

MEMO FOR STAKEHOLDERS

From: Parker Martin and Alexandra Sirota

Re: Concerns Regarding Raleigh's Proposed Tax Increment Grant Policy

Date: March 25th, 2021

The City of Raleigh proposed Tax Increment Grant (TIG) policy lacks the language necessary to ensure developers will be held accountable to furthering the public good or advancing community priorities, provides little transparency as to the decision-making criteria and does not substantially seek equitable development and provide for community inclusion.

The policy must be strengthened with explicit guidelines and accountability measures to protect populations impacted by growth and too often excluded from its benefits. Here are specific recommendations for each core value that the City of Raleigh should uphold:

- **Transparency:** At various points, the policy requires greater transparency as to who will make decisions, who conducts analysis, and who provides input. Also, the policy should establish a process for annual reporting to the public on TIGs offered and payments as well as outcome data.
- **Accountability:** The policy should have stronger accountability provisions if public taxpayer dollars are to subsidize private development. Provisions should include the ability for community input and clawbacks of promised future dollars if the public benefits are not delivered.
- **Equity:** The policy should incorporate the principle of equity—an acknowledgement that policy should address imbalances and provide benefits to families and neighborhoods that have been excluded from opportunity—through all aspects of the process and assessment of a project's impact.
- **Inclusion:** The policy should include community input in the analysis and decision making around awards of proposals as well as in the definition of public benefits and priorities so that those reflect community views.

TIG Policy Overview

Tax Increment Grants (TIGs) are a tool to finance development that generates a public benefit, by providing tax dollars to developers to secure investment in areas that would not otherwise be possible. A TIG policy modifies the more common Tax Increment Financing (TIF) approach that has raised concerns in North Carolina and elsewhere. In North Carolina only two other communities have TIG policies—Charlotte and Harrisburg, NC.

Below are key aspects of Raleigh's proposed policy.

Criteria & Project Requirements

Projects utilizing a TIG must demonstrate benefits to the general public. To do so, investment must occur in at least one of three categories:

- Infrastructure (parks, roadways, parking decks),
- Facilities for Public Use (recreation facilities, sports venues, performing arts spaces),
- Public Benefits (affordable housing, workforce development, job creation).

Projects must also align with priorities listed in Raleigh’s Strategic, Capital Improvement, and Area plans, among others.^{1,2,3} A “But For” analysis, illustrating certain “public benefits” and policy objectives would not occur *but for* a TIG investment, must be conducted as well.

Size & Timing of Grants

Developers could be reimbursed for a percentage of their annual property taxes upon project completion. The size and length of time in which reimbursements would occur depends on a project’s location. Projects in Raleigh’s “priority” economic development regions would receive larger reimbursements over a longer period.

<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>

Source: Tax Increment Grant Policy (City of Raleigh, North Carolina)

Capacity Limits & Evaluation

The total value of TIGs provided in any given year cannot exceed 2% of Raleigh’s annual tax levy in order to maintain a stable tax base. Analysis will be conducted annually to determine the efficacy of this limit and measure project progress. Adjustments could be made to aforementioned limits if necessary and TIG funds may be recaptured “in certain circumstances” if progress is deemed insufficient.

Decisionmakers

The policy as currently drafted provides for the City to negotiate with the developer but is not clear who will represent the City in these conversations. The policy itself will require approval of City Council, and the allocation of future revenue will also require a vote of City Council under the current draft.

Context: Kane Realty’s TIG

It is no secret that the City of Raleigh is pursuing a TIG policy at the behest of Kane Realty whose current Downtown South project is seeking deeper subsidies than the already awarded rezoning.

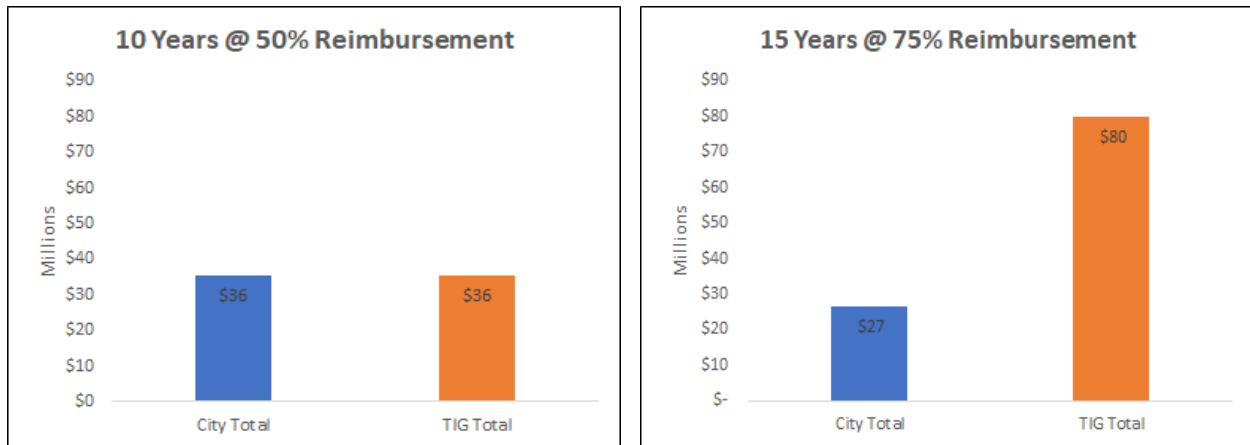
¹ <https://raleighnc.gov/services/government/strategic-plan>

² <https://raleighnc.gov/capital-improvement-program>

³ <https://raleighnc.gov/SupportPages/adopted-plans>

Downtown South could be valued at over \$2 billion upon completion.⁴ The size of Kane Realty’s reimbursement (TIG Total) and Raleigh’s property tax revenue (City Total) from this single development is illustrated below with this valuation considered. It is important to note that values below are Raleigh’s budgetary projections as opposed to actual property tax collections.

Figure 1. Fiscal Impact under Different TIG Policy Options for a \$2 billion project



Given the likelihood that additional projects will pursue TIG support, and the reality that the City of Raleigh property tax growth has declined in recent years, the prospects of sending at least half of the increase in property tax or more back to the developer is likely to undermine necessary investments in public structures not fully contemplated or systemically funded under the policy.

Analysis

Based on our analysis, there are several problems associated with Raleigh’s proposed TIG policy. TIGs may remain problematic even after rectifying current issues but allowing concerns to go unaddressed would amplify the potential for negative impacts. We discuss each of these concerns in more detail below.

1.) **Build in equity from the beginning.** The policy as drafted includes no reference to equity concerns and yet the City of Raleigh faces persistent evidence that outcomes are growing racial divides rather than healing them. A more explicit framework for considering whether or how a project should receive a TIG could score the project on its specific impact on racial equity and align funding options and clawbacks to fulfillment of those provisions. The policy can name the following kinds of equitable project components as examples of delivering public benefits:

- A required acceptance of Housing Choice Vouchers and commitment to create affordable housing at 40 percent Area Median Income given the City’s documented gap in available units affordable at this income level.^[1]

⁴ <https://kanerealtycorp.com/project/downtown-south/>

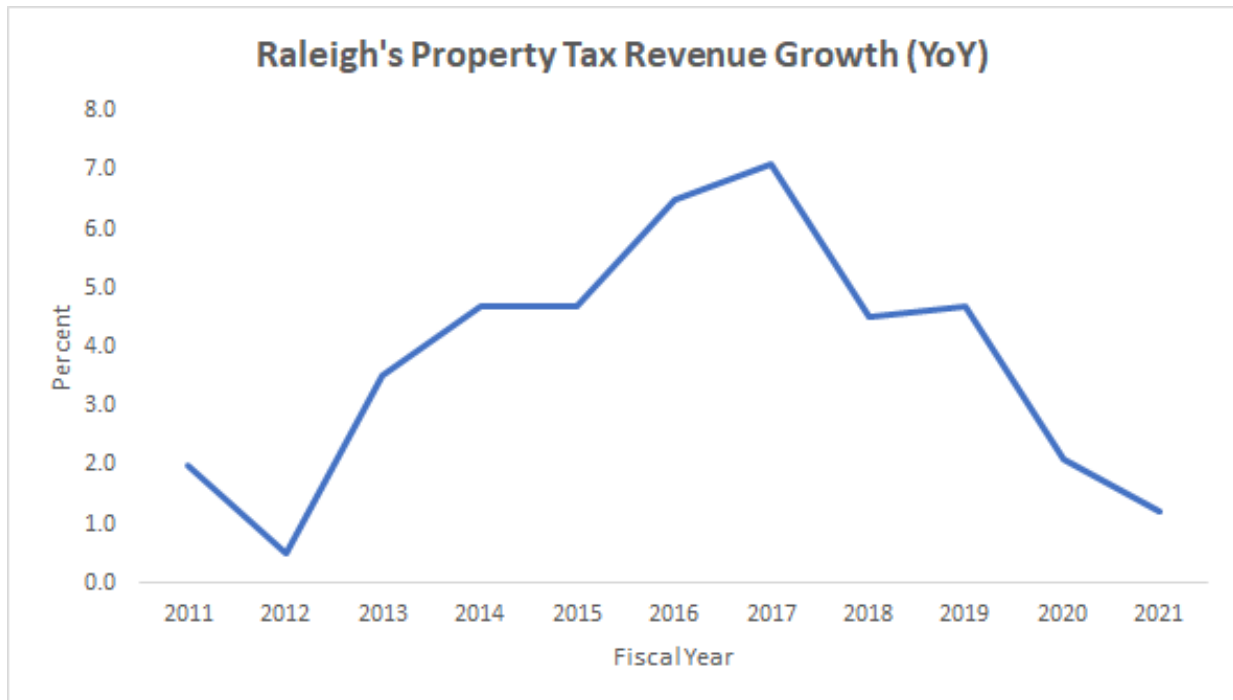
- A required use of HUB contracts for at least 10 percent of all contracts.
- A required engagement in first source hiring and demonstrated effort to pay a living wage and maintain full-time employment targets.
- A process of evaluation of the public benefit with inclusion of community members perspective and decision-making on payment issuance or clawbacks.

This list is not exhaustive; other examples may feasibly build and promote equity as well.

2.) **Design a policy for the City of Raleigh with lessons from Charlotte’s development with displacement.** Charlotte was the first city in North Carolina to implement a TIG program, and Raleigh’s proposal is similar in structure. While there are not inherent issues with replication, TIG programs are not universal. City Council should demonstrate an intentional effort was, or will be, made in determining whether additional provisions should be added or removed given the context of Raleigh and Wake County. For example, it is clear that developers in Charlotte have made much stronger commitments to affordable housing in order to access TIGs including aligning affordability guarantees to the period of TIG payments, higher shares of total units developed at affordable levels and greater effort to reach households at lower than 80% of Area Median Income. Raleigh should secure similar commitments to avoid creating the problems with displacement and economic immobility that characterize many of Charlotte’s neighborhoods.

3.) **Demonstrate that the TIG is necessary to secure a public benefit.** TIG projects must complete a “But For” analysis, but the process and analysis lacks standardization. Kane Realty conducted their own “But For” analysis which is a clear conflict of interest. If this becomes precedent for future developers, the accuracy of findings should be questioned. A trusted independent party should conduct “But For” analyses and make findings public to improve validity. The methods and criteria of analysis should include rigorous testing of economic impacts and a thorough review of the economic and demographic trajectory that the City of Raleigh is already on. In addition, Raleigh could consider conducting an “Opportunity Cost” analysis. Analyzing the economic impact of alternative uses of proposed TIG funds could determine what actions will bring the greatest benefit to community members.

4.) **Ensure every community benefits from property tax revenue.** TIGs may hinder property tax revenue growth that could support the broader investments in communities. Raleigh’s year-over-year growth fluctuated over the last decade but has trended downwards in recent years. For FY 2021, year-over-year growth is 1.2%. Although TIGs are capped at 2% of the annual property tax levy, projects as large as Downtown South (\$2+ billion) could receive annual reimbursements that exceed property tax revenue growth. In other words, a TIG policy could absorb most of Raleigh’s future growth given recent property tax slowdowns.



As an example, property tax revenue increased by \$3.3 million (1.2%) for FY 2021. If a TIG was currently in place, a \$2 billion project located “inside” a high priority area would receive a \$5.3 million annual reimbursement. The City of Raleigh would receive \$1.8 million in additional property taxes from this project. In total, property tax revenue would grow by \$5.1 Million in comparison to the \$5.3 million given to the developer.

Proponents of TIGs may state the policy would not eliminate property tax growth in a “normal” year (2021 was the second lowest of the decade). While this may be true, implementing a TIG program would likely encourage multiple projects over successive years. Property tax growth will fluctuate, and lost growth in “down” years will amass over time. This money could be invested elsewhere to create foundational, and equitable, initiatives. And, to reiterate, the policy’s current structure does not ensure TIG projects are for the community’s greatest benefit. This is true regardless of property tax revenue in a given year.

5.) **Consider the impact on surrounding communities and Wake County.** It is unclear how a TIG policy would work in conjunction with Wake County. City Council should offer clarity on the implications their proposal has for Wake County and the greater Raleigh Metro and how these local governments can work to ensure that developers do not pit areas against each other.

Specific Language That Must Be Clarified

The language used throughout the document must be strengthened for it to be truly equitable and enforceable. Passages where this can occur are referenced below:

1.) *Objective of Tax Increment Grant (TIG)*

“...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...”

This should include a statement on gentrification and displacement. For example, “to counter gentrification pressures that accompany urban development/redevelopment.”

2.) *Investment Categories*

“...Accordingly, City participation and funding through a TIG must fall into one or a combination of the following three (3) categories... (see Infrastructure, Facilities for Public Use, and Public Benefits)”

All TIG projects should fall into Public Benefits *and* one, or both, of the other investment categories. The current wording provides developers with too much flexibility in avoiding affordable housing development, job creation, etc.

“...Public Benefits—to the extent allowed by North Carolina law and in combination with benefits within either category #1 or #2 above, investments could include community benefits such as job creation, workforce development or community amenities (such as affordable housing)...”

“Could” should read, “must.” Also, affordable housing should not be couched as a “community amenity.” It should be a primary goal/outcome of TIG investment.

3.) *Project Requirements*

“...An applicant for TIG funding must demonstrate that in the absence of a TIG, 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. The City’s investment through a TIG must yield benefits to the City and the community that would not occur but for the grant...”

There should be a set of public benefits and policy objectives that are constant across projects. As mentioned above, who conducts the analysis and where the findings are located should also be explicitly stated.

4.) *Reporting/Certification of Benefit and Evaluation Criteria*

“...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.”

The recapture provisions should be explicitly stated here for transparency. It could read, “funds will be recaptured, or reimbursement will not occur, if the project does not meet City Council's satisfaction. Deliberations and a final vote on satisfactory completion will occur publicly.”

Conclusion

Current draft language is insufficient to guarantee an equitable outcome and should be rewritten with neighborhood leaders engaged in the process and a greater consideration for identified priorities of the city and county particularly in the areas of affordable housing and quality job creation.

Appendices

Inside Priority Area (Total)			
Assessed Value	Annual Property Tax	City Total	TIG Total
\$ 2,000,000,000	\$7,104,000	\$ 26,640,000	\$ 79,920,000

Inside Priority Area (Annual)			
Assessed Value	Annual Property Tax	City Total	TIG Total
\$2,000,000,000	\$7,104,000	\$1,776,000	\$5,328,000

Outside Priority Area (Total)			
Assessed Value	Annual Property Tax	City Total	TIG Total
\$2,000,000,000	\$7,104,000	\$35,520,000	\$35,520,000

Outside Priority Area (Annual)			
Assessed Value	Annual Property Tax	City Total	TIG Total
\$2,000,000,000	\$7,104,000	\$3,552,000	\$3,552,000

Raleigh's Property Tax Revenue Growth (2011-2015)						
FY	2011	2012	2013	2014	2015	
Property Tax Revenue (Net of Interfund Transfers)	\$186,650,013	\$187,615,024	\$194,239,035	\$203,363,787	\$212,857,000	
Percent of All Revenue/General Fund	~30	~28	~29	~29	~28	
Year-Over-Year Change (Percentage)	2.0	0.5	3.5	4.7	4.7	
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Raleigh's Property Tax Revenue Growth (2016-2021)						
FY	2016	2017	2018	2019	2020	2021
Property Tax Revenue (Net of Interfund Transfers)	\$226,696,250	\$242,875,000	\$253,828,833	\$265,806,080	\$271,397,829	\$274,728,496
Percent of All Revenue/General Fund	~27	~28	~28	~27	~26	~27
Year-Over-Year Change (Percentage)	6.5	7.1	4.5	4.7	2.1	1.2
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