

Tax Increment Grant Policy

City of Raleigh, North Carolina

Adopted May 4, 2021

Introduction

This policy outlines the guidelines, funding requirements and general terms under which the City will consider pledging funds for a Tax Increment Grant (“TIG”).

With an approved TIG, the private developer is responsible for the project (including any agreed upon public infrastructure) and developing the public benefits as will be set forth in a contractual agreement negotiated between the City and the Developer (a “TIG Agreement”). The City will not issue or assume debt associated with the project. The private developer assumes all up-front development costs and receives a grant paid out over a set period of time from the City to cover certain costs. The costs of the project associated with the TIG must demonstrate benefit to the general public.

A TIG Agreement requires the City to pledge a grant amount equal to a percentage of the net incremental property tax revenue increase associated with a project. These payments are set for a specific timeframe in order to fund a public infrastructure improvement, a public facility or community benefits as part of a new development or redevelopment project. Funding commitments may be in the form of partial or full reimbursement for specific developer costs or as general financial support for the entire development project, recognizing the overall benefit it brings to the City

Objective of Tax Increment Grant (TIG)

A TIG may be used to support public-private partnerships through private development investments that generate significant benefits to the public that would not occur but for the grant. The purpose of the TIG is to increase the tax base, advance economic growth in priority areas of the City where private investment has not otherwise historically occurred, encourage job creation, enhance the public realm, and/or gain additional public benefits from development projects. Through negotiation between the City and the developer/property owner on a TIG Agreement, the City gains the opportunity to influence a proposed development to include needed public infrastructure, facilities for public use or benefit, and community benefits such as job creation, workforce development, community infrastructure, and affordable housing.

Investment Categories

The elements of the project associated with TIG support must demonstrate benefit to City and to the general public. City participation and funding through a TIG must fall into the Infrastructure/Facilities Investment Category or in combination with the Public Benefits Investment Category. The two Investment Categories are:

Investment Category 1: Infrastructure/Facilities—building and funding of new public infrastructure or facilities or to influence how these improvements are designed or constructed. These assets may be either publicly or privately owned and operated.

Investment Category 2: Public Benefits—to the extent allowed by North Carolina law and in combination with benefits within the Infrastructure/Facilities Category above, investments could include community benefits such as job creation commitments, workforce development or construction of community amenities, including, but not limited to, affordable housing.

Project Requirements

In order to be considered for funding by the City, in addition to being eligible for City funding under applicable North Carolina laws, including, but not limited to NCGS § 158-7.1, all TIG funded projects must demonstrate alignment with and substantial advancement of the following:

1. The project must fall into the Infrastructure/Facilities Investment category or a combination of the categories listed above.
2. The project must meet at least one of the following economic development principles:
 - a. Increase percentage of City's overall property tax base composed of non-residential uses.
 - b. Increase full-time employment opportunities within the City.
 - c. Increase opportunities to develop and grow small business.
 - d. Add needed services, jobs, and public benefits to the City's economic development priority areas to promote inclusive and equitable opportunities in all parts of the City.
 - e. Develop programs that encourage social and economic inclusion and diversity such as workforce development and minority and women contracting.
 - f. Promote public-private partnerships to increase affordable and workforce housing.
 - g. Enhance the value of surrounding property through improvements in the public realm.
3. The City must determine that certain public benefits and policy objectives outlined in the project's proposal would not be incorporated into the project or otherwise realized by the City without consideration of a TIG. The City's investment through a TIG must yield benefits to the City and the community that would not occur but for the grant.
4. To ensure the City receives all infrastructure, programs and benefits committed by the project, an applicant's guarantees are pledged in the form of a written, legal instrument that is subject to approval by the City Council following a public hearing on the proposed grant.
5. Financial participation with a TIG provides the City with the opportunity to influence the type and form of the project in partnership with the private developer, which may include public and community benefits.
6. Applicant must show that the proposed project is in alignment with City priorities and goals, including, but not limited to the City's Strategic Plan.
7. Project application for Wake County financial assistance with the project (if offered) must also occur by the project developer if TIG funding is being requested from the City for public facilities or amenities with regional benefits. The City strongly encourages any project that includes affordable housing to also seek financial assistance from Wake County.

8. Development projects and City TIG investment should be aligned and support the City's Capital Improvement Plan, Area Plans, and/or Comprehensive Plan.

The proposed project should represent a significant investment to the community and add adequate incremental property tax revenue to allow for the financial feasibility of the grant process. Meeting all policy requirements does not guarantee TIG funding. All applications for TIG funding will be evaluated on a case-by-case basis and Council reserves the right to approve or deny any application for TIG funding at its sole discretion.

To remain eligible for TIG funding, a project must commence substantial construction (as defined within the TIG Agreement) within a specified time of the Council's approval of the TIG. This timeframe will generally be eighteen months but may be shorter or longer based on the specific details of a particular project. The TIG Agreement shall contain a full timeline for the construction of the Project and failure to adhere to the timeline shall be deemed a breach of the agreement.

Public Engagement in TIG Agreements

A public hearing is required for all TIG agreements. In addition, to assure that the public has sufficient information about and input in proposed TIG Agreements, an enhanced level of engagement may be employed as described below:

1. In Investment Category 1, the TIG is used to finance all or part of an infrastructure project or facility that benefits the community. If the infrastructure or facility proposed by the TIG Agreement has previously gone through a public engagement process as part of the development of an area plan, the budget or capital improvement program ("CIP"), or other approved plan additional engagement will focus on communication about funding amounts and project timing. If the infrastructure or facility proposed by the TIG Agreement was not included in a previous public engagement process, a process may be developed to solicit feedback on proposed investments and alternatives. In the case of projects with significant community impacts, engagement expectations outlined for Investment Category 2 may be more appropriate.
2. Investment Category 2 involves larger regional developments in which either the private party or the City wish to include public benefits as part of the TIG Agreement. In these projects, additional public engagement may assist the City Council in prioritizing competing interests given funding constraints. Council will determine the most appropriate way to collect public input for Investment Category 2 projects, which may include a Council-appointed committee or neighborhood feedback sessions to gain community recommendations. This process would precede and inform any negotiations for a TIG agreement.

TIG Financing Limitations and Terms

The TIG is provided on a reimbursement basis only and based on an established percentage of new net incremental property taxes generated from the project within a defined area. All property taxes for the project are paid by the developer first, then an established percentage of the incremental property tax

will determine grant payment amounts to the developer and the duration for those payments as approved by Council as part of the TIG Agreement. Other revenue sources recognized by the City, such as sales tax revenues, will not be considered in determining grant payment amounts.

The City shall not pledge more than 75% of the incremental property tax value generated by the project and the grant term shall not exceed fifteen (15) years. The actual percentage and term will be determined by the City based on the specific benefits of a proposed project. Council desires to encourage economic development in approved City priority areas to ensure development, jobs and services in all parts of the City in an inclusive and equitable manner. As with other City economic development tools, the TIG allows for an increased funding percentage and term for projects developed in approved City economic development priority areas. The funding percentages and terms of the City’s TIG shall be as follows:

<u>Priority Area for Economic Development</u>	<u>Net Incremental Property Tax</u>	<u>Length of Time</u>
<u>Outside</u>	<u>Up to 50%</u>	<u>Up to 10 years</u>
<u>Inside</u>	<u>Up to 75%</u>	<u>Up to 15 years</u>

Capacity Limits for TIG Grants

In order to ensure the City’s total tax base remains a stable source for the City’s general governmental services, the TIG program shall not exceed 2% of the annual property tax levy in any given year. The capacity limit will be the maximum TIG amount allowable for all approved TIG’s in aggregate. An analysis of the capacity will be conducted annually and shall include the City’s full assessed real property tax values. The capacity will be measured and managed as new TIG initiatives are considered.

Performance Guarantees and Compliance

While contractual obligations of the City and the developer may vary based on project-specific pledges, it is expected that the TIG Agreement will include, at minimum:

- For Infrastructure/Facilities projects, developer shall make guarantees to the City that the improvements will be constructed in the manner and to the specifications described in the TIG Agreement. This may include requirements that the developer provide bonds or other equivalent instruments to ensure the completion of construction if the developer is unable to perform.
- For all projects, any payment or financial obligations of the City shall be contingent on the developer meeting their obligations to the performance standards established within the TIG Agreement. No payments shall be made by the City until performance is verified by City staff.

Reporting/Certification of Benefit and Evaluation Criteria

The TIG Agreement will establish reporting mechanisms that allow the Council to verify that the developer is meeting their obligations made in exchange for the City’s provision of a TIG. These reporting

requirements will be custom for each TIG Agreement based on the representations and obligations made by the parties for each specific project.

North Carolina law requires recapture provisions in economic development incentive agreements under certain circumstances. The City will include such terms if required by law and may determine, on a case-by-case basis given the project, that such terms are necessary even if not required by law.

To ensure transparency of the use of taxpayer dollars details of approved City TIGs will be published in the annual budget book. The annual budget book shall include, at a minimum, a brief description of the project and benefit to the City, length and terms of the reimbursement and the total incremental property tax revenue and total TIG payments in any given year.