

Morganton DIG

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DEVELOPMENT INCENTIVE GRANT POLICY GUIDELINES

I. INTRODUCTION

The Development Incentive Grant (DIG) program is designed to accomplish a combination of goals related to economic development and community development efforts identified within the adopted Mission 2030 Plan. Economic vitality and sustainability is targeted in Morganton's efforts to reverse 20 years of economic decline. If Morganton is to sustain itself in the years ahead, it must embrace new opportunities and ideas. It must create new partnerships and allow emerging economic sectors to grow. Job growth, workforce education, diversification and entrepreneurialism are all topics of discussion within Morganton's Mission 2030 Plan. The policies, projects and initiatives undertaken to fulfill these objectives require the participation of both the public and private sectors.

The DIG program provides local developers, financial institutions, investors, and landowners a unique opportunity to obtain financial support from a joint effort between the City of Morganton and Burke County. Capital investment is one of the methods required to advance community wide long range economic and community planning goals. For a period of time, financial incentives will be made available for both large and small economic development projects determined to meet the general and specific guidelines established.

In Morganton, the Mission 2030 process engaged community representatives to prioritize, examine and endorse strategies that would prepare it for economic competitiveness in the years ahead. The Community came together to recommend strategies that would strengthen Morganton's ability to remain a center of economic activity and commerce for Burke County. New ideas and strategies were introduced in the Plan that are unique to Morganton, but based upon research and successful programs in other parts of the country. It is expected that implementing those strategies may be difficult if resistance to change is encountered. Challenging traditional thinking and successfully navigating the hurdles can mean the difference between success and failure. A critical strategy of Mission 2030 was to create new partnerships that offer strength, efficiency and new opportunities beyond those that are currently available. DIG creates an environment where political, financial, and entrepreneurial players can come together to achieve common goals to initiate economic activity through supported ideas for project and business planning, financing and implementation.

DIG funds can only be made available to those projects determined otherwise unfeasible or unachievable "but for" the combined efforts of public and private participation. The City will designate Development Incentive Grant Zones (DIG Zones) within areas of the city that were determined key economic growth areas by the Mission 2030 Plan. The objective is to encourage unique projects within these zones. The projects must comply with community adopted standards and program guidelines established for that particular DIG Zone.

II. Purpose of Policy

The Development Incentive Grant Program has been approved by the Morganton City Council and Burke County Commissioners for the following purposes:

- to guide recommendations regarding the use of Development Incentive Grants (DIGs) and set out the general agreement terms with developers and landowners;
- to provide a framework from which the City Council and County Commissioners can evaluate and compare proposed uses and results anticipated from the use of Development Incentive Grants; and
- to inform the public of the City and County position on the use of Development Incentive Grants and to make available a fair and accessible process through which decisions will be made.

III. Development Objectives

The City of Morganton proposes to use Development Incentive Grants to accomplish these major objectives:

- A. Expand the Morganton economy to create more jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.
- B. Attract and expand new and existing businesses, services, developments and employers in order to position Morganton to compete in the economy of the 21st century and in the reality of declining large manufacturing employers.
- C. Increase the property tax base of the city and county and maintain a future diversity of opportunities for its citizens, and prevent further erosion of existing developed areas.
- D. To clean underutilized or abandoned properties through adaptive reuse so that those properties may once again offer a contribution to the community and eliminate the blighting influences they now have throughout the city
- E. Provide an array of housing choices that meet the needs of current residents and also attracts new residents to the city, with an emphasis on providing affordable housing.
- G. Support neighborhood retail services, enhance commercial corridors and boost employment hubs as identified in Mission 2030.
- H. Support redevelopment efforts that enhance and preserve unique urban features and amenities, including areas such as downtown, the river district, historic neighborhoods, destination retail areas and major entry corridors.

IV. Guidelines for the use of Development Incentive Grants

- A. Comply with all requirements of the North Carolina General Statutes, as amended, and undertake adequate analysis to ensure that the proposed project satisfies the “but for” test.
- B. Utilize Development Incentive Grants only when a clearly identified and predetermined development objectives and public purposes are being served and only to the degree necessary to accomplish the development objective.
- C. Development Incentive Grants will only be used in cases where the City and County has the financial capacity to provide the needed public assistance, the City Council and County Commission deems it fiscally prudent to provide such assistance and the developer has clearly demonstrated that the development will be able to meet its financial and public purpose commitments.
- D. The City or County will not incur public debt to directly pay for such grants.
- F. All Grants will be subject to the terms and conditions of an approved grant agreement that includes criteria for project pro-forma, completion dates, reporting requirements, default assurances and payment responsibilities for both the applicant and granting agencies.
- G. The City and County will analyze each potential new Development Incentive Grant Zone and recommend whether it should be included in the program. A justification report will be prepared and reported to the City Council and County Commissioners in a manner understandable to the general public prior to approval of the proposed zone. Periodically, the zones will be reviewed for decertification.
- H. As part of the annual budget process, the City and County will budget adequate funds to satisfy existing grant obligations.

V. Economic Analysis

A. Proposed uses of Development Incentive Grants will be reviewed by the City and County. The Developer will be required to provide independent consultant reports as requested to remain eligible for grant appropriations.

B. The analysis and assessment of all proposed uses of grant funds will address the following questions as part of the standard format for reports to the City Council and County Commissioners:

- What is the public purpose of the financial assistance to the project?
- Why is there a financial need for public investment and/or subsidy?
- What is the total cost of the project?
- What is the appropriate level of public participation?
- What are the risks associated with the project?
- What are the alternative plans for managing the risk?
- How does the proposed project finance plan compare with previously approved comparable projects?
- What is the project's impact on other community identified needs or publicly financed projects?

C. The results of the economic analysis will be presented to the City Council at the time of the request for approval of the proposed Development Incentive Grant. The report will identify any elements of the proposed project that are not in conformance with this Policy.

D. Upon approval by the City Council, the economic analysis will be presented to the County Commissioners for their review and approval.

E. Projects with an anticipated grant term of greater than 5 years or projects with Development Incentive Grants in excess of \$500,000 over the term of the grant period will be subject to a more extensive analysis, including appropriate market analysis and review by City and County Finance Department staff.

VI. Evaluation Criteria

The following items will be taken into consideration in the evaluation of any development proposal requesting a Development Incentive Grant.

A. Need For Public Assistance – In all cases, it is required that the need for public assistance be demonstrated and documented by the developer to the satisfaction of the City and County. All such documentation, including development budgets, cash flow projections, market studies and other financial and market information, must be submitted by the developer along with an application for Development Incentive Grant funding. If the request is based on financial gap considerations, the developer will demonstrate the profitability and feasibility of the project (i.e. gross profit, cash flow before taxes, cash-on-cash return, IRR, etc.), both with and without public assistance.

B. Amount of Public Assistance versus Private Investment - All development proposals should seek to maximize the amount of private investment per dollar of public assistance. Public assistance will be presented as a percentage of the total development costs. Assistance will be determined for each project (or discrete portion of a project receiving a subsidy) and compared to other development projects or subprojects of similar scope and magnitude whenever possible. The following criteria for assistance shall serve as a guide.

Small Projects between \$250,000 and \$1 million may be eligible for 5 annual post completion DIG grants up to 65 cents per 100 dollars of increase of land and building value. Base value shall be determined at time of application using the current land and building tax valuation. Post construction value shall be based on the lesser of new tax value or appraised value for land and buildings. This value will be established within one year of completion of the project. The post construction value may change during the granting period through revaluation or through value adjustment procedures initiated by the property owner or County Tax Appraiser. Additional grant funds may be provided in the Morganton's Municipal Service District (MSD) in the downtown zone as noted.

Calculation Example:

Existing Property Value: (\$100,000) Land and Building

Post Construction Value: (\$900,000)

Increased Value: (\$800,000)

Grant Calculation: $(\$800,000 \times .0065) = \$5200/\text{year}$

Additional (MSD) Downtown Grant Calculation Example:

Existing Property Value: (\$100,000) Land and Building

Post Construction Value: (\$900,000)

Increased Value: (\$800,000)

Grant Calculation: $(\$800,000 \times .0009) = \$720/\text{year}$

Medium Projects between \$1 million and \$5 million shall be eligible for 5 annual post completion DIG grants up to 75 cents per 100 dollars of increase land and building value. Base value shall be determined at time of application using the current land and building tax valuation. Post construction value shall be based on the lesser of new tax value or appraised value for land and buildings. This value will be established within one year of completion of the project. The value may be adjusted from time to time. The post construction value may change during the granting period through revaluation or through value adjustment procedures initiated by the property owner or County Tax Appraiser. Additional grant funds may be provided in the Morganton's Municipal Service District (MSD) in the downtown zone as noted.

Calculation Example:

Existing Property Value: (\$1,000,000) Land and Building
Post Construction Value: (\$3,000,000)
Increased Value: (\$2,000,000)
Grant Calculation: $(\$2,000,000 \times .0075) = \$15,000/\text{year}$

Additional (MSD) Downtown Grant Calculation Example:

Existing Property Value: (\$1,000,000) Land and Building
Post Construction Value: (\$3,000,000)
Increased Value: (\$2,000,000)
Grant Calculation: $(\$2,000,000 \times .0009) = \$1800/\text{year}$

Large Projects over \$5 million shall be eligible for 5 annual post completion DIG grants up to 85 cents per 100 dollars of increase land and building value. Base value shall be determined at time of application using the current land and building tax valuation. Post construction value shall be based on the lesser of new tax value or the appraised value for land and completed buildings. This value will be established within one year of completion of the project. The value may be adjusted from time to time. The post construction value may change during the granting period through revaluation or through value adjustment procedures initiated by the property owner or County Tax Appraiser. Additional grant funds may be provided in the Morganton's Municipal Service District (MSD) in the downtown zone as noted.

Calculation Example:

Existing Property Value: (\$150,000) Land and Building
Post Construction Value: (\$9,000,000)
Increased Value: (\$8,850,000)
Grant Calculation: $(\$8,850,000 \times .0085) = \$75,225/\text{year}$

Additional (MSD) Downtown Grant Calculation Example:

Existing Property Value: (\$150,000) Land and Building
Post Construction Value: (\$9,000,000)
Increased Value: (\$8,850,000)
Grant Calculation: $(\$8,850,000 \times .0009) = \$7,965/\text{year}$

C. Term of Public Assistance –The term of the public assistance shall be kept to a minimum. The proposed term of any public assistance shall be fully documented and explained to the City Council and County Commissioners.

D. Allocation of Program Costs – The City of Morganton and Burke County shall share the costs of implementing this program through the fair and equitable tax ratio formula commonly used in other Economic Development incentive packages. Currently the Tax Rate of Morganton is 46 cents and the Tax Rate of Burke County is 52 cents for a total of 98 cents. Therefore percentage of grant allocation shall be determined using the following example:

Large Grant Calculation: ($\$8,850,000 \times .0085$) = \$75,225/year

Morganton Formula: ($0.46 / 0.98$) = 47% or \$35,355.75/year

Burke County Formula: ($0.52 / 0.98$) = 53% or \$39,869.25/year

In Morganton’s Municipal Service District the additional grant calculation shall be completed by Morganton based upon the formula described under Section VI (B) above.

At no time shall a grant payment be made to the property owner prior to the owners full and final yearly tax payment is received by the City or County. In addition, the City and County may withhold grant payments to any property owner that has outstanding debts to the local governments or has any unpaid outstanding accounts with the local units of government.

E. Development Benefits and Costs – The direct and indirect benefits of the development proposal shall be determined and quantified to the degree possible. Benefits shall include, but are not limited to the following: employment benefits, number of jobs retained or created, percentage of jobs held by County residents, wage and salary information, tax base benefits, estimated market value of new development, estimated amount of new property taxes generated, housing benefits, number of new rental or ownership units, number of affordable units, and other benefits relating to transportation, parking, blight remediation, environmental cleanup and historic preservation.

Costs of the development proposal shall also be assessed to the degree possible such as additional infrastructure, local contributions, and relative impact on the Granting Agencies General Funds. The timeframe used for these cost estimates should equal the timeframe of the grant.