Memorandum

Date: April 19, 2006

To: Policy Board Members and Alternates

From: Robert D. Miller, Director

Subject: Task Force Report

The Task Force on the Continuation of NRP has completed its work and the report of the group is attached. The Task Force was established by the Policy Board last June and was charged with reviewing Phase I, examining possible options for funding of a neighborhood revitalization program after 2009 and providing the pros and cons of possible options for the Policy Board and its members.

Financing NRP in the Future:

The Recommendations of the NRP Policy Board Task Force

On

Continued Support of Neighborhoods and NRP

Background

At its meeting on June 27, 2005 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). In January 2006 Paul Ostrow was replaced with Council Member Robert Lilligren. Bob Miller provided support. Jack Kryst (DFD) also provided information and invaluable assistance.

The Policy Board's charge to the Task Force was to "examine options for securing funding for neighborhoods and NRP for the purpose of continuation of the NRP after 2008". Funding for NRP from the Common Project ends in 2009.

As it began its deliberations, 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 1990 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 2005, NRP had received $236 million from the Common Project and the City's Development Account and generated an additional $36.4 million in interest. The total amount that NRP received from 1990-2005 is $272.5 million. The Phase II portion of these dollars was $48.3 million. The projections prepared by the city in June 2005 would mean that $15.9 million of additional revenue would be generated from the years 2006-2009. The result is a Phase II total of $64.2 million and a program total of $288.4 million. The shortfall from the original commitment to NRP will be more than $110 million.

Before it discussed or considered options for continuation, the Task Force reviewed the investments made by NRP in Phase I. The group discussed whether or not the results from Phase I justified continuation and determined that NRP's investments 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 met four times to review the results of Phase I, discuss possible funding sources and develop a preliminary report to the Policy Board. To address the "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. The initial report resulting from those discussions was submitted to the Policy Board in September, 2005. That report presented options the Task Force viewed as worthy of additional examination.

The Task Force recommended that the jurisdictional members of the Policy Board discuss the possible options with their respective organizations and identify individuals from their jurisdictions that had 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.

At its meeting on January 9, 2006 the Task Force on the Continued Support of Neighborhoods and NRP reviewed the comments of the Technical Advisory Group (TAG) established by the NRP Policy Board on September 26, 2005. The TAG was composed of Cecile Bedor (Minneapolis Public Libraries), Jack Kryst (City of Minneapolis), Pat O'Connor (Hennepin County), Marj Rolland (Minneapolis Public Schools), and Rich Theis (Minneapolis Park and Recreation). Bob Miller of NRP participated in the discussions and provided support to the Group.

The charge to the TAG was to review the options presented by the Task Force, identify pros and cons, identify implementation requirements and suggest additional alternatives to the Task Force.

As a result of their review of the TAG comments and further examination and discussion of the possible funding options, the Task Force has identified courses of action that it considers to be reasonable and able to produce revenues for the neighborhoods and NRP of approximately $10 million per year for each year from 2009-2019 for the continued improvement of neighborhoods and the City. The Task Force views diversification of the revenue sources as preferable to having a single source to avoid a recurrence of the catastrophic 2001 scenario. The recommendations follow.

Short Term Action (2006-2009)

Eliminate the $16,700,000 in Common Project payments to the Legacy Fund for 2006-2009.

Comments: The NRP Policy Board, in it's July 21, 2003 resolution (NRP/PR#2003-11) expressing support for the City's NRP Ordinance revision and the waiver of claim against revenues from settlement of defaulted loans, based its support on projections of NRP Revenue produced by the City as Case 1 in the June 4, 2003 Common Project Review. The revenue projections have significantly changed, however, since that date and the book value of the Legacy Fund has increased. It would be appropriate to reexamine the need for borrowing against that fund at this time and affirm, or change, the earlier decisions. Action on the planned Legacy Fund borrowings could eliminate the revenue gap between the March 2004 Common Project Revenue projections by the City that were used as the base for the neighborhood allocations for Phase II and the October 2005 Common Project revenue projections produced by the City.

Pros: Action can be taken solely by and is within the authority of the City.

Uses revenues earned in the Common Project for Common Project priorities.

Can be done simply and quickly.

Addresses the short-term revenue shortfall for NRP projected by the City in October 2005.

Cons: May decrease the ability of the Legacy Fund to recover its initial capitalization.

Implementation Considerations:

Requires action by the City Council to change Resolution 2003R-404.

Possible Revenue:

Maximum amount would be $16.7 million. Proposed amount for NRP is $12.8 million. City Council Resolution 2003R-404 requires repayment from the Common Project of $16.7 million for Legacy Fund borrowings in 2006-2009. The proposal would be to pay off the unpaid balance of the 2004 and 2005 Legacy Fund loans ($3,820,000) from the Common Project but discontinue the borrowings and payback from the Common Project after these payments are made. This means that approximately $12.8 million projected as needed for Legacy Fund repayment would be available from the Common Project to make up the revenue gap for neighborhood allocations.

Taking this single action would eliminate the revenue shortfall for neighborhood improvement investments in the City's October 2005 projections.

<u>Short and Long Term Action (2006-2019)</u>

Contract with the City for $6.5 million annually to provide citizen and community engagement services.

<u>Comments:</u> In July 2003 the City estimated the costs of the existing citizen participation and engagement system and activities of the City and its departments at approximately $9 million per year. Although the estimate included the costs for the NRP Central office and neighborhood organizations, it did not include any amounts for some of the City's major departments (such as Public Works and Communications) with citizen engagement responsibilities.

<u>Pros:</u> Savings to the City could exceed more than $3 million annually of current City expenditures for this activity.

NRP has helped establish and maintain an effective neighborhood infrastructure to accomplish and improve the citizen participation and engagement activity of the City.

Uses personnel with organizing, communication and engagement skills and knowledge of City department staff and functions for activities that they know and are good at.

Places engagement activity in a Joint Powers governed organization.

Encourages NRP to reach additional audiences and further enhance neighborhood outreach efforts.

Provides a needed service to the City in a more cost effective and efficient manner.

<u>Cons</u>: Possible reluctance by departments to support the new process and cooperate with its implementation.

<u>Implementation Considerations:</u>

Requires a mutually agreeable contract.

<u>Possible Revenue:</u>

<u>The amount of the contract would be for $6.5 million per year. The proposed additional revenue for NRP is $3.0 million per year.</u> The 2003 cost estimate included direct administrative support to neighborhood organizations (primarily through NRP) and more general citizen engagement activity. The estimate did not include citizen engagement activities of several City departments. The services covered under this contract would include operating support to neighborhood organizations, printing and distribution of required Regulatory Services, Development and Zoning notifications, expanding the NRP website into a Community Connections website, and taking over the responsibility for organizing and managing a new neighborhood block club network for the City. The savings to the City, based on the 2003 report of the City on its citizen participation costs, would be at least $2.5 million per year.

Long Term Actions (2009-2019)

Option 1a. **Extend the term of the existing pre-1979 Common Project TIF districts for another 10 years and dedicate a portion of the revenues generated to neighborhoods and NRP**.

Comments: This option extends the collection of Tax Increment past the currently programmed life for these districts and uses the continued increment to fund neighborhood improvements and the City's discretionary development activity.

Pros: Continues the contributions to neighborhood improvement from all the partners to the Joint Powers Agreement.

Provides for ten years of continuing revenue.

Eliminates possible reductions in LGA for the City that will otherwise occur when the pre-1979 districts are decertified and increases the City's net tax base.

Provides a source of revenue for City discretionary development activity.

Uses a revenue stream (the existing pre-1979 Tax Increment Districts in the Common Project) that has not been available to the County or Schools for the past 20 years.

Builds on the original funding model.

Cons: Delays the ending of the pre-1979 Tax Increment Districts.

Implementation Considerations:

The other potentially affected taxing jurisdictions should be asked to support the extension.

The consequences for existing development contracts and obligations would need to be examined.

Requires approval by the State legislature.

Possible Revenue:

If the districts are extended, the maximum taxes generated are estimated to be $13-15 million per year. The proposed amount for NRP would be $10 million per year. If the pre-1979 TIF districts are returned to the City's tax base in 2010 the annual taxes generated have been estimated by the State at $13-15 million, depending upon the appreciation in values that occurs between now and 2010 and a number of other variables. **This is not, however, the net to the City**. The current Local Government Aid formula will take the addition to the City's tax base into consideration and the result will be a reduction in the LGA annually received by the City of between $6-8 million in 2011 and thereafter. The net to the City will be about $7 million per year.

If the TIF districts are extended, the taxes generated from the districts could be retained in their entirety and used for neighborhood reinvestment through NRP and to provide substantial discretionary development dollars for the City. This could be a significant benefit for the City because the LGA allocation would not be adversely affected and the revenues from the Common Project could continue to be available to support neighborhood and discretionary development activity.

or

Option 1b. Commit a portion of the taxes generated from the decertified Common Project Tax Increment Districts to neighborhoods and NRP.

Comments: This option uses a portion of the increased tax capacity of the City that will occur when the pre-1979 districts are decertified to fund neighborhood improvements instead of using the increase to reduce or hold static property taxes or to fund other City or participating jurisdiction services.

Pros: Commits future general fund revenues of the City to neighborhood improvement.

Uses the present source of revenue for neighborhood improvements for the same purposes in the future.

The small net increase in the City's tax revenues generated from the return of the pre-1979 TIF districts will make it more effective to dedicate these resources to a specific purpose (i.e. neighborhood improvement) than to distribute them as hardly noticeable property tax reductions to the City's property taxpayers.

Cons: Any revenues from levies against this new tax capacity will not be available to the City or the participating jurisdictions until decertification occurs in 2009.

Reduces the amount of any property tax reduction to all property owners that might occur after decertification in 2009.

May be used as justification for property tax increases approved by the Minneapolis City Council or Hennepin County Board of Commissioners.

Implementation Considerations:

Requires annual action by the City and the participating jurisdictions to levy the funding as part of their annual budget processes.

Possible Revenue:

Maximum possible would be approximately $7 million per year. The proposed amount for NRP would be $3 million per year. When the pre-1979 TIF districts are returned to the City's tax base the net to the City will be about $7 million annually. This proposal would allocate less than ½ of the expected net to NRP and the neighborhoods and the remainder to the General Fund.

Option 2. Establish a Countywide tax for neighborhood and community revitalization.

Comments: Some of the deterioration that occurred in Minneapolis neighborhoods in the mid 80's is now evident in the inner ring suburbs.

Pros: Proactive approach to addressing current and future revitalization needs of neighborhoods and communities.

Potential for generating significant revenue.

Forms a common ground between Minneapolis and the suburbs.

Could use NRP's neighborhood revitalization expertise to assist suburban jurisdictions.

Issues being addressed by suburbs are ones that NRP knows and has experience with.

Allocation methodology could be similar to the approach used by NRP.

Shares the costs for revitalization across a broad base.

Cons: Increases an existing tax or establishes a new tax.

Getting an allocation methodology approved could be difficult.

No precedent for such a proactive program.

Implementation Considerations:

Needs City, County and suburban support.

Requires State approval.

Possible Revenue:

Maximum possible would be defined by Hennepin County. The proposed amount is $75 million per year with $15 million of this amount going to Minneapolis. $10 million of the City's allocation would be for NRP. The redevelopment needs of the inner suburbs are increasing annually and there are few sources available to address these needs. Under any allocation methodology based on need, Minneapolis would be the major recipient of these funds. That would make the tax less politically palatable to the suburbs. Even if a per capita base was used, Minneapolis would receive about 1/3 of the collected revenues. It is recommended that the allocation to NRP and Minneapolis be **$15 million per year** from this source to increase the potential for support from suburban jurisdictions.

Option 3. Allocate a portion of the City's annual CDBG revenues to NRP.

Comments: The City uses its CDBG program for eligible housing, economic development, small business and public works projects, non profit agency programs and City department administrative costs. In 2005 the City received approximately $15 million in CDBG funds from the federal government. NRP could be a competitor for these funds in the annual comprehensive plan development process.

Pros: Redirects federal dollars that will be received by the City.

No prior commitments of future funds.

Would annually measure NRP needs against other CDBG eligible activities.

Ongoing source of revenue.

Cons: Not all NRP activities may be CDBG eligible.

CDBG revenues for the City are determined by the Federal government.

Current CDBG allocation has been committed to other City projects, programs and uses.

Implementation Considerations:

The City Council has the authority to allocate CDBG revenues received by the City.

Responsibility for administration will fall on the City.

Funding would be provided from Federal resources.

Possible Revenue:

Maximum that could be requested would be $10 million per year. Proposed amount for NRP is $3 million per year. The CDBG allocation to the City is approximately $15 million per year. Many of the priorities of neighborhoods are eligible uses for these dollars.

Financing Mechanism.

Issue a 10-year term Bond for neighborhood revitalization projects and activity.

Comments: Recognizes that NRP projects contribute to sustaining and growing the tax base of Minneapolis.

Pros: Provides neighborhoods with a secure and predictable revenue stream.

Revenue level would be established at a single point in time and could be expended over several years.

Some of the income generated from investments financed under the bond could help pay for the bond.

The City has used only about 24% of its bonding cap. Adding an issuance of the amount proposed would only increase this to 27%.

Bonds could be at least partially serviced with the savings generated by contracting with the City for its citizen engagement activities (see p.4) and by income resulting from neighborhood loan programs.

Cons: Competes with other City priorities for bond funds.

Borrowing to fund NRP means assuming debt service as well as project cost.

Implementation Considerations:

Requires only City approval.

Workout plan would be needed at the time the bonding issue is proposed.

Possible Revenue:

Maximum would be $100 million. The proposed amount is $50 million. The funds would be used to help implement approved Neighborhood Action Plan strategies.

Conclusion

The Task Force has examined a wide variety of options and possibilities for providing funds to support the continued revitalization and improvement of the neighborhoods of the City. Financial professionals from the City, County, Schools, Parks, and Libraries helped define possibilities and establish the Pros, Cons, and Implementation steps of the various choices.

It is expected that efforts will be made to discredit the options presented in this review and to find reasons that they will not work and are not acceptable. It is hoped, however, that as much effort will be made to find more acceptable alternatives, if these do not work, to achieve continued reinvestment in our neighborhoods and empowerment of residents.

One thing is clear from the work of this Task Force**.** **Funding can be found to continue the revitalization of the City's neighborhoods and the amount provided can help continue the improvement that NRP has stimulated over the past 15 years.** The central question is: Do the elected leaders of the City and the Joint Powers jurisdictions feel that continued citizen empowerment and neighborhood improvement should be a priority?

If there is the will, the Task Force has identified possible ways.

Addendum

In addition to the options recommended in this report for consideration, the Task Force examined other options and decided that they did not merit further examination. The limited revenues that would be generated and the complications associated with implementation were major reasons that these options were rejected. The other options considered included:

- **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 or parcel square footage) to determine the amount each property pays.**

- **Approve a Chapter 595 levy and dedicate the proceeds to neighborhoods and NRP.**

- **Fund NRP from the City's General Fund.**

- **Impose a special assessment on properties directly benefiting from NRP investment.**

- **Use the City's Tax Abatement authority to abate a percentage of the property taxes payable by owners of eligible properties in Minneapolis for up to 10 years and assign the abatement to NRP.**

- **Allocate a portion of the Mortgage Registry and Deed Tax collected by the County to NRP.**

- **Impose a Surcharge or Tax on TIF districts and dedicate the revenue raised to neighborhoods and NRP.**

- **Dedicate the TIF revenues from the post-1979 districts in the Common Project to neighborhoods and NRP after 2009.**

- **Commit a portion of the increased property taxes generated from development assisted with NRP funds to NRP.**

- **Allocate a portion of the revenues generated from future permit fees on commercial and residential properties improved with NRP dollars to NRP.**

- **Dedicate a portion of the City's sales tax revenues to neighborhoods and their improvement.**

- **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 or parcel square footage) to determine the amount each property pays.

- **Dedicate the net annual tax forfeiture settlement the City receives from Hennepin County to NRP.**

- **Dedicate a portion of the delinquent/abatement settlement received annually by the City form Hennepin County to NRP.**

- **Dedicate a portion of the revenue derived from the City's sale of properties that used NRP resources for development to NRP.**

- **Include neighborhood revitalization projects and NRP in the City's annual bonding process.**

In addition to these options, the Task Force considered collaborations with Hennepin County Community Works, an environmental fee on every taxable property, 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 recommendation.