

Memorandum

Date: August 16, 2005

To: Policy Board Members and Alternates

From: Robert D. Miller, Director

Subject: Proposed Policy on Program Income

A major priority for neighborhoods participating in NRP is the improvement of the neighborhood housing stock. For most of the neighborhoods involved in Phase I, low interest or deferred loans were a major component of their housing improvement program. These programs resulted in income to the neighborhood from matured loans, early repayments, voluntary repayments of grants, interest, and/or sale of the improved property. For most neighborhoods, the program income generated from these loans was retained in the original program to support issuance of new loans.

Over the years, neighborhoods have viewed this part of their NRP activity as an investment that would generate returns that could be used in the future to meet other appropriate neighborhood needs. Although this has been the implicit understanding (i.e. generated funds would be available to the neighborhood for implementing NRP eligible activities included in approved neighborhood action plans) neither the Policy Board or any jurisdiction has adopted any formal policy to give staff direction on the future use of program income.

The issue has come to a head because of a recent change in contract language by City of Minneapolis staff. The language proposed appeared to NRP staff to shift the ownership and control of program income from the neighborhood that developed and conducted the program and generated the revenue to the City. This may not have been the intent of city staff, but several attempts by NRP staff to change the language to reflect the implicit approach that had been used for more than 7 years were unsuccessful.

On July 13, I wrote an e-mail to the City Attorney drafting NRP contracts indicating that I was frustrated with the lack of agreement and would present a request to the Policy Board for an external opinion from the Office of the State Auditor on the ownership of program income, if the issue was not resolved by the July 25 meeting of the Policy Board. As you will remember, the Mayor and Council President offered a memo to the Board at that meeting stating that they supported neighborhood retention of program income and that they would move forward with a City Council action that would make their support explicit.

Council President Ostrow has authored, and the City Council has passed, a resolution that indicates that the City Council "recognizes and is committed to continuing the current practice by the City to hold, reserve and account for program income generated within an NRP neighborhood for future use by that NRP neighborhood". This action will alleviate most neighborhood concerns on the use of these funds.

To ensure that the intent of the Policy Board is known to all of its members, participating jurisdictions and the neighborhoods, I recommend that the Board act to approve the attached draft policy by processing it in accordance with the procedures of the Board. The first step would be for the Board to accept the draft and distribute it to the neighborhoods for their review and comment.

Therefore, I recommend the following resolution to the Board:

RESOLVED, That the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board ("Board") accepts the draft Policy on the "Use of Program Income" and authorizes the Director to distribute the draft for neighborhood review and comment in accordance with the policy of this Board;

FURTHER RESOLVED, That the Director provide the neighborhoods with an appropriate deadline for the submission of their comments and report the results from the neighborhood comment period to the Board at the first Board meeting after the results have been compiled.

***Minneapolis Neighborhood Revitalization Program
Policy Board Policy, Adopted _____***

**Use of Program Income
(Draft)**

The Minneapolis Neighborhood Revitalization Program (NRP) was established by State Law and City Ordinance to "preserve and enhance within the neighborhoods of the city private and public infrastructure, health and safety, economic vitality, sense of community and social benefits". NRP accomplishes this through neighborhood developed, approved, and implemented action plans.

NRP has consistently recognized that it is in the best interests of the neighborhoods and the city to encourage the effective investment of the limited NRP funds provided to the neighborhoods. For many neighborhoods meeting the needs of their residents also helps leverage and recycle the revenues originally received from NRP and expended to implement their neighborhood action plan. It is important that these resources be available to the neighborhood for future use.

NRP's external counsel has opined that funds expended by the neighborhoods are NRP funds. NRP recognizes and encourages neighborhood efforts to invest the NRP dollars allocated to neighborhood action plans wisely by establishing loan and other recapture programs to generate program income for continuing reinvestment in the neighborhood. The Policy Board recognizes and is committed to ensuring that program income generated from NRP funded investments by a neighborhood will be reserved for future use by that neighborhood and that such funds will be available for use to implement strategies in approved NRP neighborhood action plans

Definition of Program Income

NRP program income is revenue generated by NRP funds expended to implement an approved Transition Fund, Early Access, or Affordable Housing Reserve Fund project or First Step or Neighborhood Action Plan strategy, or accomplishing any other NRP related activity. The methods that may generate program income include, but are not limited to:

1. Sale or lease of goods and services, tangible or intangible, purchased or produced with NRP funds;
2. Sale or lease of real and personal property and equipment, tangible or intangible, purchased with NRP funds;
3. Repayments of loans, grants or advances made with NRP funds;
4. Interest or other earnings on or resulting from NRP funds; and

5. Program, project or administrative fees on NRP funded programs, projects, services or activities.

When program income is generated by activities partially funded by NRP funds, the amount of income to be credited as NRP program income will be equal to the NRP fund percentage of the total funds for the activity multiplied by the total program income generated.

Uses of Program Income

The uses of program income include, but are not limited to:

1. Implementing any strategy included in an NRP approved neighborhood action plan or plan modification.
2. Funding an approved Transition Fund or Early Access project in Phase I if the program income was generated by that program or project.
3. Accomplishing any approved NRP related activity.

Allocating Program Income

Neighborhood organizations must use the NRP's policy on "Changing Approved Neighborhood Action Plans and Early Access Requests" to allocate or reallocate NRP program income, unless the program income will be used to fund the same activity under the terms of the existing contract for that activity.

If the program income is to be spent **under the same program** that generated the income, the neighborhood organization must provide the program administrator, NRP and the contract administrator with a written approval of the use of the program income and any restrictions (such as a not-to-exceed dollar amount or time of performance period) that may apply. This use of program income does not require a Plan Modification or contract amendment.

If the program income is to be spent **on a different strategy** in the neighborhood's approved neighborhood action plan, the neighborhood organization must follow the process contained in NRP's policy on "Changing Approved Neighborhood Action Plans and Early Access Requests" and submit any approved Plan Modification request to NRP for review and processing.

Accounting and Reporting

NRP funds provided to neighborhoods are public funds for investment in the revitalization of the neighborhood and city. It is important that they be managed appropriately and that any income generated be reported to NRP and the city.

Neighborhoods and their contracted program administrators (e.g. CEE, MNHS, PPL, GMMHC) should record any NRP funds that they receive in an easily identifiable account to facilitate accurate recording of the use of these funds. Program income generated should be tracked and recorded by the originating contract.

If it is neither practical nor possible to track NRP program income by contract, this income should be tracked and recorded by the NRP funded strategy generating the income.

The organization contracting to implement any program resulting in the generation of program income shall complete and submit an annual report to the NRP in a format proscribed by NRP. Failures to provide timely reports may result in the loss of use of any generated program income and the transfer of these funds from the contracting organization to NRP. Any program income transferred to NRP or the city will be held in reserve for use by the neighborhood.

Contract Guidelines

NRP contracts that may result in program income must contain language that specifically reserves that income for the future use of the neighborhood or NRP in accordance with the provisions of this policy. The contract provision(s) relating to program income must be approved by NRP.

NRP contracts may only specify that NRP program income will be:

1. Used to pay contractor costs incurred under that specific NRP contract;
2. Used to pay costs directly associated with the NRP activity generating the program income;
3. Held in an account until such time as there are sufficient funds to reinvest under the terms of that specific contract, and;
4. Held in an account until such time as the neighborhood requests that the accumulated funds be allocated or reallocated to other approved NRP activities.
5. Used to support programs, projects, services and activities that qualify as "NRP eligible" under the NRP Law.