

Memorandum

Date: October 18, 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 has been improvement of the neighborhood housing stock. For many of the neighborhoods involved in Phase I, low interest revolving 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.

Over the years, neighborhoods have viewed this part of their NRP activity as an investment that results in returns that could be used in the future to meet other appropriate neighborhood needs. The issue has come to a head because of a recent change in contract language by City of Minneapolis staff that appeared to shift the ownership and control of program income from the neighborhood that developed and conducted the program to the City.

On July 25, the Mayor and Council President offered a memo to the Policy Board 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 authored a resolution passed by the City Council on August 19, in which 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". In addition, Council Member Robert Lilligren has proposed that an amendment to the City's NRP Ordinance be prepared that would make this important policy a part of the existing ordinance. The development of this amendment has begun and a draft should be available shortly. We strongly support an Ordinance amendment that secures program income for the neighborhoods and will be reviewing the draft to ensure that the proposed language is consistent with this desired outcome.

To ensure that the intent of the Policy Board is known to all of its members, participating jurisdictions and the neighborhoods, a draft Program Income Policy was developed and submitted to the Policy Board on Monday, August 22, 2005. The Board received the draft and authorized its distribution to the neighborhoods for their review and comment.

Comments were due October 14 and could be submitted in an electronic or hard copy format. CPED and DFD staff were also given copies of the draft for review and comment. In addition, I met with neighborhood organization leaders and staff on September 22 to review the draft policy and encourage them to comment.

After reviewing the comments submitted I am recommending that the Policy Board adopt the revised Program Income Policy attached to this memo by adopting the following resolution:

RESOLVED, That the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board adopts the following Program Income Policy as the policy of the NRP;

RESOLVED FURTHER, That NRP staff is directed to transmit the approved policy to the neighborhoods and joint powers members for their information, referral, and files.

***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 NRP eligible neighborhood expenditures.

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 where one of the intents of the program, project, service or activity being funded is to recapture some or all of the NRP funds used for future investment by the neighborhood. 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 generated by 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 program, project, service or 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 or strategy** 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 program or 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, GMHC) 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 strategy.

If it is neither practical nor possible to track NRP program income by strategy, this income should be tracked and recorded by the NRP funded contract 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 and the City in a format mutually agreeable to both NRP and the City Finance Department.

Contract Guidelines

Contracts with NRP for any NRP funded program, project, service or activity 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. Any contract provision(s) relating to program income must be approved by NRP.

Contracts that will result in the expenditure of NRP funds will specify that NRP program income will only be:

1. Used to pay contractor costs incurred under that specific contract;
2. Used to pay costs directly associated with the NRP program, project, service or 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;
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, or
5. Used to support programs, projects, services and activities that qualify as "NRP eligible" under the NRP Law.

The City is requested to include similar language in any City contracts that expend NRP funds and may generate NRP program income.