

# MORGANTON

## DIG DEVELOPMENT INCENTIVE GRANT

### *POLICY GUIDELINES*

#### Background

Ten years ago the City funded a community driven planning process which married land use planning and economic development. After many decades as a textile/furniture economy, a different course for economic success was necessary. The Mission 2030 plan recognized that planning and development success for the next 20 years would require new partnerships, bold economic strategies, and public and private buy-in and participation.

The five economic strategies of Mission 2030 highlighted manufacturing growth, small business growth, tourism growth, workforce training, and a continued vibrant downtown. For a rural community to be successful and competitive today, it is not enough to attract workers, investors, and visitors – it is imperative to create an environment that attracts new residents. Morganton and Burke County have to offer a lifestyle, career opportunities and housing options that make people choose to live, work, and play here. The Development Incentive Grant is an incentive tool designed to promote and support transformative development that keeps our community moving forward and competitive. Tax exempt entities are NOT eligible.

The DIG program is a collaborative effort between the City of Morganton and Burke County that provides local developers, investors, and landowners an opportunity to request public financial support to match private funding for qualifying projects. Capital investment is one of the methods required to advance community wide long range economic and community planning goals. Financial incentives will be considered based on the size of the proposed project.

The Mission 2030 process engaged community representatives to prioritize, examine and endorse strategies that would support economic competitiveness and strengthen Morganton's ability to remain a center of economic activity and commerce for Burke County. Challenging traditional thinking and successfully navigating the hurdles that often come with transformative economic development is necessary to produce successful results.

A critical strategy of Mission 2030 was to create new partnerships that tap resources to support and to promote new opportunities and new development beyond that which is traditionally available in rural communities. DIG creates an environment where political, financial, and entrepreneurial players can collaborate to achieve economic activity.

Such growth will support a quality of life that attracts not only new workers and investors but also new full-time residents.

Development and re-development within the City is a crucial element in the economic growth of Morganton and Burke County. DIG projects must not only enhance the County/City property tax base, but must also contribute to increased sales tax and occupancy tax revenues. Sustained growth in sales tax revenues directly improves the financial ability to provide services and quality of life amenities in Burke County and every municipality in the County. The nature, location and atmosphere of the City of Morganton, including its downtown area, provide opportunities in commerce, housing, entertainment, and lifestyle that will continue to attract new residents and new investments within the City limits and throughout Burke County. Therefore, the advantages to City/County participation in the DIG program affect every citizen in Burke County. In today's competitive environment for attracting millennials and entrepreneurs, a community center that is hip, healthy, and lively is a requirement, not a luxury.

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 identify 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 and transformative projects within these zones. It is intended that the City of Morganton and Burke County will agree on the designated zones to be considered for inclusion in the DIG program. The City and County will analyze each potential Development Incentive Grant Zone and recommend whether it should be included in the program. Periodically, the zones will be reviewed to determine if continued inclusion is appropriate.

If the City and the County agree to make any grant hereunder for a project located on property within any Municipal Service District ("MSD") duly established by the City, then the City shall also make a grant under this program based on a proportion of the resultant increase in tax revenue arising from such MSD, all as herein provided.

#### Economic Development Objectives Supported by the DIG

- A. Expand the Morganton/Burke County 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, and services.
- C. Increase the property tax base of the city and county, maintaining a future diversity of opportunities, and preventing 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 attract new residents to the city by encouraging development of affordable housing, and by emphasizing development of mixed-use residential and commercial projects.
- F. Support neighborhood retail services, enhance commercial corridors and boost employment hubs as identified in Mission 2030 and as may be amended in the future.
- G. 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, major entry corridors and the State property district.

#### General Guidelines for Evaluating Requests for Development Incentive Grants

- A. Comply with all requirements of the North Carolina General Statutes 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 objective is being met by the project.
- C. Development Incentive Grants will only be awarded when the City Council and County Commission deem it fiscally prudent to provide such assistance to serve a public purpose and the developer has clearly demonstrated that the proposed project 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.
- E. 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.
- F. As part of the annual budget process, the City and County will budget adequate funds to satisfy existing grant obligations.

#### Economic Analysis and Evaluation of Requests for a DIG

- A. The City and County will assign staff to work with developers who are applying for Development Incentive Grant funding to determine if a project is eligible for consideration.
- B. The review and analysis of all grant requests 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. An economic analysis detailing the total incentive versus new taxes generated for a ten-year period will be presented to the City Council and County Commission at the time of the request for approval of the proposed Development Incentive Grant.

D. 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, if requested by the public entity partners.

E. 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. If only a portion of a project is eligible to receive a DIG, the developer should calculate the percentage based on eligible amounts and not total project costs.

F. Incentive Calculations and Allocation of Grants

**Projects between \$4 million and \$7.5 million** shall be eligible for 5 annual post completion DIG grants of 50 cents per 100 dollars of increased 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 new assessed tax 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 will be provided to qualifying projects in Morganton's Municipal Service District (MSD) in the downtown zone as detailed in Section G below.

Calculation Example:

Existing Property Value: (\$1,000,000) Land and Building

Post Construction Value: (\$5,000,000)  
Increased Value: (\$4,000,000)  
Grant Calculation: ( $\$4,000,000 \times .005$ ) = \$20,000/year

**Projects over \$7.5 million** shall be eligible for 5 annual post completion DIG grants of 75 cents per 100 dollars of increased 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 new assessed tax 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 will be provided in Morganton's Municipal Service District (MSD) in the downtown zone as detailed in Section G below.

Calculation Example:

Existing Property Value: (\$150,000) Land and Building  
Post Construction Value: (\$9,000,000)  
Increased Value: (\$8,850,000)  
Grant Calculation: ( $\$8,850,000 \times .0075$ ) = \$66,375/year

Allocation of Grant Awards – 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 57 cents and the Tax Rate of Burke County is 69.5 cents for a total of 126.50 cents. Therefore percentage of grant allocation under the current tax rates shall be determined using the following example:

Large Grant Calculation: ( $\$8,850,000 \times .0075$ ) = \$66,375/year  
Morganton Formula: ( $0.57 / 126.50$ ) = 45% or \$29,868.75/year  
Burke County Formula: ( $0.69.5 / 126.50$ ) = 55% or \$36,506.25/year

At no time shall a grant payment be made prior to receipt of the property owner's full and final yearly tax payment by both the City and 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.

G. Morganton Municipal Service District – For those projects within any areas covered by a duly-adopted Municipal Service District ("MSD") of the City of Morganton, if a grant under this program is approved by the County and City as provided above, then the City shall extend an additional grant in the same nature as described above, based and calculated upon the additional tax rate set for such District. As of the date of adoption of these Guidelines, the City has a Municipal Service District covering the Central Business District of Morganton, for which the tax rate is currently set at 14 cents per \$100 valuation of real property.

**Projects between \$4 million and \$7.5 million** shall be eligible for 5 annual post completion DIG grants equal to 50% of the increase in the MSD tax attributable to the increased land and building value.

Calculation Example:

Existing Property Value: (\$1,000,000) Land and Building  
Post Construction Value: (\$5,000,000)  
Increased Value: (\$4,000,000)  
Grant Calculation:  $(\$4,000,000 \times .0014) = \$5,600$   
 $\$5,600 \times .50 = \$2,800/\text{year}$

**Projects over \$7.5 million** shall be eligible for 5 annual post completion DIG grants equal to 75% of the increase in the MSD tax attributable to the increased land and building value.

Calculation Example:

Existing Property Value: (\$150,000) Land and Building  
Post Construction Value: (\$9,000,000)  
Increased Value: (\$8,850,000)  
Grant Calculation:  $(\$8,850,000 \times .0014) = \$12,390$   
 $\$12,390 \times .75 = \$9,293/\text{year}$

H. 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 sales taxes generated, new occupancy 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.

If applicable, the 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 or utility funds. The timeframe used for these cost estimates should equal the timeframe of the grant.

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Ronnie Thompson, Mayor

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Johnnie Carswell, Chairman

Attest:

Attest:

\_\_\_\_\_  
Sally W. Sandy, City Clerk

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Kay Draughn, Clerk to the Board