

## **Memorandum**

Date: September 20, 2005

To: Policy Board Members and Alternates

From: Robert D. Miller, Director

Subject: Report of the Task Force on NRP's Future

At its June meeting, the Policy Board adopted a resolution establishing a Task Force on NRP's Future. The Task Force consisted of 3 elected officials (Rep. Joe Mullery, Park Board President Jon Olson, and City Council President Paul Ostrow), 2 community interest members (Ken Kelash and Byron Laher), and 2 neighborhood representatives (Debbie Evans and Jeff Strand).

The group began its deliberations with a meeting devoted to the question of whether or not continuation of NRP is appropriate. After reviewing information on the results from Phase I the group decided that continuation is warranted and began developing and considering options.

The Task Force met four times to review the results of Phase I, discuss possible funding sources and develop a report to the Policy Board. Drafts of the report were electronically circulated to all members to allow input and comment from members who could not attend a Task Force meeting. The report resulting from those drafts and comments is attached.

The report from the Task Force was requested by September 15 and is being provided to the first Board meeting after that date for discussion by the full Board. The Task Force was to "examine options for securing funding for neighborhoods and NRP for the purpose of continuation of the NRP after 2008" and the report presents the options the Task Force viewed as most worthy of additional discussion.

The recommendation of the Task Force is that a technical group of resource persons from each of the participating jurisdictions be convened to review the options proposed for consideration and provide pros, cons and implementation steps for each possibility. The technical group would provide its findings and observations to the Task Force.

Therefore, and to further the activities of the Task Force, I recommend that the following resolution be adopted by the Board:

**RESOLVED:** That the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board (Board) accepts the preliminary report of the Task Force on Continued Support of Neighborhoods and NRP;

**RESOLVED FURTHER:** That the Board requests each of the participating jurisdictions to select a financial activities expert to represent their jurisdiction and serve on a technical resource group to review the options developed by the Task Force;

**RESOLVED FURTHER:** That the members of this group be convened as soon as possible by the NRP Director and develop the pros and cons and implementation steps for the suggested options for review and consideration by the Task Force.

**Financing NRP in the Future:  
The Initial Report of the NRP Policy Board Task Force  
on  
Continued Support of Neighborhoods and NRP  
(Preliminary Report)**

The Task Force was established by resolution of the NRP Policy Board at its meeting of June 27, 2005. The members were Representative Joe Mullery, Council President Paul Ostrow, Park Board President Jon Olson, Byron Laher, Ken Kelash, Debbie Evans, and Jeff Strand. Bob Miller provided support. Jack Kryst (DFD) also provided information and invaluable assistance.

The Task Force began with a review of the investments made by NRP in Phase I. The group discussed whether or not the results from Phase I justified continuation and determined that the investments made resulted in significant improvements to the livability of neighborhoods and the city. They also cited the significant leveraging of neighborhood funds as another argument in favor of continuation. Based on these factors, the Task Force decided to proceed with the discussion of funding options for continuation of NRP in the short and long term.

The Task Force was reminded that the original report from the Neighborhood Housing and Economic Development Task Force to the Community Development Committee of the City Council in May 1988 estimated the "total cost to provide housing rehabilitation, housing affordability and economic development at approximately \$1.7 billion. The annual need over a 20 year period would be approximately \$84 million." This report was one of the reasons that the NRP program became a reality.

Although it was never expected that NRP and the neighborhoods would receive this level of resources, the original commitment in the state legislation that authorized NRP, and the initial City Ordinance that established the program in Minneapolis, was for a \$400 million investment effort at \$20 million per year. Funding for the program was authorized through 2009.

The tax law changes of 2001 significantly reduced the revenue stream from NRP's primary source of funding: the Common Project. As of the end of 2004, NRP had received \$236 million from the Common Project and the City's Development Account and generated an additional \$34.5 million in interest. The total amount that NRP received from 1990-2004 is \$270.6 million. The Phase II portion of these dollars is \$42.1 million. The projections prepared by the city in June would mean that \$16.6 million of additional revenue would be generated from the years 2005-2009. The result is a Phase II total of \$58.7 million and a program total of \$287.2 million.

To address the growing "gap" between what was initially committed and what is now projected, the Task Force discussed a number of options and decided that future revenues could, and probably should, come from a variety of sources:

1. **Eliminate the \$18,462,000 in Common Project payments to the Legacy Fund for 2005-2009.** The Hilton Project that generated the Legacy Fund revenue was not part of the Common Project. Repayment of any borrowings from the Legacy Fund that are used for city purposes should not be a Common Project obligation that supercedes NRP. (Note: This single action could return the projected revenues for NRP to the level projected in 2004, even without any other changes in the projection assumptions.). Borrowings against the Legacy Fund could end in 2005 and repayments of the outstanding balance could be scheduled for a longer period (i.e. through 2015).
2. **Dedicate the TIF revenues from the post-1979 districts in the Common Project to neighborhoods and NRP after 2009.** A substantial portion of the TIF districts in the Common Project were established after 1979. The revenues from these districts could be dedicated to neighborhoods and NRP after 2009.
3. **Impose a Surcharge or Tax on TIF districts and dedicate the revenue raised to neighborhoods and NRP.** This option would impose a slightly higher tax rate on properties located in TIF districts in the city. The proceeds of this tax could then be directed to NRP. It treats TIF district properties as a separate "class" and targets only property that has received TIF benefits.
4. **Extend the term of the existing pre-1979 Common Project TIF districts for another ten years and dedicate the revenues generated to neighborhoods and NRP.** A significant portion of any tax revenues generated by Common Project parcels returned to the tax base after 2009 will be offset by a corresponding reduction in Local Government Aid from the state. To protect the availability of this revenue and maximize the LGA received by the City, extension of the maturity date for these districts should be considered and the resulting revenues of the Common Project should be reserved for neighborhoods and NRP. This option would require state legislation permitting the extension.
5. **Commit a portion of the taxes generated from the Common Project Tax Increment Districts to neighborhoods and NRP.** The tax base for the city increases in 2009 and thereafter when many of the TIF Districts in the Common Project mature. The City and County could dedicate a portion of the revenues generated from the returned tax base to neighborhoods and NRP.
6. **Commit a portion of the increased property taxes generated from development assisted with NRP funds to NRP.** The amount dedicated would be proportionate to the amount invested and would be based on any increased tax revenues resulting from the improved property. This would apply to future neighborhood and NRP investments.
7. **Allocate a portion of the revenues generated from future permit fees on commercial and residential properties improved with NRP dollars to NRP.** Without the investment of NRP funds from the neighborhoods it is unlikely that these projects will occur. If the project does not occur, no permit fees will be generated.

8. **Dedicate a portion of the city's sales tax revenues to neighborhoods and their improvement.** The STAR program in St. Paul is a precedent for this use of sales tax proceeds.
9. **Allocate a portion of the city's annual CDBG revenues to NRP.** Many neighborhood investments meet the criteria for eligible CDBG expenditures.
10. **Assess a neighborhood improvement fee on each Minneapolis residential and commercial property and calculate it based on a formula that uses a usage variable (such as water consumption) to determine the amount each property pays.** Neighborhood investments increase property values and livability. Residents should be able to see that there is a cost for this improvement and the funds generated should be available only for neighborhood use.
11. **Approve a Chapter 595 levy and dedicate the proceeds to neighborhoods and NRP.** The levy authority still exists and can be used to support housing and economic development activities. These are the two areas of greatest investment by neighborhoods. An alternative approach could be to restructure the Policy Board as a Port and Riverfront Redevelopment Authority.

In addition to these options, the Task Force considered collaborations with Hennepin County Community Works, a set aside of property taxes from the existing property tax base, an environmental fee on every taxable property, a Mortgage Registry and Deed Tax, government grants and franchise fees as other sources. The group decided that the obstacles for using these options were significantly greater and the predictability of income more unstable than the courses selected for future exploration.

The Task Force recommends that the jurisdictional members of the Policy Board identify individuals from their jurisdictions that have the technical expertise and knowledge needed to identify the pros and cons of each option and the steps required for implementation. The identified individuals would be asked to serve as a technical advisory group to the Task Force. The Task Force will review the results from the technical advisory group and provide a final report to the Policy Board.