BUDGET WORK SESSION MINUTES

The City Council of the City of Raleigh met in a work session at 1:00 p.m. on Wednesday, April 6, 2016 in the City Council Chamber, Room 201 of the Raleigh Municipal Building, Avery C. Upchurch Government Complex, 222 W. Hargett Street, Raleigh, North Carolina, with the following present.

Mayor Nancy McFarlane, Presiding
Councilor Mary-Ann Baldwin
Councilor Corey D. Branch
Councilor David Cox
Councilor Bonner Gaylord
Councilor Russ Stephenson
Councilor Dickie Thompson

Mayor McFarlane called the meeting to order at 1:09 p.m. All Council members were present except Mayor Pro Tem Crowder, who was absent and excused.

City Manager Ruffin Hall advised the Council that today's work session was the third and final session before the final budget presentation on May 17, 2016. The purpose of today's session was to share information relating to issues that the City is currently examining as part of the budget analysis process and to focus on the City's operating, capital, and affordable housing budgets. With the exception of two items relating to outside agencies, there was no action required. He emphasized that staff welcomes feedback from Council members about policy considerations and budget priorities.

These are summary minutes unless otherwise indicated.

AGENCY GRANT RECOMMENDATIONS – APPROVED AS PRESENTED

The following information was contained in the agenda packet:

> The City of Raleigh provides grant funding to not-for-profit agencies through four primary grant categories: 1) arts, 2) human services, 3) community enhancement, and 4) other outside agencies. The City Council requires all outside agencies seeking financial support from the City to apply for grant funding through one of these four categories.
>
> The City received grant requests seeking slightly more than $2.2 million in the other outside agency grant category. Eight agencies in this category have historically received grant funding. Six of the applications received are new agency requests. Included with the agenda packet are a summary spreadsheet of all the other outside agency grant requests and the applications for the six new requests. Also included in the packet are the FY17 recommendations for arts, human services and community enhancement grants. During the April 6 budget

work session, arts and human services grant recommendations will be presented by their respective commission chairs.

The final document included in the agency grant back-up is an agency grant funding summary which provides high-level agency funding information from previous adopted budgets, requests agencies have made for FY17 funding and recommendations from commissions or grants panels, where applicable.

RALEIGH ARTS COMMISION

Interim Budget and Management Services (BMS) Director Ben Canada notified the Council that if they were ready today, they could approve the agency grant recommendations. If Council was not ready, it would be possible to hold off until later in the budget process. A summary of grant allocation requests and recommendations were included in the Council's agenda packet. He then introduced Raleigh Arts Commission Chair Nancy Novell, who gave a brief summary of the arts grants application review process.

Ms. Novell stated that thirty-three organizations submitted applications requesting a total of $2,001,708.00, about an $117,000.00 or 6% increase compared to the year prior. That increase is largely due to Raleigh arts and cultural organizations' budgetary growth. However, the rise in funding requests does not reveal the full scope of these organizations' budgetary growth as grant funding caps prevent some organizations from increasing their grant requests at the same pace as their operating budgets.

The Arts Grant Program provides funding in multiple grant categories with 19 operating support requests and 14 program support requests received. Three first-time applicants submitted grant requests – Meredith College, Raleigh St. Patrick's Day Committee, and the Triangle Lebanese American Center – as well as one organization not funded since FY2015 (Raleigh Dance Theatre). Only one FY2016 grant recipient did not reapply. Ms. Novell emphasized that this program has been critical to Raleigh since its inception in 1990, bringing vitality to the community.

Councilor Thompson asked for explanation on three specific organizations that received large increases in grant allocations (Contemporary Art Foundation, PineCone, and Philharmonic Association). Linda Dallas, Raleigh Arts Commission member and Grants Committee Chair, responded with the following information.

- Contemporary Art Foundation – Last year the funding decreased due to compliance issues, all of which have been resolved. This was reflected in the foundation's scores.
- PineCone – Due to a bluegrass festival, their budget has grown significantly over the past two years. The amount that organizations are allowed to request (25%, with a cap) is based on the size of their budget. The increase in the grant allocation is based off of this increase.
- Philharmonic Association – The allocation increase is due to a combination of high ratings and eligibility for a larger request due to increased budget size.

Councilor Thompson asked why the funding for the Raleigh Little Theatre was broken out into two separate sections. Sarah Corrin, Arts Grant Coordinator, responded that the Arts Commission handles funding requests for both program support and operating support. The program support portion of Raleigh Little Theatre's grant allocation recommendation covers the summer teen theater program. The operating support funding portion covers the multi-year lease agreement that Raleigh Little Theatre has with the City, in addition to covering expenses such as utilities, building maintenance, janitorial, etc.

Councilor Baldwin asked why there was a decrease in funding for Chamber Music Raleigh. Ms. Dallas responded that due to the requests outgrowing the available funding, there are some organizations that have had to take a small cut, despite good scores.

There being no other questions, Councilor Baldwin moved approval. Her motion was seconded by Councilor Branch and put to a vote which passed unanimously. The Mayor ruled the motion adopted on a 7-0 vote. Mayor Pro Tem Crowder was absent and excused.

HUMAN RELATIONS COMMISSION

Michael Leach, Human Relations Commission Chair, reminded the Council that the City has $520,000.00 annually to vet in Human Services grants. Thirty-six applications were received, ranging from $5,000.00 to $36,000.00 per agency. A spreadsheet of recommendations was included in the Council's agenda packet.

Councilor Branch asked why Southeast Wake Adult Healthcare would not be receiving funding since the City has supported them in the past. Marionna Poke-Stewart, Community Services Program Manager, responded that although they have received funding in the past, they did not meet qualifications this year. Mr. Leach clarified that each agency must meet a targeted audience, which is the homeless, elderly, youth, disabled, or substance-abusing populations.

Councilor Thompson stated that it would have been helpful to have a master funding list, including a summary of each of the four available funding areas. As the information was presented today, it is not always clear how much total funding an agency was getting from each separate area. City Manager Hall responded that there are several agencies that have applied for funding in multiple areas; however, in the future, staff can identify those agencies for clarification.

Councilor Baldwin expressed her concern with the small allocation amounts, stating that the City is not reaching the needs of the agencies. Mr. Leach responded that the Human Services grant review process does not limit how much money an agency can request and does not prohibit that agency from requesting additional funding from Council. He stated that what the City is able to administer does not meet the need (the City is able to fund 31% of requests received). Councilor Baldwin added that if the agencies are not funded through this grant allocation process, they will come to Council to ask for additional funding.

There being no other questions, Councilor Gaylord moved approval. His motion was seconded by Councilor Thompson and put to a vote which passed unanimously. The Mayor ruled the motion adopted on a 7-0 vote. Mayor Pro Tem Crowder was absent and excused.

GENERAL FUND MAJOR REVENUE UPDATE – INFORMATION RECEIVED

Chief Financial Officer Perry James presented an update on the General Fund Major Revenue with the assistance of a PowerPoint presentation. Slides during his part of the presentation included the following information that he explained further.

General Fund Revenue Types (pie chart)

- Property Tax – 52%
- Other Revenues – 22%
- Sales Tax – 20%
- Franchise Tax – 6%

Property Tax Revenue – Revaluation Year

- NC State Statute requires a property revaluation at least every 8 years.
- Revaluation of real property was last conducted in 2008. Wake County has recently approved a change to revalue every 4 years beginning in 2020.
- During a revaluation, county assessors conduct a market analysis on real property – both land and improvements – to align assessed values with local market values.
    - Raleigh valuation increased $3.8 billion or 8%.
    - Residential property values remained flat.
    - Commercial property values increased 23%.

Property Tax Revenue Neutral Rate

- State law requires the computation and publishing of a revenue neutral tax rate.
- Revenue neutral means that the new rate applied to the revalued property tax base results in the same prior year revenue adjusted for an average growth factor.
- Final calculation of the revenue neutral rate depends on appeal results (now are estimated).
- Local governments may choose to use the revenue neutral rate or choose another tax rate to levy.
    - FY2016 Property Tax Rate - $.4210
    - FY2017 Forecast Revenue Neutral Tax Rate - $.3983

Property Tax Revenue (bar graph)

Property Tax Rate Scenarios

	Projected Revenue	Incremental Revenue	Impacts to $200K home value
Neutral rate $.3983	$231.3m		
Neutral rate + $.01 $.4083	$237.0m	$5.7m	$20
Neutral rate + $.02 $.4183	$242.7m	$11.4m	$40
Neutral rate + .0227 $.4210	$244.3m	$13.0m	$46

Revenue Neutral Rate - Districts

- Assessing variables which impact the computation of the revenue neutral rate for the City's two districts including:
  - Volume of appeal; and
  - Dollar amount of appeals.
- FY2016 Downtown Service District Tax Rate $.0786 – computation shows FY2017 revenue neutral rate to be adjusted by 1¼ to 1¾ cents.
- FY2016 Hillsborough Service District Tax Rate $.15 – computation shows FY2017 revenue neutral rate to be adjusted by 5 to 6 cents.

Sales Tax Revenue

- Sales Tax Rate
  - Wake County Sales Tax – 6.75%.
  - State rate – 4.75% + Local rate – 2.0%.
- Components
  - 1½ cent point of sale – locally generated.
  - ½ cent state-wide per capita.
- Tax Base
  - FY2016 sales tax base remained intact.
  - Expanded taxable services effective march 1st to impact 79 counties to generate $67m in revenue; Wake County not impacted.

Sales Tax Revenue (bar graph)

Utility Franchise Tax

- Franchise Tax
  - Tax imposed on electric and telecommunication companies.
  - For example: Duke Energy Progress, PSNC Energy.
- Distribution
  - FY2015 the tax rate changed to general sales tax rate – 6.75%.
  - Allocation changed from local to statewide basis.

- Impacts
    - City benefitting from the distribution change and it has helped to offset the gap from lost privilege license revenues.

Utility Franchise Tax (bar graph)

Summary Points

- Revaluation results show combined residential and commercial growth of 8%.
- Projected FY2017 revenue neutral citywide tax rate is $0.3983.
- Incremental $.01 increases to the tax rate could generate $5.7m in revenue.
- FY2016 sales tax receipts display a favorable environment with a 5.7% projected growth. Forecast for FY2017 includes a 4% growth factor over current year.
- FY2016 utility franchise tax receipts are exceeding expectation with projected growth of 6.8%. This is a positive trend to help offset the $7.1M loss from privilege license revenue.

Councilor Thompson referenced the last slide of the PowerPoint, asking for a breakdown on the 8% combined residential and commercial growth. Mr. James responded that the residential growth was flat (0%) and commercial was 23% over an 8-year period.

GENERAL FUND UPDATE – INFORMATION RECEIVED

Interim BMS Director Canada introduced Amber Smith, Operating Budget Manager (OBM). OBM Smith stated that the purpose of today's presentation was to provide an update to Council on the current budget development process in order to gain a sense of the major components and considerations that will likely be brought forward as a budget recommendation on May 17, 2016. She encouraged the Council to provide feedback that can be factored into the final balancing decisions. She presented this information with the assistance of a PowerPoint presentation. Slides from this presentation included the following information that she explained further.

Overview

- Current Budget Status;
- Strategic Plan Implementation;
- Expenditure highlights; and
- Next Steps.

FY2016 Adopted General Fund (pie chart)
The adopted FY2016 General Fund budget is nearly $435 million, which supports the City's major operating activities, including Public Safety, Parks, Recreation and Cultural Resources, Development Services, Planning, and other general government services.

FY2017 Budget Drivers

- Employee pay and health benefits ($7.8M);

- Increased capital project investment ($1.5M); and
- Annualized cost for mid-year staffing, facilities, and programs added in FY2016 ($1.3M).

Current FY2017 Budget Status (bar graph)
OBM Smith stated that the City is fortunate to have a strong starting point for this year's budget. After funding the budget drivers, the City projects about $9 million to fund new requests. This equates to roughly 2% of the total General Fund budget. She added that in order to maximize the City's additional revenue, the budget staff has been working to refine and prioritize needs. At this point, the expectation is to invest these additional resources to strategic plan implementation and addressing growth driven core service needs.

Strategic Plan Implementation
- Citizen survey;
- Economic development tool kit;
- Development review and permitting process;
- Emergency communication staffing;
- Transportation project delivery process;
- Compensation philosophy and structure;
- Communications policy and plan;
- Downtown cleanliness;
- Dorothea dix park planning; and
- Affordable housing.

FY2017 Expenditure Highlights
OBM. Smith stated that beyond implementing the strategic plan, the City also continues to experience significant growth in its core services, which places demand on service delivery.

Planning and Operating New Facilities
- Additional 600 acres and 12,000 square feet of new facilities to open in FY2017.
- Facilities in planning or opening in FY2017 include:
    - Forest Ridge Park;
    - Lake Johnson Woodland Center;
    - Moore Square (late summer/fall opening);
    - Horseshoe Farm Nature Preserve; and
    - Dorothea Dix Park.

She added that these facilities reflect prior commitments from the City, which are now opening and will require maintenance and program staff to support their operations.

Development Review and Inspections (bar graph)
- Additional plans review and inspections positions;
- Customer service enhancements; and
- Technology upgrades.

OBM Smith stated that Raleigh is fortunate to be such a vibrant and growing city, and one of the places that is most apparent is in the City's development review and inspection groups. Over the past 5 years, the City has seen a 51% increase in the number of permits issued. She added that the City is considering a number of new resources to provide effective responses to the development activity.

City Planning

- Growth and infill development; and
- Transit infrastructure needs.

OBM Smith stated that because Raleigh is such a highly desirable and growing community, it has unique pressure and increasing demands for effective planning services to guide that growth. Currently, the City's planning staff is operating at near peak levels, with 30 dedicated staff engaged in more than 60 active projects, with an additional 26 projects in the queue. Examples of these efforts include:

- Corridor studies that provide a vision for how the City's transportation network can better accommodate new development and a variety of transportation options, such as the Six Forks Road Corridor Study;
- Streetscape plans to help fill gaps between new development projects, such as Peace Street West; and
- Area planning to guide private and public investment in rapidly changing neighborhoods like the Cameron Village/Hillsborough Street area.

Public Safety

Slide included graph of 911 calls processed showing 12% increase in number of 911 calls since FY2012.

- ECC staffing study recommendations;
- Body-worn camera pilot program; and
- Fire apparatus replacement.

OBM Smith explained in more detail that during this past year, staff actively worked with an outside consultant on an emergency communication staffing strategy. The study undertook a broad review of current operations, staffing, and management to compare them to best practices and evaluate the effectiveness of the City's current structure and staffing levels. The study included recommendations for change to the operations and staffing that will ensure that service levels meet community expectations in addition to ensuring that the City can effectively address growing public safety needs.

Employee Pay and Benefits

- Competitive pay increase (every 1% = $1.8 M);
- Next phase of compensation study; and
- Additional City holiday at Christmas.

COUNCILOR GAYLORD DEPARTED THE MEETING AT 1:47 P.M.

OBM Smith added that employee costs compromise more than one-half of the City's General Fund budget. Offering competitive pay and benefits is key to attracting and retaining employees and promoting a high performing workforce.

The additional City holiday at Christmas (totaling 12 per year) will allow for the City to be on the same holiday schedule as the State of North Carolina and Wake County.

Employee Pay and Benefits

- Rising health plan costs;
    - Projections indicate 18% increase.
    - Spouse and dependent coverage is a major driver.
- Allocate portion of cost increase to employees; and
- Health plan will remain competitive.
    - No reductions in covered services.
    - Maintain highly competitive individual plans.
    - Considering changes to premiums and out-of-pocket maximums.

OBM Smith mentioned that the City's health insurance plan is one of the most important benefits it provides to its employees. The city provides strong coverage for medical care, preventative care, and prescription drug coverage. Health and dental insurance is a major cost driver for the City, totaling approximately $36 million annually for active employees and $14 million for retirees.

OBM Smith added that while the City has benefited in recent years from modest cost increases, it is currently experiencing a significant increase since 2013, including 35% for spouses and 30% for children, which will require additional resources for FY2017. The City is actively analyzing trends and options to finalize recommendations related to the health plan. The recommendation will include allocating a portion of the cost increase to employees, which will likely be through adjustments to out-of-pocket maximums, employee premiums, and a spouse surcharge. The surcharge would be applied when a spouse is covered on the City's health plan, despite having access to another health plan via their employer. She assured the Council that even with these changes, the City's health plan will remain competitive when benchmarked against other local governments in the state.

In summary, OBM Smith provided the following statements.

- The City is fortunate to have new resources and it is placing those resources in the highest priority areas;
- This is the first full budget process since strategic plan adoption, so there will be a number of new resources matched up with making progress on various initiatives in the plan;

- In addition to strategic plan implementation, the second high priority area where the City is allocating new resources is in work groups where the City is experiencing the greatest core service delivery pressures; and
- With these two focus areas, the budget proposal will seek to balance existing service levels with new initiatives.

Next Steps

- May 17 – Proposed FY2017 budget presentation.
- June 6 – City Council work sessions begin (Mondays at 4 p.m.).
- June 7 – Public hearing on proposed budget.
- July 1 – FY2017 budget must be adopted.

OBM Smith thanked the Council Members for their time. Councilor Thompson commended OBM Smith on her presentation. Councilor Cox requested more information regarding the spouse surcharge, specifically how it will be calculated. OBM Smith responded that she would get that information to him.

FIVE-YEAR CAPITAL BUDGET UPDATE – INFORMATION RECEIVED

Interim BMS Director Canada gave an overview of the Five-Year General Capital Improvement Program with the assistance of a PowerPoint presentation. Slides from this presentation included the following information that he explained further.

Agenda

- Overview of CIP;
- FY2017-FY2021 focus;
- Future considerations; and
- Questions.

Overview – All Funds (pie chart)
Adopted FY2016-FY2020 Five-Year Plan totals $1.046 billon.

Overview – General Capital (pie chart)
Adopted FY2016-FY2020 Five-Year Plan totals $318.5 million.

Overview – Current Assets

- 2.5 million square feet of office space;
- 108 parks, recreation, and cultural facilities;
- 117 greenway miles;
- 28 fire stations; and
- 1,087 street miles.

Recently Completed Projects
The slide included photos of the Central Operations Facility, Kaplan Drive Traffic Calming Project, Central Communications Center, and Abbots Creek Park and Community Center.

Projects Under Way
The two slides included photos of the Raleigh Union Station, Moore Square Master Plan, Lake Johnson Woodlands Center, Performing Arts Center, Mitchell Mill Road Widening, Six Forks Road Sidewalk Project, and Avent Ferry Road/I-440 Bridge Sidewalks.

Overview

Street Improvement Program	FY16	FY17	FY18	FY19	FY20	5-yr Total
Street Resurfacing	$7,200,000	7,563,000	7,640,000	7,870,000	8,105,000	33,378,000
Street Improvements & Paving Petitions	$300,000	410,000	500,000	500,000	500,000	2,210,000
Intersection Improvements	$600,000	600,000	600,000	600,000	600,000	3,000,000
Traffic Signal Installations	$200,000	200,000	200,000	200,000	200,000	1,000,000
Bridge Repair & Maintenance	$150,000	150,000	200,000	200,000	199,000	849,000
Neighborhood Traffic Management – Major	$500,000	500,000	-	-	-	1,000,000
Neighborhood Traffic Management - Minor	$175,000	175,000	-	-	-	350,000
Streetscape Program	$600,000	500,000	-	-	-	1,100,000
Oberlin Road Streetscape	$1,728,000	-	-	-	-	1,728,000
Subtotal	**$11,453,000**	**$10,098,000**	**$9,090,000**	**$9,370,000**	**$9,604,000**	**$49,615,000**

Interim BMS Director Canada noted that the Council appropriates projects in year one of the adopted budget; however, years two through five are programmed but not appropriated. Planned projects fit within planned revenue streams.

FY2017-FY2021 Focus (graph)

- Continue to invest in maintaining infrastructure;
- General public improvement;
    - Fire station renovations, downtown facilities, and emergency generators.
- Parks, Recreation and Cultural Resources;
    - Continue implementing 2014 bond referendum and significant portion dedicated to existing facilities.
- Technology;
    - Continue planning computer-aided dispatch (partnering with Wake County and other stakeholders).
    - Event management system for recreational facilities.
- Performing Arts Center;

    - Continue renovations; focus on life safety improvements and interior finishes.
- Raleigh Convention Center; and
    - Continue long-term maintenance program.
- Transportation.
    - Continue implementing 2013 bond program.
    - Projects in design phase (Old Wake Forest Road, New Hope Church Road, Pleasant Valley Road, and Tryon Road – Part C).

Street Resurfacing (bar chart)

- City maintains 1,087 street miles;
- Use combination of City crews and contracted vendors; and
- Optimal schedule.
    - Research suggests 5% per year
    - Leads to a 20 year cycle
    - Yields a "smoother ride"

Future Considerations

- Linking future capital plans to the citywide Strategic Plan;
- Dorothea Dix park (land and remediation, planning, development);
- Downtown City facilities;
- Affordable housing;
- Public safety training facilities;
- Corridor improvement plans; and
- Transportation improvements (transit, parking facilities).

Councilor Baldwin pointed out that there have been a number of studies completed in regard to the Corridor Improvement Plan, but there is no way to pay for them. She asked when the City would begin implementing the plan versus studying. Interim BMS Director Canada responded that if the City wants to move forward they must decide "how" and "how much." City Manager Hall added that on the scale and scope of the project, it would be considered under a future bond referendum, which is up to Council's discretion. He mentioned that this October or November might not be the best time. The Council and City staff would want to spend a considerable amount of time developing this plan during the next budget year.

Councilor Thompson asked what party system is used for the resurfacing program. Transportation Field Services (TFS) Manager Chris McGee responded that there is a pavement condition rating that collects data into a spreadsheet and weighs it based on impact and longevity. With each generated value (from 1-100), the City focuses on resurfacing roads with ratings of 80 or less.

Councilor Thompson confirmed that if an existing road does not have curbs or gutter it will be patched, not repaved. TFS Manager McGee stated that although this is the case, he believes it should be discussed and re-addressed in the future. Councilor Thompson and Councilor Cox

agreed, and City Manager Hall mentioned that the Council may want to address this issue in the Transportation Plan.

Councilor Branch asked if there are there any conditions that will slow the City down or overrun planned budgets of current projects. Interim BMS Director Canada responded that about nine months ago, City staff briefed Council on market conditions that the City is experiencing. There is a supply and demand problem, particularly for transportation needs that could present budget challenges. Unfortunately, this resulted in asking Council to move funds around. Similar budget challenges may occur for these projects.

Councilor Cox stated that in regard to the 2014 parks bond, he would like to see timelines for all projects in order to assist his understanding of why they take so long. Using the Brentwood Center as an example, he mentioned that there is a very long time between approval and seeing results. He would like to use these timelines as information to communicate back to his constituents.

Councilor Baldwin expressed her concern with the parks planning process, stating that the two-year planning timeline has hurt City efforts to build parks that were planned for the bond. She wants to address the fact that the planning process is hurting. Councilor Cox agreed.

Councilor Cox asked if the event management system for the parks would include being able to reserve tennis facilities. Interim BMS Director Canada asked Assistant Parks, Recreation and Cultural Resources (PRCR) Director Scott Payne to assist with providing an answer. Mr. Payne responded that this software would be growing what the City has already been using and providing an opportunity for the special events office staff to better manage their resources.

Councilor Cox asked for insight on what is needed to reach 5% on street resurfacing. TFS Manager McGee responded that it would take about $12.5 annually. Interim BMS Manager Canada clarified that would equate to an approximate 1 cent increase in property taxes.

City Manager Hall stated that the City is covering a variety of different public service areas. Raleigh is rapidly growing with a lot of projects. He both complimented staff and cautioned Council about the operating impacts of adding all of these projects. Specifically, these new facilities require staffing, maintenance, etc. He added that staff is trying to do a better job of determining the operating cost impacts and pay closer attention to the cost to operate and maintain the facilities while representing various interests. He lastly thanked the staff for bringing forth the information early in the process.

AFFORDABLE HOUSING – INFORMATION RECEIVED

Housing and Neighborhoods (H&N) Director Larry Jarvis stated that expanding affordable housing choices is essential to maintaining the high quality of life that Raleigh enjoys. To remain a leading city in the creation of affordable housing, a permanent funding source is needed. He began a presentation on funding for affordable housing with the assistance of a PowerPoint presentation. He reminded the Council that all of the information is based off of the

City's Strategic Plan. In addition to the above information, Council was provided with copies of the Affordable Housing Location Policy, the Affordable Housing Improvement Plan (both of which were approved by Council on September 1, 2015 and October 20, 2015 respectively), and a table depicting production levels if local funds for affordable housing are approved. Slides from the PowerPoint presentation included the following information that he explained further.

Topics for discussion:

- Affordability challenge review;
- Historic funding and investment review;
- Recap of adopted Affordable Housing Plan; and
- Permanent funding source options.

City of Raleigh's Strategic Plan – Safe, Vibrant and Healthy Community:

- Objective 2: Preserving and increasing the supply of affordable housing.
- Objective 3: Creating walkable, mixed-use and mixed-income neighborhoods.

Key definitions:

- Cost burdened: More than 30% of income for housing and utilities;
- Severely cost burdened: More than 50%; and
- Combined housing/transportation metric: "Cost burdened" if paying more than 45% for housing, utilities and transportation.

Components of the affordability challenge:

- Strong demand for near-downtown living (national trend);
- Resulting rise in property values and loss of existing affordable housing;
- Weak links to transit planning; and
- Diminished role of the federal government.

Cost Burdened Renters By Income	**Housing Expense Exceeds 30% of Income**	**Housing Expense Exceeds 50% of Income**
Income < = 30% AMI*	14,290	12,300
Income >30% to <=50% AMI	11,830	3,640
Income >50% to <=80% AMI	5,789	489
Total	**31,909**	**16,429**

Cost Burdened Homeowners by Income	**Housing Expense Exceeds 30% of Income**	**Housing Expense Exceeds 50% of Income**
Income <= 30% AMI	3,003	2,473
Income >30% to <=50% AMI	3,448	1,888
Income >50% to <=80% AMI	6,486	1,884
Total	**12,937**	**6,245**

**AMI: Area Median Income*

Accomplishments highlights:

- Affordable Housing Location Policy;
- Affordable Housing Improvement Plan;
- Neighborhood Revitalization Strategy Area Plan;
- Successful launch of 4% bond program; and
- Affordable housing preserved on three sites by CASA.

Washington Terrace before and after photos.

Affordable Housing Location Policy:

- Applies only to newly constructed rental projects > 24 units;
- Exempts projects for the elderly or disabled;
- Not allowed in areas having minority, low income or subsidized concentrations; and
- Exemptions to the concentrations prohibition.
    - Proximity to transit;
    - Within the boundaries of the Downtown Element; and
    - Implementing elements of the neighborhood revitalization plan approved by City Council.

Maps: Race and Poverty/Housing Units by Census Tract map.

Meadowcreek Commons 48 units – City Subsidy $25,000 per unit – photo.

Major objectives of the Affordable Housing Plan:
H&N Director Jarvis stated that Raleigh has one of tightest rental markets in the country. Finding units to place people in is difficult.

- Emphasize increasing the supply of affordable rental units;
- More strategically influence location;
- Maximize development capacity;
- Preserve existing affordable units; and
- Maintain diversity and housing choice in near downtown neighborhoods.

Water Garden Park – 96 units City subsidy - $13,750 per unit – photo.

Historic funding and investments (5 year annual averages)

		Amount	Units/Year
Rental Development	**HUD* Funds**	**$4,490,372**	**75**
	Bond Funds	$565,600	83
Homeowner Rehab	**HUD Funds**	**$650,000**	**10**
	Bond Funds	$355,000	5
Homeowner Repair	**HUD Funds**	**$0**	**0**
	Bond Funds	$300,000	35
Homebuyer Loans	**HUD Funds**	**$0**	**0**
	Bond Funds	$1,200,000	60

Neighborhood	**HUD Funds**	**$800,000**	**0**
Revitalization	Bond Funds	$200,000	0

**HUD: Housing and Urban Development*

Autumn Spring – 48 units – City subsidy - $17,708 per unit – photo.

Recap of Bond Funds, Commitments, Pending Commitments

Estimated Resources as of February 2016	**$18,422,648**
Commitments Against Available Funds	
Multi-Purpose Intake Center	($1,648,000)
Rental Developments	($9,050,000)
First Time Homeownership	($635,000)
Homeowner Rehab	($300,529)
2016 Housing Credit Applications	($3,900,000)
Total Commitments:	**($15,533,529)**
Estimated Available Resources after Commitments:	**$2,889,119**

Rental developments (Commitments: $9,050,000.00):

- Downtown Housing Improvement Corporation's (DHIC) Villages at Washington Terrace – 162 units - $6.8M.
- Community Alternatives for Supportive Abodes' (CASA) Sunnybrook Village Apartments – 42 units - $1.5M.
- Taft Development Group's Wakefield Commons Apartments – 80 units - $750K.

2016 housing credit applications (Commitments pending City Council approval): $3,900,000:

- DHIC's Capital Towers – 298 units - $2.8M.
- Steele Properties' Raleigh North and Millbank Court – 229 units – $1.1M.

AFFORDABLE HOUSING IMPROVEMENT PLAN COMPENENTS:

- Since 9% low income housing tax credit fully utilized in Wake County – solicit and support 4% projects.
    - Up to $6.8 million committed to Village at Washington Terrace (162 units).
    - Reviewing two applications requesting $3.9 million for the preservation of 527 units.

Carlton Place – 80 units – City subsidy - $15,000 per unit – photo.

- Provide site acquisition assistance for Low-Income Housing Tax Credit (LIHTC) projects in strategic locations:
    - Near planned transit improvements.
    - Near downtown.
- Infill Homeownership Development program:
    - Gap financing for acquisition and redevelopment of blighted properties.

- Good fit for Habitat for Humanity.

Habitat for Humanity – photo.

- Affordable rental preservation/creation:
  - Forgivable loans for acquisition of smaller properties (40% affordable; 60% market rate).
  - Open application window for public/private redevelopment partnerships (the Washington Terrace model).
- Development of Downtown Neighborhood Revitalization plans:
  - Neighborhood Revitalization Strategy Area (NRSA) Plan approved by Council for College Park and Washington Terrace area.
    - Allows for mixed-income homeownership on sites acquired with Community Development Block Grant (CDBG) funds.
    - Makes applications for 9% LIHTC projects more competitive.

PERMANENT AFFORDABLE HOUSING FUNDING SOURCE OPTIONS:

OPTION 1: DOWNTOWN SYNTHETIC TAX INCREMENT FINANCING (TIF) (VALUE CAPTURE)

Finance calculation: Capturing 50% of the increase in property tax revenues in FY17 would equal only $84,000.

Program	Amount	Units Added to Historic Production levels
Rental Development*	$84,000 (in FY17)	0

*Gap financing for 4% bond projects, preservation of existing units and site acquisition assistance.

Synthetic TIF assumptions:

- Modeled using the existing downtown service district boundary.
  - District size represents less than one square mile and 90 blocks.
- Downtown Service District annual growth – 2.01% over revaluation period.
  - District size is 3.65% of citywide tax base.
- Calculated using the proposed revenue neutral rate $.3983

	Raleigh	Downtown MSD* @ Raleigh Rate	Downtown MSD % of all Raleigh
Revalued 2017 Base	57,407,000,000	2,098,022,766	3.65%
Annual Growth	1.8%	2.01%	-
Revalued Base	1,016,273,422	42,161,380	4.15%
Estimated Annual Growth			
Taxes from Growth	4,047,334	167,909	4.15%

50% of Tax Growth	2,023,667	83,954	4.15%

**MSD: Municipal Service District*

OPTION 2: GENERAL FUND ALLOCATION TO AFFORDABLE HOUSING

Program	Amount	Units Added to Historic Production Levels
0.5 cents of property taxes for FY17 Rental Development* Annually Pros: • Can provide significant funding without incurring debt; • Amount will continue to increase with growth; and • Simple and straightforward. Cons: • Allocation would require property tax rate to increase or forego other City needs. **Gap financing for 4% bond projects, preservation of existing units and site acquisition assistance.*	$2,850,000	50-75 units
1 cent of property taxes for FY17 Rental Development* Annually Pros: • Can provide significant funding without incurring debt; • Amount will continue to increase with growth; and • Simple and straightforward. Cons: • Allocation would require property tax rate increase or forego other City needs. **Gap financing for 4% bond projects, preservation of existing units and site acquisition assistance.*	$5,700,000	100-150 units

OPTION 3: SCHEDULED BOND ISSUANCES (IN AMOUNTS EQUALING 0.5 OR 1 CENT ON THE TAX RATE ANNUALLY)

Production level would be the same as Option 2.

Pros:

- Allows more direct matching up funding needs to evolving housing plans;
- Has direct voter participation in approving bonds for set purposes; and
- Bonds issues can be delayed or amounts changed if conditions warrant.

Cons:

- Involves ongoing referendum processes to get approval for bonds with risks of non-approval;
- Future funding requirements must be projected well in advance;
- Includes issuance costs for every bond issue; and
- Not a permanent recurring source.

Illustrative Sources and Uses *without* Permanent Funding Source

ANNUAL SOURCES		
Federal HOME Funds	**Federal CDBG Funds**	**Total**
$1,500,000	$2,800,000	$4,300,000

ANNUAL USES				
	Federal HOME Funds	Federal CDBG Funds	Total	Annual Production
Rental Development	850,000	0	850,000	75
Homebuyer Rehab Loans	650,000	0	650,000	10
Homeowner Repair Loans	0	300,000	300,000	35
Homebuyer Loans	0	1,200,000	1,200,000	60
Neighborhood Revitalization	0	1,000,000	1,000,000	0
Infill Homeownership	-	300,000	300,000	10
Sum Total of Uses	$1,500,000	$2,800,000	$4,300,000	190

Illustrative Sources and Uses *with* Permanent Funding Source

ANNUAL SOURCES		
Federal HOME Funds	**Federal CDBG Funds**	**Local Funds**
$1,500,000	$2,800,000	$5,700,000

ANNUAL USES				
Federal HOME Funds	Federal CDBG Funds	Local	Annual Production	Change in Annual Production

Rental Development	850,000	0	5,000,000	200	+125
Homebuyer Rehab Loans	650,000	0	700,000	20	+10
Homeowner Repair Loans	0	300,000	0	35	0
Homebuyer Loans	0	1,200,000	0	60	0
Neighborhood Revitalization	0	1,000,000	0	0	0
Infill Homeownership	0	300,000	0	10	0
Sum Total of Uses	$1,500,000	$2,800,000	$5,700,000	-	-
Total Annual Production:				325	+135

**CDBG: Community Development Block Grant Program*

Mayor McFarlane asked H&N Director Jarvis if the amount of CDBG funding received would be influenced by the City's allocation of funding. He responded that City contributions do not leverage any potential funds.

Councilor Stephenson asked if other non-profit developers would be able to use these funds to leverage their existing resources. H&N Director Jarvis responded that they could, and with a 9% credit, approximately 50% of the project cost would in the form of equity.

Councilor Baldwin asked if the City looked at using a hybrid program at a ½ cent increase, supplemented with a bond for flexibility purposes. H&N Director Jarvis responded that although the City has not previously used a hybrid model, that option can be discussed. He reminded the Council that regardless of the amount of money issued, the bond issuance would still be present, meaning that it does not make sense to do small bond issues and pay high issuance costs. City Manager Hall further explained that the bond issuing is not a funding strategy, but rather a finance strategy because the City needs to repay the bonds. This is something that is used to accelerate projects quickly but is not a funding source.

Councilor Stephenson asked about downtown synthetic tax increment financing and whether it would be a stagnant or growing number over time. H&N Director Jarvis responded that it would be a growing number.

Councilor Branch referenced the slide regarding affordable rental preservation and creation. This slide indicated an option for forgivable loans for acquisition of smaller properties that are 40% affordable and 60% market rate. He asked what the rationale is between 40% affordable/60% market rate versus 60% affordable/40% market rate. H&N Director Jarvis responded that it relates to leveraging other dollars. If the forgivable loans were 60% affordable, the loans would not be able to support as much debt.

Councilor Baldwin asked how many affordable units per year the City is attempting to acquire. H&N Director Jarvis responded that there is not a set number yet because City staff wanted to

have the conversation with Council first. He noted that everyone agreed to significantly increase production.

Councilor Cox asked how many units of affordable housing the City needs. H&N Director Jarvis referenced the chart from his presentation showing cost burden to renters, stating that in theory, the City needs 32,000 additional units. Since the City will never be able to achieve that, 32,000 is not a realistic figure. He added that there is no magic number, emphasizing the intention to under-promise and over-deliver.

Councilor Baldwin asked what was needed from the Council at today's meeting. H&N Director Jarvis responded that today's presentation was simply for informational and feedback purposes. City Manager Hall added that affordable housing represents a significant part of the City's budget recommendation and the key policy goals of the Council.

Councilor Stephenson asked about the optimum production that the City can afford. He understands that no city can ever meet all of the cost-burdened family needs; however; at least the City can benchmark what they do with other communities that are working hard on this issue. H&N Director Jarvis responded that with the Council's approval of the Affordable Housing Plan, the City should be on par with Charlotte and ahead of any other major city in North Carolina.

Councilor Baldwin stated that the City should be looking at communities internationally rather than statewide. She said the City has spoken for many years about incentivizing with developers to build more affordable housing with little to no movement, mostly due to restrictions from the state. She asked if there had been any thought to communicating with the development community to get more serious about including affordable units in their private developments. H&N Director Jarvis responded that most of the rental development is completed by developers who want to get the properties leased up as quickly as possible before selling to an institutional investor. It is rare that an investor will develop a property, rent it, manage it, and hold it. He added in this rare case, there still might be some opportunity to work with the developers to incentivize including some affordable units, but because of the model by which most rental development is accomplished, it is not feasible to mix them because the financial structures are completely different. With the 4% bond deal, the City has opened a gigantic door of options. He stated that the City needs to explore the full potential for affordable rental creation.

Councilor Thompson asked for clarification on the Area Median Income (AMI) figures and whether they are citywide or zone-specific. H&N Director Jarvis responded that the figures are based upon Wake County and completed by Housing and Urban Development (HUD). Currently for a family of four, the median income is $78,000 at 100%.

Councilor Baldwin stated that if there is a transit referendum in November, affordable housing will go hand-in-hand with that. She added that if the City is going to make the commitment to transit, it will also need to make a commitment to affordable housing. She referenced the statistics of homeless children in the City, stating that the City is attracting more and more homeless citizens due to the services available to support them.

Councilor Cox recognized that the City has both local and federal funding sources. He asked for clarification on what state funding for affordable housing is available. H&N Director Jarvis responded that the North Carolina Housing Finance Agency administers the LIHTC program and receives the home funds that are available to non-entitlement communities in North Carolina, but the City of Raleigh is not eligible. He added that at one time there was a state tax credit that supplemented the LIHTC program, but it was eliminated by legislature. This was replaced by a different state program for which projects in Wake County would not be eligible.

Mayor McFarlane stated that the City has seen a significant number of decent, affordable apartment complexes torn down. She asked if the City could work with owners to discuss rehabilitation of units. H&N Director Jarvis responded that the City can do this; however, in recent cases the City is seeing numerous above-asking-price offers from non-profits being outbid by developers.

Councilor Stephenson asked a question regarding the North and Millbank Court 2016 housing credit application and if they would continue to be project-based Section 8. H&N Director Jarvis responded that the apartments would continue to accept Section 8 vouchers. Councilor Stephenson stated that the City should be thinking about affordable housing and other investments that improve the equitable treatment of citizens and reduce income inequality. Affordable housing will aid in creation of construction jobs, job training, improvements of neighborhood and housing values, and workforce productivity. He added that when the City reduces the cost burden of housing and transportation, it allows for families to have more money to spend in other areas of the economy.

Councilor Baldwin asked the Council Members for clarification on the direction they would like to take relative to affordable housing. Councilor Stephenson responded that he would like to see international benchmarking. Mayor McFarlane stated she is interested in knowing how to prevent the teardowns of decent apartment complexes. Councilor Baldwin responded it is an economic reality that developers are willing to pay a lot more for property than the City or a nonprofit can, adding that unless the City is willing to pay higher prices for land, she doesn't see how the City can change market conditions.

Mayor McFarlane asked if there was a way to encourage developers to participate with the City to provide more affordable units.

Councilor Branch agreed with Councilor Baldwin regarding the need for affordable housing in the community. He emphasized the need to stay focused on this issue due to the cry in the community for affordable housing. He stated that not only does he want to use other cities to benchmark, he wants other cities to benchmark against Raleigh. H&N Director Jarvis referred to the Affordable Housing Plan, where the City looked at Atlanta, Seattle, Denver, Montgomery County, and Charlotte for benchmarking purposes.

Councilor Cox confirmed that when properties are rezoned, the City cannot require affordable housing. He asked if the City can ask developers to provide affordable housing as part of the

rezoning process. City Manager Hall responded that the question is better suited for the City Attorney's office and he would find out and provide that answer to Council.

ADJOURNMENT

Interim BMS Director Canada announced the conclusion of the budget work session. He added that the full proposed budget would be presented at the May 17, 2016 meeting. There being no further business, Mayor McFarlane announced the meeting adjourned at 3:00 p.m.

Cassidy R. Pritchard
Assistant Deputy Clerk