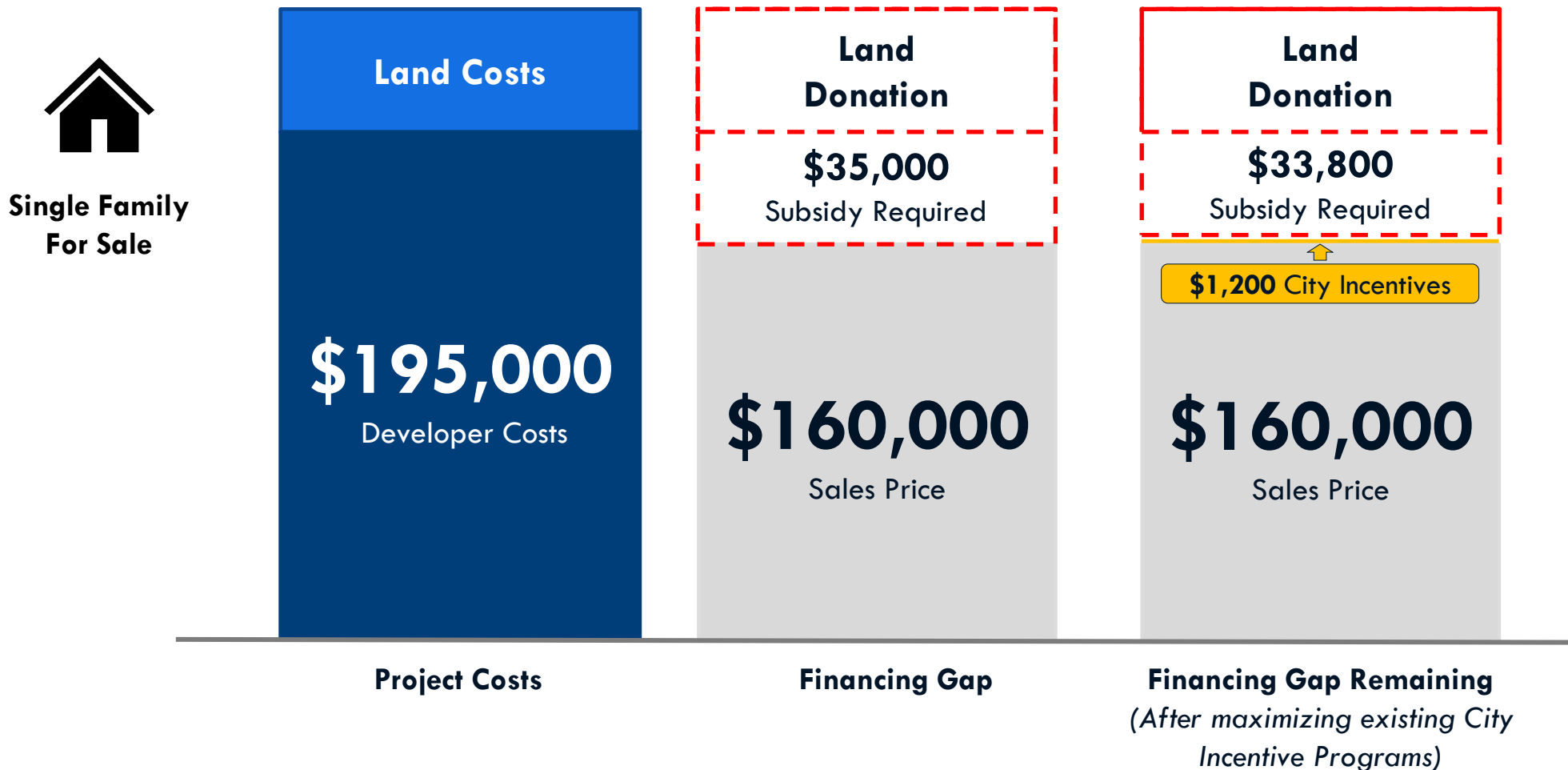
Finally, HR&A determined which current City incentives might be available to bridge the financing gap.

 <b>Multifamily Rental</b>	<b>Incentive</b>	<b>Max. Eligible Benefit</b>	<b>Estimated Cost Savings*</b>
✓	<b>NEZ Fee Waivers</b>	Waivers on Bldg Permit, Plan Review, Plumbing, Electrical, Mechanical, Fire, Right-of-way, Floodplain, Water, Sprinkler, Plat, Demolition, Zoning fees	~15K in total
✓	<b>NEZ Tax Abatements</b>	100% City tax abatement for 10 years	~\$300K in total, or ~\$30K/yr
✓	<b>Revolving Gap Loan Fund</b>	Loan at 2% interest rate, up to \$10,000 per unit, repayment at 5 years	~\$8K in reduced interest payments
✗	<b>New Development Match Grant</b>	None. \$15,000 per unit available only to developments with at least 25% affordable units	\$0
✗	<b>Chapter 380 Tax Reimbursement Project Development Grant</b>	None under current policy, as the development will not create permanent on-site jobs.	\$0
✗	<b>Chapter 312</b>	None, as receipt of NEZ benefits precludes Chapter 312 benefits	\$0

**Total City Incentives Available: ~\$323K (~\$540 per unit)**

\*Estimates reported in Net Present Value.  
HR&A Advisors

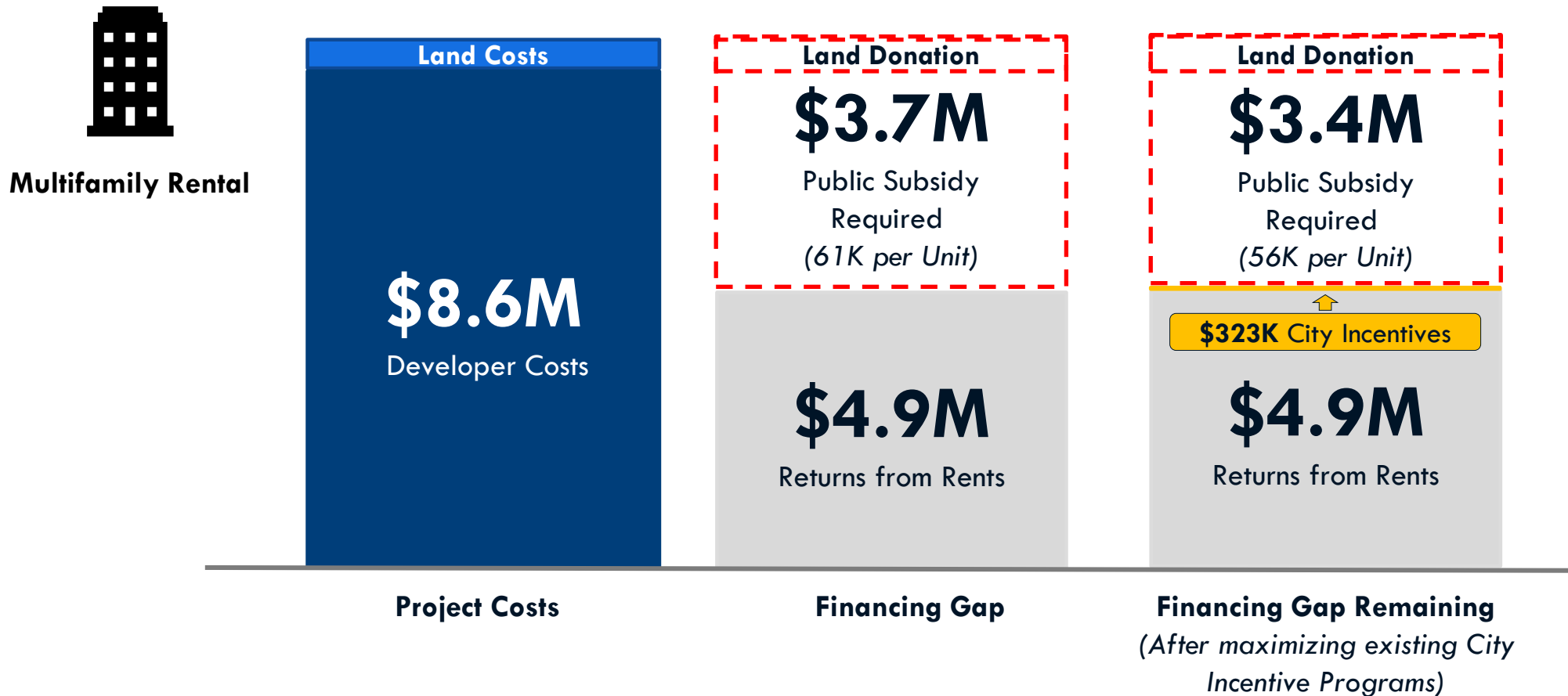
Laredo's current incentive amounts are insufficient to compensate for the Inner City's weak real estate market.



The construction of a single-family home in the Inner City would require **a donation of land** and approximately **\$33,800 beyond** existing incentive programs.

Graphic height is proportional to the relative magnitude of the funds represented.  
Land Costs assumed to total approximately \$50,000

Laredo's current incentive amounts are insufficient to compensate for the Inner City's weak real estate market.



The construction of a 60-unit multifamily development in the Inner City would require **a donation of land** and approximately **\$3.4M beyond** existing incentive programs.

Graphic height is proportional to the relative magnitude of the funds represented.  
Land Costs assumed to total approximately \$500,000

# Key Takeaways

## Market Findings



The development of for sale single-family homes **is not** financially feasible at Q1 2020 sales prices, even after NEZ fee waivers.



The development of multi-family apartment rentals **is not** financially feasible at Q1 2020 rents, even after maximizing all City incentive programs currently available.



This finding is consistent with the absence of any market rate multifamily construction in the Inner City since the Great Financial Crisis.

## Incentive Findings



Inner City Residential development requires subsidies beyond those available through the City's incentive programs.



The financial feasibility gap is so large that it cannot be closed by public infrastructure investment alone.



The City's current incentives exert little impact on the feasibility of Inner City residential products.



Developers interviewed believe that the impact of the City's incentives is not high enough to justify the time and effort they must devote to administrative hurdles.



Given the weak Inner City residential market, incentive programs that are restricted to affordable housing development are unlikely to be impactful.

For context: Cities that prioritize Inner City residential development have adopted incentive policies that are **an order-of-magnitude more generous** than those available in Inner City Laredo.

Inner City Housing Incentives per Unit



Source: Zillow; HR&A analysis



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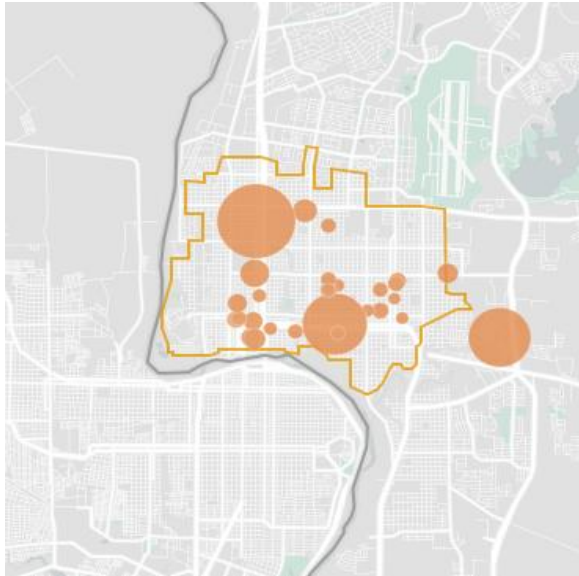
There are many policy tools that Laredo can use – or use more powerfully – in order to accelerate Inner City Revitalization.



# Accelerate Inner City Revitalization | NEZ Program

Laredo's NEZ program offers tax abatements and fee waivers to new construction and rehabilitation projects within specified areas. Since 2013, 28 projects have received NEZ benefits, predominantly Inner City residential developments.

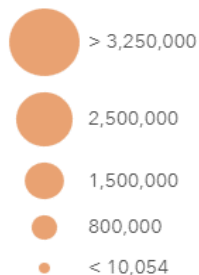
## NEZ Projects: Location and Magnitude of Investment



Inner City Study Area



NEZ Project Value



## Opportunities for Increased Impact

**Concerns Raised:** the magnitude of project financing gaps far outstrip NEZ benefits, meaning that truly needy projects don't advance far enough to apply, while those that do apply might have been built anyway.

### Suggested Fixes:

1. [Release NEZ recipients from City liens.](#) This is a common feature of NEZ programs elsewhere in Texas. **Fort Worth** found that 46% of its NEZ benefits took the form of released liens.
2. [Authorize the City Manager to approve NEZ applications below a set project value threshold.](#) Cities such as **Abilene** and **Celina** have found that this measure shortens approval time and reduces administrative hurdles, making the program more accessible to small scale projects.
3. [Use NEZ's as a vehicle for supplemental residential rehab support.](#) It is difficult for homeowners to navigate multiple different programs. The City of **Denison** channels several rehab benefits to NEZ-qualified projects, including:
  - Sales tax rebate on building materials purchases within the city
  - Upon completion, City will repair sidewalks on the property
  - Cash rebate for 10x the amount of new assessed taxable value created by the rehab project.

# Accelerate Inner City Revitalization | Chapter 380/381

Chapters 380 (cities) and 381 (counties) grant Texas local governments broad discretion to make loans and grants to promote business development.

## What Laredo is Doing

### Laredo Council Approves Incentives to Build \$48M Produce Storage-Distribution Center



These agreements are Laredo's most powerful and substantial development incentives. Of the 380 agreements currently active, total estimated subsidies range from \$275,000 for 5-mile roadway construction by Verde Corp to a maximum tax reimbursement of \$21.3 million for the Laredo Outlet Shoppes.

The City of Laredo structures its 380 Agreements in the form of sales or property tax rebates. This structure is most conducive to large scale greenfield commercial development. Indeed, with the exception of the Laredo Outlet Shoppes, all Chapter 380 recipients are **large scale (>15 acre) mixed-use or manufacturing developments on the city's outskirts.**

## What San Antonio is Doing

In 2009, San Antonio created an “**as-of-right**” **Center City Housing Incentive Policy** designed to better adapt Chapter 380 to the kinds of Inner City developments that it sought to encourage.

Location	Inner City	Not Inner City
Max. Benefit	\$1 million	\$10 million
Max. Term	10 years	6 years
Max Tax Abatement	100%	50%

A 2015 study found that, between 2010 – 2013, San Antonio's revised incentive policy enabled the construction of 2,500 Inner City housing units with subsidies averaging \$14k/unit. The same study found that **San Antonio's incentives leveraged over 10:1 ROI**, contributing to over \$811 million in private housing development.

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## Accelerate Inner City Revitalization | Title Clearance Support

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**Concerns Raised:** Inner City properties without clear title are extremely difficult to sell and ineligible for home rehabilitation loans. The result is often property deterioration, home abandonment, and unmaintained vacant land – which in turn accelerates depopulation, dampens the neighborhood’s attractiveness, and curbs all revitalization efforts. Because banks and current City of Laredo programs consider only applicants with clear titles, there are few resources available to correct the problem.

### Opportunities for Increased Impact

#### San Antonio

To address increasing departures from the historic Westside neighborhood, Councilwoman Shirley Gonzales launched a **pilot public-private partnership** in 2018. Under this initiative, the Mexican American Unity Council (MAUC) created a central access point in the neighborhood for housing-related services.

At that location, UT San Antonio Center for Public Policy provides **estate planning and property title clearance services** to residents and the National Association of Latino Community Asset Builders (NALCAB) leads workshops for small developers.

#### Dallas

A 2019 BCWorkshop study determined that up to 15,000 Dallas properties have unclear titles due to multiple heirs. This has resulted in an average property value drop of 10.2% and impedes any rehabilitation or resell efforts.

In July 2019, City Council approved \$500k for a 3-year **title clearing and title prevention pilot program**. Title Specialists will conduct intake and offer one-on-one advising on a sliding scale. Priority will be given to the elderly, low- and moderate-income households, and those who are seeking to access loans or grants for home repair.

#### Philadelphia

The City offers **Tangled Title Grants** on a first come-first served basis up to a maximum of \$4,000 per applicant. Grants are awarded only for primary residences and based on the legal merits of each case. The program does not provide legal assistance.

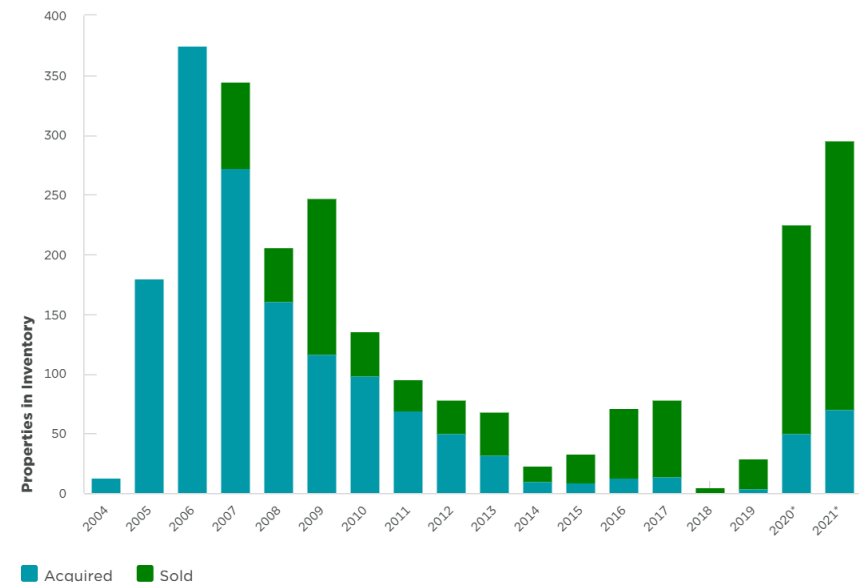
# Accelerate Inner City Revitalization | Chapter 379E Land Banks

## What Houston and Dallas are Doing

Under Chapter 379E, Texas municipalities can create a land bank in order to **acquire clear title to certain foreclosed properties, at little or no cost, outside the regular tax foreclosure sale process.** Both Dallas and Houston have leveraged this statute to acquire vacant properties, clear titles, assemble land, and jumpstart redevelopment.

- Since 2005, the Dallas Land Bank has acquired more than 400 lots, with another 1,000 in the tax foreclosure pipeline. Approximately 60 lots have been sold to housing developers.
- Houston's Land Bank has acquired over 1,400 properties and reactivated over 700, with another 140 currently in development. The result is that more than **\$76 million worth of vacant property has now been returned to the tax rolls.**

## Houston Land Bank Properties



Source: Houston Land Bank, 11/2019. Note: 2020 and 2021 Values are Projected



The City of Houston funds development of new homes on Houston Land Bank-owned lots.

Homes are constructed by builders selected through the City's RFQ process.



Houston Land Bank markets the completed homes,



The buyer purchases the home and land at market price under a "conventional" homeownership model.



# Accelerate Inner City Revitalization | Cumulative Capital Investment

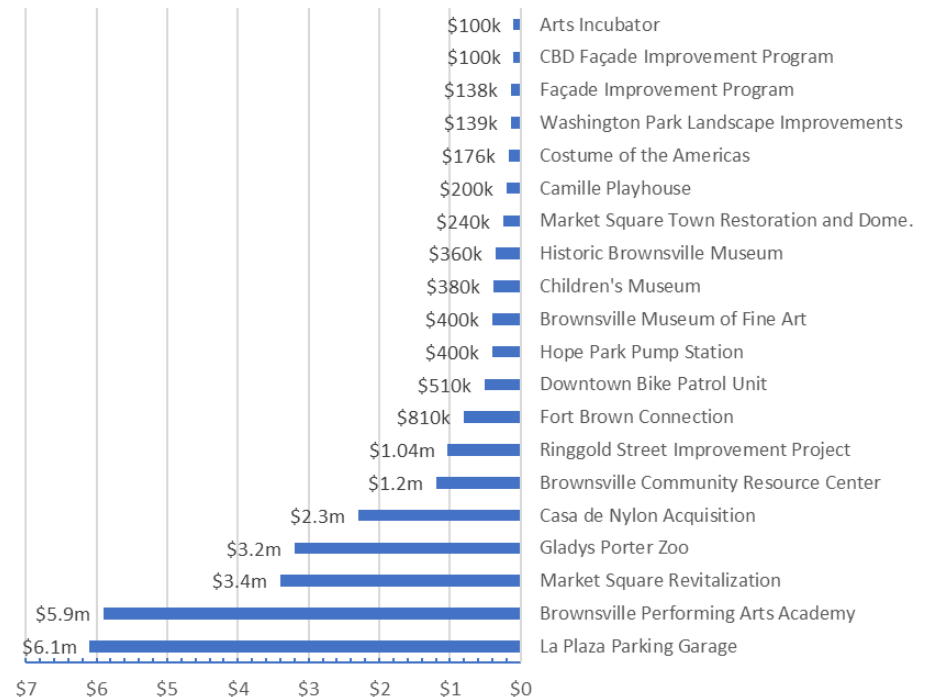
**Concerns Raised:** Typically, a neighborhood will not tip into a self-reinforcing economic growth cycle until a **critical mass of visible improvements** have been completed, at which point momentum accelerates and consumer spending snowballs. The Outlet Shoppes and San Augustin Plaza notwithstanding, capital investments in Downtown Laredo have not yet been sufficiently varied, interconnected, or numerous to create a sense of momentum.

## What Brownsville is Doing

The City of Brownsville has undertaken **29 separate high impact capital projects** in its downtown since 2012, totaling **over \$58.5 million**. Funding sources and partners have included:

- 1/4 cent 4A/4B Economic Development Sales Tax
- Hotel Occupancy Tax
- CDBG
- Main Street Brownsville
- Brownsville Public Utilities Board
- TxDOT
- Federal Transit Administration
- Federal ARRA Funds
- National Endowment for the Arts
- National Park Service
- National Parks Conservation Association

## Downtown Brownsville Public Investments between \$100k - \$6.1M (2012 – 2020\*)



\*Graphic does not include the \$31 million La Plaza multimodal terminal, completed in 2012. Source: City of Brownsville Downtown Projects list.

# Accelerate Inner City Revitalization | 4A/4B Economic Development Sales Tax

## What Brownsville is Doing

The City of Brownsville is able to fund substantial capital projects in its Inner City because, in 2001, voters approved a ¼ cent Section 4B economic development sales tax.

Today, the resulting Brownsville Community Improvement Corporation (BCIC) allocates approximately \$1 million to quality of life capital projects every year, as well as \$5,000 grants to events that promote the City. These funds are in addition to the tourism efforts supported by Hotel Occupancy Taxes.

Capital Projects funded via 4B sales tax include:

- Riverside Park Playground
- Rails-to-Trails Conversion
- Market Square Building Restoration
- Bus stop enhancements
- Mitte Cultural Center Upgrades



CITY COUNCIL

## New tax plan pitched

Vielma wants to terminate current sports venue tax

By Julia Wallace  
LAREDO MORNING TIMES

Laredo could soon join over 500 cities in Texas that utilize the 4A or 4B sales tax plan.

At Monday's City Council meeting, Councilwoman Nelly Vielma proposed terminating the current sports venue tax and transitioning into a 4A-4B

economic development tax, which voters would ultimately need to ratify.

But before it goes to a public vote, the proposal needs to be approved by council. They did not act Monday, and will workshop the idea further before they make a decision. Vielma said she will soon make a motion to set a date for this work-

shop.

The 4A-4B financial tool is used to fund parks, convention centers, athletic facilities and other quality of life ventures, much like the sports venue tax. But beyond that, 4A-4B revenue can be used to pay for the utilities and infrastructure for outside companies that want to

*Tax continues on A12*

## What Laredo Could Do

The City of Laredo currently has a ¼ cent Sports and Community Venue Tax, which can be allocated to only a subset of the capital projects that could be funded through a 4B economic development sales tax. If a tax purpose conversion is approved by both Council and voters, Laredo will immediately gain a **powerful new funding source without raising taxes.**

In 2018, plans for a voter referendum were put on hold.

## Accelerate Inner City Revitalization | Downtown Business Incentives

Downtown Laredo businesses can apply for a façade improvement grant of up to \$10,000 per facade. If located on Iturbide Street, they may also be eligible for permit fee waivers and a reimbursement of interior investment costs via Chapter 380 sales tax reimbursements.

**Concerns Raised:** Business owners lack the capacity and documentation to navigate program requirements. In addition, the design of Chapter 380 agreements aligns poorly with the cash flow realities of small-scale retail and food businesses, which often struggle with an uncertain reimbursement schedule and access to sufficient credit for sizable up-front investments.

### Opportunities for Increased Impact

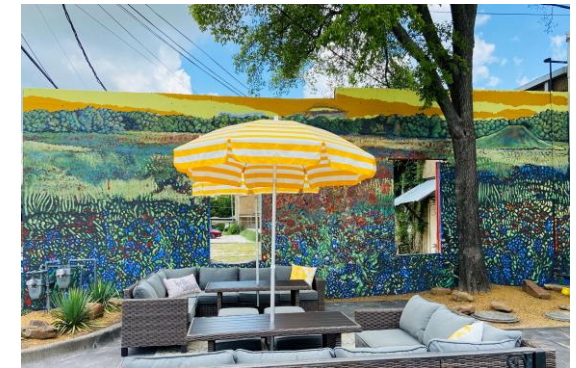
#### What Celina is Doing

Celina has opted to significantly **expand the flexibility** of its Downtown exterior improvement grant program. Eligible projects include any “meaningful additions to the public realm” that “will directly benefit visitors’ enjoyment of the Downtown,” including **facades and signs but also lighting, public art, and public seating**. The grant matches investments at 50% up to \$25,000.

If the exterior improvements result in increased assessed value, the City also provides a one-time cash payout of 10x the increase in City property tax, up to a max of \$5,000.

*Left: completed Façade Improvements projects.*

*Right: completed art murals and exterior seating.*





# Accelerate Inner City Revitalization | Downtown Business Incentives

## What Brownsville is Doing

Brownsville is in the final year of its pilot Downtown Business Improvement and Growth (BIG) program. Funded by CDBG, the BIG program offers a broader range of grants than those available to Laredo businesses:

- **Exterior Façade Improvement Grant** up to \$15,000
- **Interior Capital Improvement Grant** up to \$15,000
- **Sign Improvement Grant** up to \$2,500
- **Rental Subsidies Grant:** To encourage businesses to locate downtown, Brownsville offers 12 months of subsidized rent to new tenants. Eligible businesses receive 50% rental assistance during their first 6 months and 30% for the remainder of their first year, up to a cap of \$9,600. In order to be eligible, businesses must be open 6 days/week for a minimum of 8 hours every day.

In addition, Brownsville's 2017 Downtown Overlay District Ordinance **waives all building and zoning fees** as well as **minimum parking requirements** for Downtown businesses.

*Above: Outdoor exhibit shade cover at the Children's Museum.*

*Middle: Interior of 7<sup>th</sup> & Park Coffeeshop/Bike shop, photograph by Nick Simonite.*

*Below: Downtown building before and after façade improvements.*



# Accelerate Inner City Revitalization | Community-Building Beautification Efforts

Several Texas cities have found large-scale organized volunteer beautification events to be a powerful means of building community, fostering pride of place, and reintroducing a formerly blighted area to the public.



*“This program is doing more than just enhancing curb appeal and creating compliance with codes — it is strengthening the fabric of our neighborhoods.”*

- Mayor Craig Morgan

## What Round Rock is Doing

“Love the Rock” is an annual day of service that mobilizes over **1,000 volunteers** to work on more than **200 homes with standing code violations**. The event is a joint effort by the City, neighborhood associations, 35 churches, and the City’s solid waste collection contractor.

The event targets specific neighborhoods and directs volunteers to homeowners who are elderly, disabled, recovering from surgery or illness, or single parents. Using tools from the City’s Tool Lending Center, volunteers undertake activities such as:

- Mowing and weeding
- Tree and bush trimming
- Hauling
- Fire safety checks
- Smoke detector installation
- Curb address painting

In 2016, the program’s first year, a record-breaking 555 tons of garbage along with 93 tons of brush were removed. The event alleviated 37 standing code violations and prevented numerous more.



INNER CITY DEVELOPMENT: WHY IT MATTERS

MARKET SCAN

DEVELOPMENT FEASIBILITY ANALYSIS

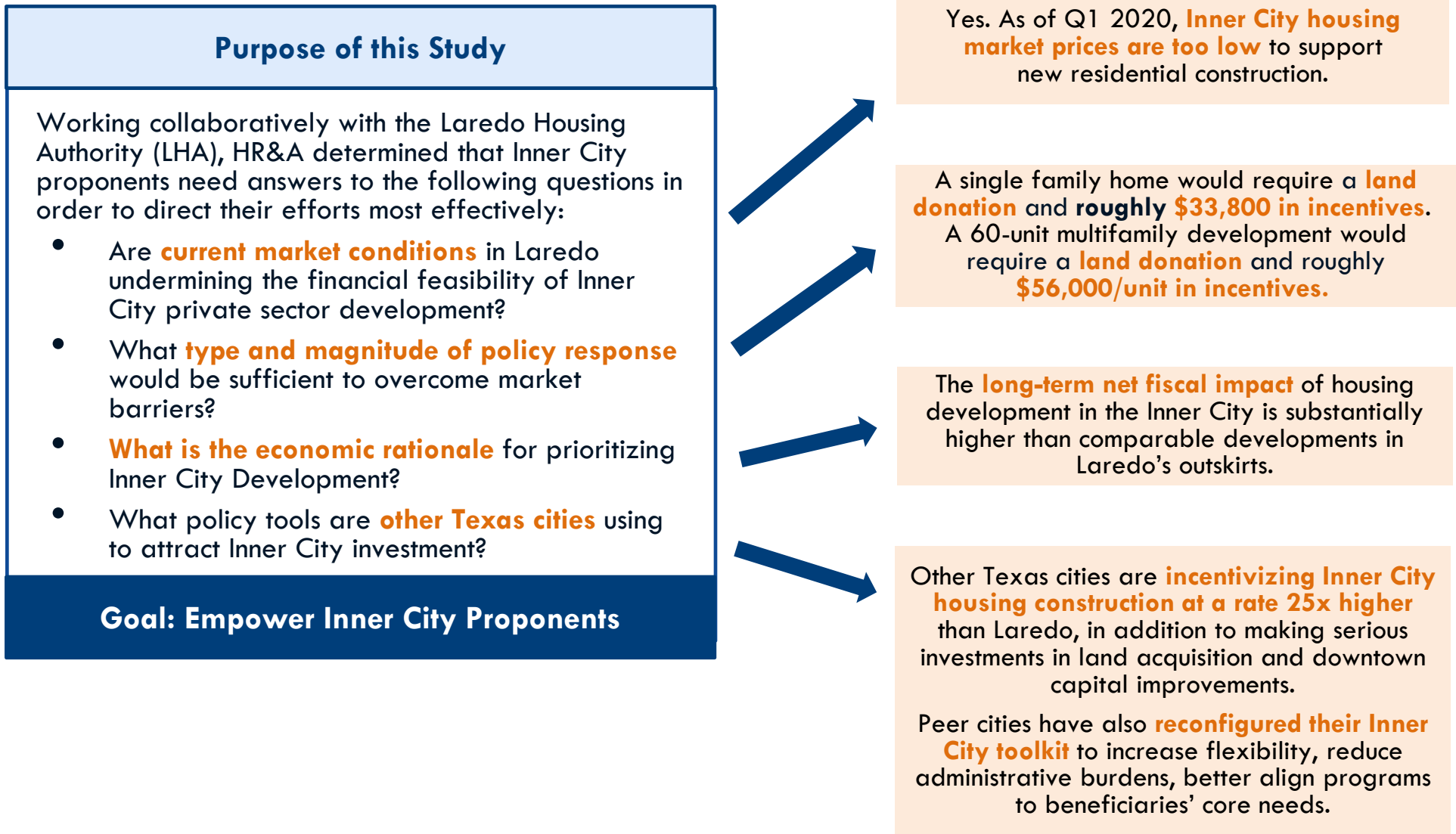
TOOLKIT FOR ACCELERATING REVITALIZATION

**RECOMMENDATIONS**

APPENDIX



# Summary of Findings



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## Recommendations for Inner City Proponents

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### 1 Expand focus beyond visitor and shopper attraction

- Laredo Main Street, CVB, and the Outlet Shoppes investment all strive to bring Laredoans and out-of-town visitors to dine, shop, and linger in Downtown.
- Additional leadership is needed to advocate for more Inner City residents and workers.

### 2 Generate interest about living in Laredo's Inner City

- The single largest barrier to revitalization is the Inner City's weak residential real estate market.
- Marketing/press efforts could profile a diversity of residents, including young professionals, architecture fans, residents with multi-generational roots in the Inner City, etc.
- Leverage synergies with Downtown placemaking efforts.

### 3 Organize large scale volunteer events that visibly reduce blight

- Inner City residents are more likely to struggle with poverty, old age, or single parenthood – daily pressures that make it difficult to keep up with property maintenance, landscaping, and other code issues that compound into neighborhood blight.
- Large scale, simultaneous clean-up efforts build community and civic pride while reintroducing Laredoans to Inner City neighborhoods.

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## Recommendations for Inner City Proponents

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### **4 Launch a campaign to increase Inner City resident awareness of resources available**

- Title clearance assistance and preventative estate planning
- Rehab inspiration, resources, and financial assistance

### **5 Create and maintain an online list of promising Inner City development sites**

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## Recommendations for City Government

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### 1 Commission a comprehensive evaluation of City economic incentives

- Too often, expensive incentive programs either do not produce anticipated returns on investment or fail to attract desired types of investment.
- If Laredo's suite of incentives were more competitive, less burdensome, and better aligned with current-day public policy priorities, the City would be able to drive economic growth more effectively and cost efficiently.
- Though such a comprehensive assessment was beyond the scope of this study, HR&A's case study research and knowledge of other Texas cities prompt us to raise the following suggestions:

### 2 Enhance and streamline the NEZ program

- Several peer cities have expanded NEZ benefits to include a release from city liens, sales tax rebates on building materials, a commitment to sidewalk repair, and/or a cash rebate in proportion to the increased assessed property value.
- Consider ways to reduce the program's administrative burdens and review timeline, such as allowing the City Manager to issue approvals for projects under a certain threshold.

### 3 Expand the uses of Chapter 380 incentives

- With intentional design and structure, Chapter 380 agreements can be used to drive many outcomes beyond large business recruitment and multi-acre commercial developments. San Antonio in particular has been extremely successful in using Chapter 380 to increase Inner City investment.

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## Recommendations for City Government

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### **4 Adopt incentive design to recipient cash flow realities and financing gap needs**

- In reviewing cities that incentivize Inner City residential construction - including several with markets weaker than Laredo's - HR&A found that donations of public land, leniency on parking requirements, and cash grants of up to 25% of project costs are more impactful than low interest loans and fee waivers. The value of other cities' incentives total between \$5,000 - \$10,000 per housing unit, a reflection of the market weaknesses that the cities seek to reverse.

### **5 Convert the Sports & Community Venue Sales Tax into a 4A/4B Economic Development Sales Tax**

- Without any impact to Laredo taxpayers, this change will significantly increase the City's ability to invest in economically important public amenities and capital improvements.

### **6 Take advantage of Chapter 379E land bank powers**

- As of 2007, Texas municipalities can acquire clear title to certain foreclosed properties, at little or no cost, outside the regular tax foreclosure sale process. Chapter 379E is a powerful mechanism to jumpstart the redevelopment of vacant or abandoned property.

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## Recommendations for City Government

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### 7 Fully leverage CDBG funds as incentive

- CDBG is a consistent source of funding that can be used for placemaking capital improvements, pilot homeowner assistance programs, land acquisition, or downtown business assistance.
- Peer Cities in Texas use CDBG to offer Inner City business incentives that are more flexible, more generous, and more comprehensive than the incentives currently available to businesses in downtown Laredo.

### 8 Accelerate public realm capital investments in and around the Downtown

- A critical mass of interconnected visible improvements is a necessary precursor to self-reinforcing revitalization. The resurgence of downtown Brownsville, for example, was launched and reinforced over the last 7 years by over \$58 million in public capital improvements.

### 9 Allow “by right” moderate density residential development in the Inner City

- Developments such as duplexes, triplexes, fourplexes, and ancillary dwelling units (“granny flats”) are low cost ways to add more residents to Inner City neighborhoods. By accelerating the required approvals and permitting processes, the City can encourage such product types at no cost to taxpayers.

# Impacts of Covid-19: Longer Time Horizon for Change

## For Laredoans

Laredo official: Local hospital at maximum capacity amid COVID spike

City of Laredo to adopt curfew, limit social gatherings amid surge in COVID-19 cases

Bridge crossing numbers hit city revenue hard

Laredo officials to issue citations to positive coronavirus residents who leave their homes

Laredoans react to partial border shutdown

## For the Inner City

Laredo shuts down malls, entertainment businesses; restricts gatherings to 10 or fewer



Laredo bar to close after staffer tests positive for coronavirus

Tourism ban at US-Mexico border extended another month

The Inner City Revitalization Study delves into long-term structural housing market challenges. The Covid-19 public health crisis and the resulting economic downturn are exacerbating and accelerating those challenges. Many potential remedies – such as creative new market rate real estate products or new municipal fund allocation – are now temporarily out of reach.

The underlying economic structures discussed in this report remain barriers to Inner City revitalization. Covid-19 **changes only the time horizon** for overcoming these barriers.



INNER CITY DEVELOPMENT: WHY IT MATTERS

MARKET SCAN

DEVELOPMENT FEASIBILITY ANALYSIS

TOOLKIT FOR ACCELERATING REVITALIZATION

RECOMMENDATIONS

**APPENDIX**

## How HR&A converted Inner City Median Income into a Target For-Sale Home Price

Assumption	Input	Source
<b>Inner City Median Income</b>	<b>\$28,400</b>	<b>American Community Survey</b>
Maximum Housing Cost (%)	30%	Federal Standard
<b>Maximum Housing Cost (\$)</b>	<b>\$8,520</b>	N/A
Down Payment (%)	10%	Industry Standard
Loan Amount	\$87,450	N/A
Annual Interest Rate	3.375%	FHA Loan
Annual Payment	(\$4,639)	N/A
Property Tax Rate	2.7588%	Webb County Assessor's Office
Annual Property Taxes	(\$2,681)	N/A
Homeowners Insurance Estimate	(\$1,200)	Industry Sources
<b>Target Sales Price</b>	<b>\$97,167</b>	N/A

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## How HR&A converted Inner City Median Income into a Target Monthly Rent per sqft

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### Maximum Rent Based on Median Income

Assumption	Input	Source
Inner City Median Income	\$28,400	American Community Survey
Maximum Housing Cost (%)	30%	Federal standard
Maximum Annual Rent	\$8,520	N/A
Maximum Monthly Rent	\$710	N/A
Average Unit Size (SF)	900	Industry Sources, Local Developers
Attainable Monthly Rent/SF	\$0.79	N/A

## Cost Assumptions that HR&A used to calculate financial feasibility

Assumption	Multifamily Rental	Single Family For Sale
Market Rate Sales/Rent Price	\$1.00/sqft/month	\$130,000
Hard Costs	\$110,000/unit	\$110/sqft
Soft Costs	20%	20%
Developer Profit	12.5%	15%
Land Price	\$500,000	\$50,000
Market Rate Rent Cap	8.0%	N/A
Density	40 units/acre	N/A
Total Operating Costs as % of Revenues (inc. taxes)	35%	N/A
Vacancy Contingency	5%	N/A
Gross to Net Ratio	85%	N/A

Source: Interviews with Developers and Brokers active in Laredo and other Texas markets

# City of San Antonio Center City Housing Incentive Policy Scoring Matrix

Minimum eligibility for all Incentives: Project must be located in ICRIP and create at least two housing units under a single Certificate of Occupancy. See table below for additional eligibility requirements.

Incentive	Description	Other Eligibility Requirements	Incentive Terms		
Fee Waivers	Waiver of City of San Antonio fees and SAWS impact fees	None	Waiver of City fees as identified in the ICRIP and 100% of SAWS water and sewer impact fees		
Tax Reimbursement Grant*	Annual rebate to developer of taxes paid to the City on the improved value of the property. Rebate percentage based on TIRZ participation.**	None	Located in ICRIP only	10 years	
			Located in Incentive Tier	15 years	
			Brownfield or Adaptive Reuse project located in the ICRIP	15 years	
ICIF Loan	Low interest, 7-year loan calculated per housing unit.***	Located in an Incentive Tier AND classified in at least one project category****	Incentive Tier	One Category	Two or More Categories
			Tier 1	\$3,000	\$6,000
			Tier 2	\$1,500	\$3,000
			Tier 3	\$1,000	\$2,000
			Tier 4	\$500	\$1,000
ICIF Loan Bonus	Low interest, 7-year loan calculated per housing unit.	Located in an Incentive Tier AND includes structured parking AND/OR includes low impact development features	Includes structured parking		\$1,000
			Includes low impact development		\$500
Mixed-Use Forgivable Loan	0%, 5-year forgivable loan for tenant finish-out improvements.*****	Located in an Incentive Tier AND includes retail and/or commercial office space on first floor.	Includes retail space		\$20 per square foot
			Includes commercial office space		\$10 per square foot

\* Historic Exemption Tax Credit, if applicable, to be applied in parallel - no taxes in years 1-5, 50% taxes in years 6-10. Tax Reimbursement Grant will rebate any payment made over the base during years 1-15, as applicable based on project location. Project must maintain first year rental rate for 10% of units throughout grant term.

\*\* Projects not located in a TIRZ would receive a rebate of 66% of the taxes paid to the City. TIRZ projects would be rebated based on participation level of the TIRZ.

\*\*\* Loan rate is fixed equal to the one year LIBOR rate plus 75 basis points, with interest compounding annually.

\*\*\*\* Project Categories: Mixed Income, Community Use, Adaptive Reuse, Brownfield Redevelopment, Historic Rehabilitation, High-rise Residential Development, Student Housing, Transit-oriented Development within 1/4 mile of the West Side Multi-modal Center or Robert Thompson Transit Center.

\*\*\*\*\* Forgivable over 5 years at 20% per year. Loan proceeds must pass-through to tenant and space must remain leased for at least 80% of the term.

**Executive Summary of Policy Recommendations**

Policy Opportunity	Current Practice in Laredo	Emerging Best Practices
<b>Expand the uses of Chapter 380/381 Agreements</b>	Laredo uses 380 agreements largely for greenfield commercial development.	<ul style="list-style-type: none"> <li>• <b>San Antonio</b> "as-of-right" Center City Housing Incentive Policy designed to better adapt Chapter 380 to the kinds of Inner City developments that it sought to encourage.</li> </ul>
<b>Title Clearance Support</b>	Banks and current City of Laredo programs consider only applicants with clear titles, and there are few resources available to correct the problem.	<ul style="list-style-type: none"> <li>• <b>UT San Antonio</b> Center for Public Policy provides estate planning and property title clearance services to residents.</li> <li>• <b>Dallas</b> City Council approved \$500k for a 3-year title clearing and title prevention pilot program. Title Specialists will conduct intake and offer one-on-one advising on a sliding scale, with priority given to elderly, low- and moderate-income households, and those seeking funds for home repair.</li> <li>• <b>Philadelphia</b> offers Tangled Title Grants for up to \$4,000 per applicant.</li> </ul>
<b>Take advantage of Chapter 379E land bank powers</b>	<i>Not currently utilized</i>	<ul style="list-style-type: none"> <li>• The <b>Dallas</b> Land Bank as acquired more than 400 lots, with another 1,000 in the tax foreclosure pipeline. Approximately 60 lots have been sold to housing developers.</li> <li>• <b>Houston's</b> Land Bank has acquired over 1,400 properties and reactivated over 700, with another 140 currently in development. \$76 million worth of vacant property has been returned to the tax rolls.</li> </ul>
<b>Cumulative Capital Investment</b>	Beyond the Outlet Shoppes and San Augustin Plaza, capital investments in Downtown Laredo have not yet created a sense of momentum	<ul style="list-style-type: none"> <li>• <b>Brownsville</b> has undertaken 29 separate high impact capital projects in its downtown since 2012, totaling over \$58.5 million.</li> </ul>
<b>Convert the Sports &amp; Community Venue Sales Tax into a 4A/4B Economic Development Sales Tax</b>	Laredo currently has a 1/4 cent Sports and Community Venue Tax, which can be allocated to only a subset of the capital projects that could be funded through a 4B economic development sales tax.	<ul style="list-style-type: none"> <li>• <b>Brownsville</b> has a 1/4 cent Section 4B economic development sales tax, enabling the City to fund substantial capital projects in its Inner City. The resulting Brownsville Community Improvement Corporation allocates approximately \$1 million to quality of life capital projects every year, as well as \$5,000 grants to events that promote the City.</li> </ul>
<b>Business Incentives - Rental Subsidies</b>	<i>Not currently utilized</i>	<ul style="list-style-type: none"> <li>• <b>Brownsville</b> offers 12 months of subsidized rents to encourage new tenants to locate downtown.</li> </ul>
<b>Business Incentives - Improvement Grants</b>	Downtown Laredo businesses can apply for a façade improvement grant of up to \$10,000 per façade.	<ul style="list-style-type: none"> <li>• <b>Celina</b> has expanded the flexibility of its Downtown exterior improvement grant program to include facades and signs, lighting, public art, and public seating. If the improvements result in increased assessed value, the City also provides a one time cash payout 10x the increase in City property tax.</li> <li>• <b>Brownsville's</b> pilot Downtown Business Improvement and Growth program offers Exterior Façade Improvement Grants (up to \$15k), Interior Capital Improvement Grants (up to \$15k), and Sign Improvement Grants (up to \$2,500)</li> </ul>
<b>Business Incentives - Reduced Fees</b>	<i>Not currently utilized</i>	<ul style="list-style-type: none"> <li>• <b>Brownsville's</b> 2017 Downtown Overlay District Ordinance waives all building and zoning fees as well as minimum parking requirements for Downtown businesses.</li> </ul>
<b>Community-Building Beautification Efforts</b>	<i>Not currently utilized</i>	<ul style="list-style-type: none"> <li>• <b>Round Rock</b> has an annual day of service - 'Love the Rock' - that mobilizes over 1,000 volunteers to work on more than 200 homes with standing code violations. The event targets specific neighborhoods and directs volunteers to homeowners who are elderly, disabled, recovering from surgery or illness, or single families.</li> </ul>
<b>Commission a comprehensive evaluation of City economic incentives</b>	Laredo's suite of incentives do not produce anticipated returns on investment and can fail to attract desired types of investment	-
<b>Enhance and streamline the NEZ program</b>	The program has administrative burdens and a long review timeline	Several peer cities have expanded NEZ benefits to include a release from city liens, sales tax rebates on building materials, a commitment to sidewalk repair, and/or a cash rebate in proportion to the increased assessed property value.
<b>Adopt incentive design to recipient cash flow realities and financing gap needs</b>	<i>Not currently utilized</i>	In other cities that incentivize Inner City residential construction, donations of public land, leniency on parking requirements, and cash grants of up to 25% of project costs are more impactful than low interest loans and fee waivers. The value of other cities' incentives total between \$5,000 - \$10,000 per housing unit, a reflection of the market weaknesses that the cities seek to reverse.
<b>Fully leverage CDBG funds as incentive</b>	<i>Not currently utilized</i>	Peer Cities in Texas use CDBG to offer Inner City business incentives that are more flexible, more generous, and more comprehensive than the incentives currently available to businesses in downtown Laredo.
<b>Allow 'by-right' moderate density residential development in the Inner City</b>	<i>Not currently utilized</i>	Developments such as duplexes, triplexes, fourplexes, and ancillary dwelling units ("granny flats") are low cost ways to add more residents to Inner City neighborhoods. By accelerating the required approvals and permitting processes, the City can encourage such product types at no cost to taxpayers