

Date: October 18, 2005

To: NRP Policy Board Members and Alternates

From: Bob Miller, Director, NRP
Jack Kryst, Director, Development Finance

Subject: Revised Phase II NRP Capitalization Projections

In June of 2005 the Development Finance Division reviewed the City's audited financials for 2004 and reported NRP capitalization of \$4,751,683 for that year to the NRP Policy Board. At the same time the Development Finance Division updated its revenue projections for the remainder of NRP Phase II. Those projections varied significantly from the projections made in June of 2004, and forecast a dramatic drop in NRP capitalization through 2009. When we released these June 2005 projections we also committed to reviewing our forecasting methods and assumptions and reporting the findings to the Board.

We have completed that review and updated our projections, and the new projected capitalization for Phase II is markedly higher. The table below compares the projections from June 2004 and June 2005 with the new projections:

NRP PHASE II				
	Year	June 2004 Capitalization Projections	June 2005 Capitalization Projections	October 2005 Capitalization Projections
Actual	2001	20,000,000	20,000,000	20,000,000
	2002	11,000,000	11,000,000	11,000,000
Estimated	2003	10,749,791	10,749,791	10,749,791
	2004	7,087,292	4,751,683	4,751,683
	2005	5,334,210	717,155	717,155
	2006	4,050,537	561,000	4,363,989
	2007	4,058,431	265,000	4,512,724
	2008	4,478,649	130,000	2,139,122
	2009	18,790,148	14,954,193	15,937,784
Total Phase II		85,549,058	63,128,822	74,172,248

The projections changed for two reasons: 1) we examined and improved our methodology, and 2) we had the benefit of information that was not available when the June projections were calculated.

When we examined the causes of the dramatic reductions in the June 2005 projections, it became clear that the method we had used until that time exaggerated the impact of significant (but one-time) changes in valuation, such as the devaluations that occurred in 2004. As a result, we made changes to our methodology.

We also received new market-value data from Hennepin County and up-dated valuation projections from the Office of the City Assessor which were used in the October 2005 estimates.

Together, the new methodology and the updated market-value information resulted in projections for 2006-2009 that allow us to plan on an increased revenue stream for NRP. **We must still, however, emphasize that these are only projections.** They will become more accurate with each year that passes but they are still based on assumptions and projections of future trends.

To improve future forecasts and include the timeliest information we have decided to separate the calculation of prior-year capitalization from the projection of future revenue. Beginning with 2006, we will report the actual capitalization for the prior year in the early summer, as soon as the audited financials for the City are available. We will revise our future projections in the fall, when we have obtained updated market-value information from the County and the City Assessor.

It is important that we remember that projections will continuously change. This is why the Policy Board acted to limit spending during the first three years of implementing an approved action plan to 70% of the neighborhood's total Phase II allocation. The good news is that the October 2005 projection for all of Phase II is more than 86% of what was originally projected in June of 2004. No changes are needed to the present guidelines for preparation and implementation of Phase II neighborhood action plans.

For your reference we have attached tables comparing the June 2005 and the October 2005 estimates. We have also attached a line-by-line reference that provides additional information on the methodology.

This item will be on the agenda for the October 24 Policy Board meeting and Development Finance staff will be present to answer questions.

OCTOBER 2005 - ESTIMATE OF PHASE II NRP RESOURCES: 2004 - 2009

		2004	2005	2006	2007	2008	2009
Revenues							
1	Common Project Post-79 TI	21,892,783	19,443,627	23,075,498	23,501,599	23,971,631	24,481,063
2	Transfer from Debt Service Reserve	0	3,471,495	0	0	0	0
3	Other Revenues of the CP and Other Revenue Pledged to Debt	9,970,353	7,681,507	7,691,411	7,410,302	7,441,158	33,809,073
4	Total Common Project Revenue	31,863,136	30,596,629	30,766,909	30,911,901	31,412,789	58,290,136
Less							
	Post-79 Debt Service and PAYG Notes	15,272,256	15,588,653	17,994,436	18,434,640	18,887,367	18,680,244
	Post-79 Revenue for Pre-79 Debt Service		11,066,564	5,319,000	4,538,807	3,784,120	9,045,231
5	Total Debt Service & PAYG Notes	15,272,256	26,655,217	23,313,436	22,973,447	22,671,487	27,725,476
6	Transfer to Debt Service Reserve	0	0	0	0	3,000,000	1,250,000
7	Other Obligations of the Common Project	9,131,409	870,000	540,000	540,000	540,000	540,000
8	Common Project Administration	1,655,943	1,302,412	1,341,484	1,381,729	1,423,181	1,465,876
9	Repayment of Legacy Fund Advance	1,769,000	1,769,000	1,769,000	1,769,000	1,769,000	11,386,000
10	Total Common Project Obligations	27,828,608	30,596,629	26,963,920	26,664,176	29,403,668	42,367,352
11	Revenue Available for NRP & Development Activities	4,034,528	0	3,802,989	4,247,724	2,009,122	15,922,784
12	Interest Earnings on NRP Funds	717,155	717,155	561,000	265,000	130,000	15,000
13	Total Projected Annual Capitalization of NRP	4,751,683	717,155	4,363,989	4,512,724	2,139,122	15,937,784
14	Total Revenue Available for Discretionary Development	0	0	0	0	0	0
15	Common Project Pre-79 TI	33,142,789	33,537,789	39,017,011	39,797,351	40,593,298	20,702,582
16	Total Pre-79 Debt Service	45,503,771	45,071,851	44,561,580	44,561,728	44,602,988	41,251,858
	Cumulative NRP Capitalization (2004 - 2009)	4,751,683	5,468,838	9,832,827	14,345,551	16,484,673	32,422,457

JUNE 2005 - ESTIMATE OF PHASE II NRP RESOURCES: 2004 - 2009

	2004	2005	2006	2007	2008	2009
Revenues						
1 Common Project Post-79 TI	21,892,783	22,697,942	23,043,361	23,217,571	23,536,717	23,863,527
2 Transfer from Debt Service Reserve	0	385,672	1,376,322	1,455,771	1,125,539	300,000
3 Other Revenues of the CP and Other Revenue Pledged to Debt	9,970,353	7,681,507	7,691,411	7,410,302	7,441,158	33,809,073
4 Total Common Project Revenue	31,863,136	30,765,121	32,111,094	32,083,643	32,103,414	57,972,600
Less						
Post-79 Debt Service and PAYG Notes		15,859,286	18,269,129	18,713,454	19,170,362	18,967,485
Post-79 Revenue for Pre-79 Debt Service	-	10,964,423	10,191,481	9,679,461	9,200,870	10,674,046
5 Total Debt Service and PAYG Notes	15,272,256	26,823,709	28,460,610	28,392,914	28,371,233	29,641,531
6 Transfer to Debt Service Reserve	0	0	0	0	0	0
7 Other Obligations of the Common Project	9,131,409	870,000	540,000	540,000	540,000	540,000
8 Common Project Administration	1,655,943	1,302,412	1,341,484	1,381,729	1,423,181	1,465,876
9 Repayment of Legacy Fund Advance	1,769,000	1,769,000	1,769,000	1,769,000	1,769,000	11,386,000
10 Total Common Project Obligations	27,828,608	30,765,121	32,111,094	32,083,643	32,103,413	43,033,407
11 Revenue Available for NRP & Development Activities	4,034,528	0	0	0	0	14,939,193
12 Interest Earnings on NRP Funds	717,155	717,155	561,000	265,000	130,000	15,000
13 Total Annual Capitalization of NRP	4,751,683	717,155	561,000	265,000	130,000	14,954,193
14 Revenue Available for Discretionary Development	0	0	0	0	0	0
15 Common Project Pre-79 TI	33,142,789	33,639,931	34,144,530	34,656,698	35,176,548	19,073,768
16 Total Pre-79 Debt Service	45,503,771	45,071,851	44,561,580	44,561,728	44,602,988	41,251,858
Cumulative NRP Capitalization (2004 - 2009)	4,751,683	5,468,838	6,029,838	6,294,838	6,424,838	21,379,031

Projected Annual Revenue Available for NRP & Development Activities
Line by Line Explanation of Calculations

Line 1 Common Project Post-79 Tax Increment

This line represents projected tax increment revenues generated from the Common Project, Post-79 Tax Increment Districts plus interest earnings on those revenues. There is a difference in the methodology between the two schedules in calculating the revenue projections. In the June 2005 schedule projections are estimated using the same methodology used in previous projections, using a straight line increase in revenues of two percent. In the October 2005 schedule the methodology used is based on preliminary market value projections received for each district from Hennepin County as of August 2005 for taxes payable in 2006 and increased based on projections received from the Office of the City Assessor. The 2005 TIF revenue collections in the October 2005 table are based on actual collections through July 2005 plus expected collections through December 2005.

Line 2 Transfer from Debt Service Reserve

This represents the amount needed to be transferred from the Debt Service Reserve Fund to pay debt service on outstanding bonds.

Line 3 Other Revenues of the Common Project and Other Revenue Pledged to Debt

This represents the January 1, 2004 balance in the Development Account, net of rollover appropriation, less the 2003 contribution made to NRP, plus (i) anticipated interest earnings on NRP funds; (ii) other revenues expected to be generated during 2004 through 2009 which will be transferred as non-tax increment revenue from various Common Project tax increment districts to the Development Account; and (iii) other sources of revenue dedicated to the payment of debt (i.e., parking revenues, entertainment tax, MASC payments and base property taxes, in the case of the arena.)

Line 4 Total Common Project Revenue

This represents the total of all anticipated annual revenues subject to the Ordinance.

Line 5 Debt Service and PAYG Notes

This represents a total of the estimated post-79 debt service and pay as you go notes and the amount of post-79 tax increment revenue needed to pay pre-79 debt service.

Line 6 Transfer to Debt Service Reserve

This represents the estimated amount of tax increment revenues which currently will be needed to be transferred to the Debt Service Reserve Fund in order to assure the payment of future tax increment debt service payments.

Line 7 Other Obligations of the Common Project

This represents the anticipated, annual costs which could be incurred as a result of contractual obligations for which the City is currently liable. In 2004 this amount includes the \$3,000,000 balance required to be maintained in the Development Account as a result of the City's GARF program, \$7,000,000 for arena capital costs, as well as set-aside allocations which had previously been made relating to Commercial Corridors and Transit Oriented Development.

Line 8 Common Project Administration

Projected Annual Revenue Available for NRP & Development Activities
Line by Line Explanation of Calculations

This represents the actual amount of the Common Project administrative costs for 2004, as well as the appropriated amount for the 2005 budget, increased by 3% annually through 2009.

Line 9 Repayment of Legacy Fund Advance

Capital advances from the Legacy Fund are being made on an annual basis in the amount of \$3,679,000. This revenue is used to finance discretionary development activities of CPED. Revenues generated annually from the Brookfield development are used to repay this capital advance, with the balance to be repaid in 2009.

Line 10 Total Common Project Obligations

This represents the total estimated annual obligations of the Common Project, consisting of debt service, debt service reserve, other contractual obligations, and administrative costs, as provided in the NRP Ordinance.

Line 11 Revenue Available for NRP & Development Activities

This represents the net difference between Line 4, Total Common Project Revenue, and Line 9, Total Common Project Obligations. Under the terms of the NRP Ordinance, the first \$20,000,000 will annually be provided to the NRP through 2009. Any amount in excess of \$20,000,000 may be used for the City's discretionary development activities.

Line 12 Interest Earnings on NRP Funds.

This represents the estimated interest earnings to be generated from balances maintained in the NRP Funds. These numbers were preliminary numbers obtained from NRP staff.

Line 13 Total Annual Capitalization of NRP.

This represents the amount of revenue projected to be available annually to finance NRP activities through 2009, as reflected in the Ordinance.

Line 14 Revenue Available for Discretionary Development.

This represents the amount of revenue projected to be available annually to finance discretionary development activities of the City through 2009, as reflected in the Ordinance.

Lines 15 and 16 Included for Reference

Additional information contained at the bottom of this spreadsheet reflect (1) the projected tax increment revenue anticipated to be collected from the pre-79 tax increment districts, using the same methodology as was used in the revised table, and (2) the annual outstanding debt service of the pre-79 debt. A combination of the pre-79 tax increment revenue, interest earnings and post-79 revenue applied to the payment of pre-79 debt service (a component of line 5 above) is used to pay the pre-79 debt.