

About the Development Finance Initiative

This document was presented on behalf of the UNC School of Government to the UNC Board of Governors' Committee on Audit, Risk Management, and Compliance on September 19, 2019.

Communities across North Carolina face a similar challenge: it can be difficult to attract private investment into distressed areas, such as downtowns where many of the structures are vacant, underutilized, or blighted; into complex projects that require coordinated investment; and into unproven markets in small towns and rural areas. Most local governments lack the in-house expertise to determine where and how to invest their limited resources in development projects and to evaluate proposals from private developers. The UNC School of Government has taught courses and served as a resource for public officials on these topics for decades, but it was not staffed to provide sustained assistance in the community. In 2011 the School of Government added the Development Finance Initiative (DFI) to its academic and service programs in response to requests from North Carolina public officials for specialized finance and development assistance to address these challenges.

DFI helps governments properly assess risks and create the right environment for private development to occur. Their work addresses:

- Affordable housing;
- Building reuse and downtown revitalization;
- Master planning and execution;
- Community and neighborhood development; and
- Economic development.

DFI's Impact

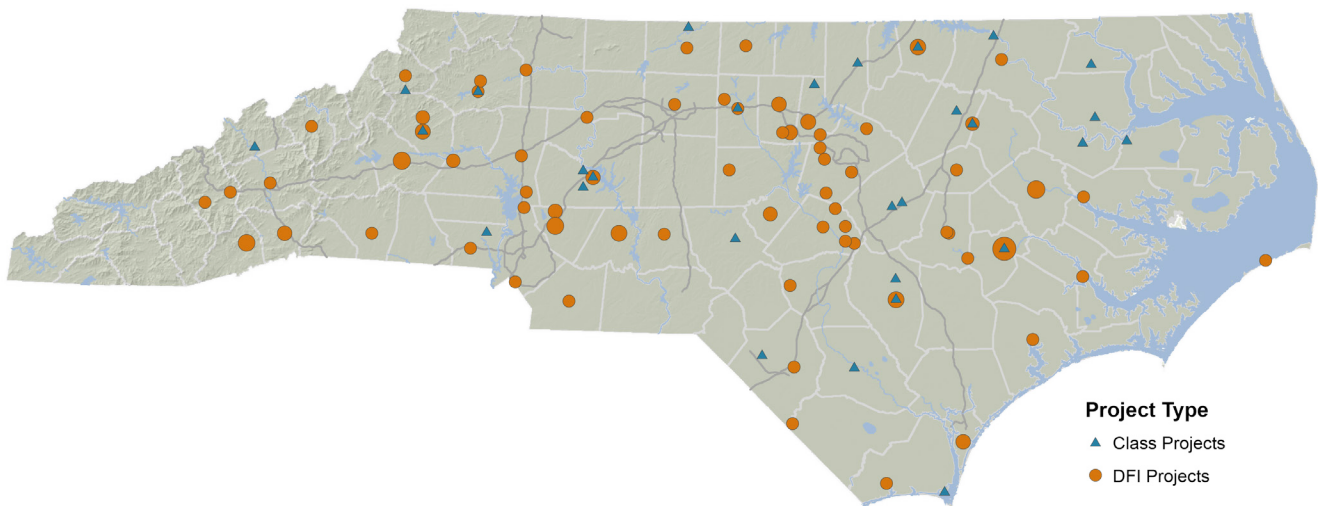
DFI has worked on **139 projects in 85 communities** across North Carolina (see map on p. 2).

- 62% of DFI projects have taken place in rural counties¹
- 77% of DFI projects are located in distressed census tracts²

Occasionally DFI is asked to assist one or more local governments with identifying a private development partner for their project. To date, those efforts have yielded more than \$100 million in private development that has broken ground and more than \$200 million additional investment that is currently under negotiation.

1. The NC Rural Center defines "Rural Counties" as the 80 North Carolinian counties with an average population density of 250 people per square mile or less.

2. Distressed census tracts are defined as tracts eligible for federal New Market Tax Credits, which is a program designed to attract investment into low-income communities. 65% of DFI projects are located in census tracts deemed to be "severely distressed or non-metropolitan."



DFI's work is grounded in, and part of, the University's educational mission through graduate-level courses and courses for public officials at the School of Government. Faculty and staff working with DFI serve as instructors in these courses. The graduate-level courses involve actual redevelopment projects in North Carolina; graduate students in business administration, planning, and public administration provide analysis in real time for revitalization projects at no cost to the local government.

- **107 UNC students** from public administration, business, planning, and other professional degree programs from UNC campuses have learned public and private sector revitalization techniques by assisting communities with actual redevelopment projects.
- **52 DFI graduate student fellows mentor other students**, perform expert-level analysis, and contribute high-level strategic thinking about projects.
- **679 public officials have received formal training** in community development and development finance by DFI staff.

While DFI's client is the government, and their goal is to attract private investment, the most successful projects are supported by the community as a whole. One of DFI's areas of expertise is bringing community partners, the public, and civic leaders together to discuss the community's needs and goals. DFI's work champions the University of North Carolina's commitment to "deepening partnerships that strengthen local communities and the state's economy."

DFI Concept

When DFI was first conceptualized in 2010, School of Government leaders knew it could address a critical need across the state, and it could catalyze economic development. It would be innovative and entrepreneurial, and like any effort to assist local communities with their difficult development projects, it would involve risk.

DFI was designed as a fee-for-service program to help defray School costs. Services are billed on a tiered-cost structure with distressed communities paying less. Some services are offered at no charge.

DFI provides its project results and analysis to local government officials. The analysis is a public record. DFI's work product can be used by the local government in any manner it wishes. Typically, local governments will share DFI's analysis in order to generate private interest in the project.

All DFI employees are university employees in the School of Government subject to the University's conflict-of-interest policy. DFI employees receive university salaries; their compensation has never been connected in any way to the outcome of DFI projects. DFI relies on having development practitioners on staff. These practitioners are encouraged to engage in work outside of DFI so long as they disclose those outside projects for conflict-of-interest review, and they agree to work for DFI in a part-time rather than full-time status. The outside experience gives those employees current and relevant knowledge about development practices that can be shared with students and local governments. Governments value having someone with private development experience on their side of the negotiating table, and DFI strives to support local governments with development expertise that puts them on an equal footing with private developers during negotiations.

DFI Startup

The response to DFI's services was overwhelming from the start. Demand from state and local government officials quickly outpaced staff capacity. The team initially grew through hiring additional university employees and by employing graduate student research assistants. Starting in 2015, to accommodate steadily increasing demand and a sense that university processes for supporting this work was too cumbersome, the School of Government contracted for services from an outside business to support the work of DFI rather than hiring additional university employees. The School paid that business for its work, most of which was pass-through funding to pay and support people working on DFI projects.

In spring 2017, UNC-Chapel Hill conducted an audit of DFI's business practices and potential conflicts of interest. The auditor looked carefully at the outside business arrangement and identified a potential conflict of interest with a former employee that should be further examined. Importantly, the audit found that there was no misuse of university funds and the university received appropriate value for all services it obtained through the outside business. The auditor recommended that the School discontinue its contract with the outside business. The School ended the contract by May 2017 and hired additional university employees, a number of whom had formerly worked with the outside business. The auditor returned in 2018 to review the School's actions and determined that the School's response to the audit was sufficient and no further audit work was required.

Accountability

The School of Government conducts careful reviews of potential conflicts when DFI project managers seek to do development work in their private capacity.

Media attention has been directed at a development project in Fayetteville, the Prince Charles Hotel, which had been the subject of DFI analysis under a contract that ended in October 2014. In 2014, the

City of Fayetteville learned that an investor group intended to acquire that hotel from a private owner and redevelop it. The hotel was a Fayetteville landmark, and the City asked DFI to evaluate the investor group's plan. The investor group's plan relied in part on North Carolina historic tax credits. When the General Assembly eliminated those tax credits starting in 2015, the plan fell apart and the investor group withdrew its interest. The hotel owner decided to put the hotel up for auction, and the City was concerned that the hotel would fall into the hands of an irresponsible owner.

Although DFI's contract had ended, the City of Fayetteville asked DFI to attempt to identify a new investor group. An investor group was identified, but the group requested for DFI Director Michael Lemanski to join the development team for the project. DFI could not assist the development group because DFI does not perform private development. The Fayetteville city manager supported the investor group's request. This prompted the School of Government to conduct a conflict-of-interest review and inform the relevant parties through disclosures and acknowledgements that are a matter of public record. State law prevents university employees from describing the details of conflict of interest reviews due to employee privacy protections. Importantly, the Fayetteville project was within the scope of the university audit in 2017, and no issues were found. The School handled the Fayetteville project appropriately.

The Fayetteville situation involved unique time pressures. For future projects, in order to avoid perception concerns, the School intends to go above and beyond what the university conflict-of-interest policy requires. For example, for projects that have received DFI assistance, employees will not be permitted to undertake those projects in their private capacity until at least a year after DFI's analysis has been made publicly available at a public meeting or on a website. For employees who worked directly on the project, the wait period will be three years. And finally, the School will continue to follow the university conflict-of-interest policy and impose other management controls, such as disclosures to all relevant parties, firewalls, and additional layers of supervision by full-time employees who have no outside interests.

Testimonials

"I've worked with DFI when at the Department of Commerce in the Rural Development Division and they were contracted to do the visioning/planning for the Old Broughton area in Burke County. DFI is an important resource for the State of NC and its communities. Great work by knowledgeable individuals."

—**Patricia Mitchell**, Interim MPA Program Director, Appalachian State University, Former Assistant Secretary for Rural Development at the NC Department of Commerce, UNC School of Government Foundation Board Member

"DFI has truly benefitted Wilson, NC. From assistance in analyzing where we were in regards to distressed properties to developing implementable strategies, DFI has helped us move the needle on downtown revitalization. Most of all, DFI helped us understand the private side of development so we were better prepared when negotiating real world deals."

—**Rodger Lentz**, Chief Planning and Development Officer, City of Wilson

"Working with the DFI team has been easy. They've brought numerous solutions to the table, and they will see the project through to completion."

—**Tony Sears**, Manager, Town of Kinston

"DFI has, and continues, to provide a significant base of expertise to fill a void at a critical time in the history of our State, counties, and communities. As resources become more scarce, stretched by the demand for an ever-growing array of services, it is critical for leaders to analyze and maximize the return on each and every public dollar. This is especially true for public funds contemplated for investment in P3's or other endeavors formerly outside the scope of local government activities. Kudos to DFI – and the School of Government – for bringing together the expertise and resources to appropriately counsel and guide local governments from concept to completion in these activities."

—**Jay Gibson**, Director of Engineering and Environmental Services, Durham County

"DFI's impact is unsurprisingly vast. As a fellow, DFI taught me to understand aspects of real estate development that I frequently use today in my professional role as a policy analyst for Chatham County. By understanding ways in which private investment can be leveraged to see public goals come to fruition, I'm able to communicate not only to our leadership team, but also to our board, exactly how we are able to collaborate with the private sector and why it is important that we do so. Before my time at UNC, a DFI class did a project on the Henry Siler School in Siler City. One of the proposed uses of that project was affordable housing. Fast forward a handful of years, leadership in the County made intentional decisions—the contribution of land, a low-interest loan—to support the Henry Siler School's transformation into 44 affordable housing units. Those 44 units will come online late 2020. Thanks to that analysis, the path to accomplishing something of great public value was identified and will be accomplished. I plan to continue using the invaluable lessons I learned from DFI to bring more affordable housing to Chatham County through intentional public-private partnerships. I'm incredibly glad they exist and are continuing to help communities like mine and all over North Carolina in more ways than one."

—**Stephanie Watkins-Cruz**, Policy Analyst, Chatham County, Former DFI Graduate Student Fellow (UNC-CH MPA '18, MRP '18)