April 16, 2007

Dear Neighborhood Leader,

According to the latest available projections, NRP will not have enough funding by the end of 2009 to meet the 70% of allocations currently approved for expenditures from Phase II Neighborhood Action Plans. Last week the Development Finance Division (DFD) of the City of Minneapolis Finance Department released a memorandum to the Mayor, Members of the City Council and me updating their estimate of projected revenues from the Common Project. The results of their March 2007 analysis project a dramatic decline in the revenues for capitalizing NRP in 2006-2009. The projections, **if they become real**, show a drop in NRP capitalization of $ 7.7 million from the projections released by DFD in October 2005.

Why is this important to you? **Because the Common Project is the primary funding source for NRP.** The projections update the revenue estimates DFD made in 2004 that were used as the basis for determining the Phase II allocations to neighborhoods. Those estimates were subsequently revised in June 2005 and October 2005.

In October 2005 DFD projected a total NRP capitalization for Phase II of $ 74.2 million, or more than $ 10 million lower than the estimates the Policy Board was given before approving the neighborhood allocations for Phase II in April 2004. The March 2007 projections drop that capitalization figure to $ 66.5 million.

The DFD memorandum identifies reduced tax increment tax collections resulting from lower growth in the Estimated Market Value of the tax parcels in the Common Project tax increment districts and the lower payable 2006 tax rate as the reasons for the reduction. The DFD memorandum is attached for your information.

The result is that the projected level of capitalization no longer fully funds the 70% presently programmed for neighborhoods, let alone the full funding of any Phase II Neighborhood Action Plan. The estimates of Phase II revenues have been changing since the significant tax law changes of 2001 were enacted. Even when the revenue estimates became more of a certainty in 2004, the Policy Board decided to hold back 30% of each allocation to ensure that any problem with the projections could be addressed in the future. The March 2007 projections indicate that the hold back would need to have been almost 50% to address the significant drop in the revenue projections.

The numbers in these tables are bleak, but they must be taken for what they are, i.e. *projections* made on the basis of a number of assumptions. Historically, as you can see from the past projections, reality has often been very different from the expectation. Local decisions, among other things, can greatly alter future revenues. The difference this time is that we now have only

2 years left to address any expected problems, rather than the 4 years that we had before. We will have to take some action to address the projected shortfall before our options disappear.

One of the options may be to reduce the dollars available during the first three years of Phase II implementation for all approved and pending neighborhood action plans. Another would be to discontinue approving new plans until the revenue issue is resolved. NRP staff will not recommend either of these to the Board at this time.

Our first efforts, before considering reducing neighborhood allocations, will be to encourage close examination of the planned uses of Common Project revenues. We have identified some future obligations that have been assessed against the Tax Increment districts and Common Project that are the result of local decisions made by the Mayor and City Council. If the current leaders of the city are committed to supporting the efforts of NRP and our city's residents to improve their neighborhoods, and I believe that many of them are, the new projections would seem to indicate that these decisions need to be reexamined and reconsidered.

Let me be very clear, **<u>this discussion and issue is not about funding for neighborhoods after 2009.</u> The issue now is keeping the already approved commitments to the Phase II plans of neighborhoods.**

I recognize that the information in this letter can seem very discouraging but **<u>I want you to realize that projections and estimates are not yet reality and that local decisions can change them significantly and quickly.</u>** It is also important that you reexamine your planned expenditures and limit the use of your NRP funds for non-housing related items. Even if our revenues decline as projected, we must still show our good faith by meeting the legislated obligation to invest our resources in housing and housing related programs.

A solution is needed to both the short and long term future of neighborhoods and neighborhood organizations and we are working with interested and committed elected officials to help bring these decisions forward.

This is no time for anyone to back away from interest in, and commitment to, improving our neighborhoods and city. Doing your business well and informing your elected officials about your results, progress and needs are the best actions that you can take in this time of uncertainty. It is a time to recognize that critical decisions will be made over the next few months and that <u>you</u> may be able to help influence those decisions.

Sincerely,

Robert D. Miller
Director

Minneapolis
City of Lakes

MEMORANDUM
Finance Department
Development Finance Division

Date: April 9, 2007

To: R. T. Rybak, Mayor
Barbara Johnson, President, City Council
Members of the City Council
Robert Miller, Director, NRP

From: Jack Kryst, Director, Development Finance

Subject: Status of 2006 – 2009 Common Project Revenues & NRP Capitalization

Background - Revenues from the City's Common Project are required to be used to pay existing Common Project debt and contractual obligations, and Common Project administration costs. In addition, a subset of those revenues, specifically from the Saks Parcel of Gaviidae, are required under the Discretionary Development resolution to be used first for the repayment of discretionary development borrowing from the Hilton Fund. In accordance with the Discretionary Development resolution, any funds remaining after those obligations are met are to be applied first to the annual capitalization of the Neighborhood Revitalization Program (NRP) and then to City discretionary development needs. However, Common Project revenues were so reduced by the 2001 legislative property tax changes that none have been available for this second purpose.

The obligation to provide funding for the NRP extends through 2009 and is annually capped at $20 million. The actual amount available each year is calculated by a formula described in the Discretionary Development Funding Plan and is primarily dependent on the amount of Common Project tax increment revenue collected.

NRP Capitalization – To assist the City's and NRP's planning, Finance has periodically made projections of the annual amounts to be available for NRP through the remaining years of the City's obligation (2009). Projections made in October 2005 and March 2007 are shown below in Table A. Projected and actual amounts for NRP from 2001 through 2009 (Phase II) are shown. Amounts below the dotted lines are estimates only.

Table A

NRP PHASE II

Year	October 2005 Capitalization Projections	March 2007 Capitalization Projections
2001	20,000,000	20,000,000
2002	11,000,000	11,000,000
2003	10,749,791	10,749,791
2004	4,751,683	4,751,683
2005	717,155	1,314,824
2006	4,363,989	1,428,000
2007	4,512,724	674,531
2008	2,139,122	330,902
2009*	15,937,784	16,226,852
Total Phase II	74,172,248	66,476,583

*Includes Brookfield Repayment

Actual capitalization is shown above the dotted line.

Actual 2006 Common Project tax increment collections were 6.1% ($3.8 million) less than the October 2005 projections, which overestimated both the growth in the Estimated Market Value of property within the Common Project and the payable 2006 tax rate. Based on these actual receipts, the estimated 2006 NRP funding will be $1,428,000. This is $2,935,989 less than the earlier estimate of $4,363,989. Extending this level of revenue through 2009 produces a total Phase II capitalization of $66.5 million, down $7.7 million from the October 2005 estimated total of $74.2 million.

(Note that the increased NRP funding in 2009 shown in Table A is unrelated to tax increment revenue, but results from the expected Brookfield payment to the City of the balance of the loan related to the development of Gaviidae.)

A significant consequence of this reduced level of resources is that for the first time the total dollars available for Phase II neighborhood plans is projected to be less than the total amount allocated for those plans. In April 2004, the NRP Policy Board adopted Phase II plan allocations totaling approximately $41.8 million. Its actions were based on the best estimates at the time, but the Board recognized the uncertainty of the projections and limited spending in each plan to 70% of the allocation, or approximately $29.3 million. As Table B indicates, the latest forecast reveals a gap between the earlier, capped allocations and likely resources.

Table B

March 2007 Capitalization Projections	66,476,583
"Non-Plan" Set-Asides *	43,740,449
Available for Neighborhood Plans	**22,736,134**
April 2004 Phase II Neigh. Allocations	41,808,610
Plan Appropriations Capped at 70%	**29,266,027**
Gap between Projections and Capped Appropriation	**(6,529,893)**
Gap between Projections and Allocation Total	**(19,072,476)**

* "Non-plan" set-asides include the Affordable Housing Reserve Fund, the Community Oriented Public Safety Initiatives Reserve Fund, Youth Coordinating Board, NRP Administration, Contingency and Phase I over-obligations.

Common Project Debt Service – Outstanding debt service on the 1990 Common Project bond issue is due to be fully retired by September 2009. Despite the lower overall revenue collections shown above, this is still expected to occur using projected tax increment. However, this issue will be closely watched and reported back to the Council in early 2008. If there are further unexpected reductions in revenue, the report will include recommendations on options granted by the legislature for such a contingency.

Please let me know if you any questions or would like further information.

CC Steven Bosacker
Pat Born
Lee Sheehy
Gene Ranieri
David Fey
Heather Johnston
Jeff Schneider
Pam McKenna
Tina Smith