



Request for City Council Committee Action from the Department of Finance and Property Services

Date: December 3, 2013

To: Council Member Betsy Hodges, Chair, Ways and Means Budget Committee

Referral to: None

Subject: Request to Reimburse Minneapolis Public Housing Authority the Payment in Lieu of Taxes (PILOT) payment for 2013.

Recommendation:

Amend the 2013 appropriation resolution to increase the 2013 General Fund appropriation in the City Coordinator's Department by \$483,000, funded by the receipt of \$222,000 in PILOT payments from MPHA in 2013 and the remaining \$261,000 funded by General Fund reserves accumulated through prior years' unbudgeted receipts of the MPHA annual PILOT payments.

Department Information

Prepared by:	Sandy Christensen, Deputy Finance Officer
Approved by:	Kevin Carpenter, Chief Financial Officer Paul Aasen, City Coordinator
Presenters in Committee:	Sandy Christensen, Deputy Finance Officer

Reviews N/A

Financial Impact *(delete all lines not applicable to your request)*

- Action requires an appropriation increase to the Operating Budget
Dept Name: City Coordinator
Fund Name: General Fund
Amount: \$ \$483,000
- Action requires use of contingency or reserves
- Request provided to the Finance Department
- Other financial impact

Supporting Information:

Financial Summary

Beginning in 2010, the City ceased separately levying for the MPHA, resulting in a reduction of levy resources of more than \$1.0 million on an annual basis (although a levy of \$200,000 was approved for 2013 in order to access residual fiscal disparities distribution funds from prior years). At the same time, Federal funding has also declined.

MPHA Request

MPHA is requesting that the City either reinstate an annual levy for the Authority, or provide an annual "refund" of the amount of PILOT paid by MPHA. For 2013, MPHA paid \$482,727.74 to Hennepin County for its 5% of net shelter rent for 2012 (despite the ability for the City to request 10% - see History below). MPHA is requesting the full amount of \$482,727.74. However, because of the manner in which these funds are distributed, the City is only the beneficiary of its proportional share of the overall tax rate. For the 2013 distribution, the City received \$221,800.01, or 45.9% of the total PILOT made by MPHA. Therefore, if the City "refunded" 100% of the PILOT as requested, the City would be paying out \$260,927.73 more than it received.

History of the PILOT Payment

Section 469.040 of the Municipal Housing and Redevelopment Act provides for classification of property for tax exemption and payment in lieu of taxes guidelines related to properties owned and operated by a Public Housing Authority as a low-income housing project. Subdivision 1 declares that

The property and the authority shall be exempt from all real and personal property taxes of the city, the county, the state, or any political subdivision thereof. "Taxes" does not include charges for special assessments or for utilities and special services, such as heat, water, electricity, gas, sewage disposal, or garbage removal. For purposes of this subdivision, "special services" means those physical services provided to a project for which the actual cost of the governing body providing the service can be calculated. When the obligations issued by an authority to assist in financing the development of a project have been retired and federal contributions have been discontinued, or the authority is no longer obligated by contracts with the federal government to maintain a project as a low-income housing project, whichever is later, then the exemptions from taxes for that project shall terminate.

Because the properties are tax exempt, they are not subject to property taxes which are used to provide municipal, county and other services. In lieu of taxes, there shall be a fee charged as a percentage of rent to be paid to these entities. Subdivision 3 states:

Notwithstanding the provisions of subdivision 1, after a housing project or a housing development project carried on under sections 469.016 to 469.026 has become occupied, in whole or in part, an authority shall file with the assessor, on or before April 15 of each year, a statement of the aggregate shelter rentals of that project collected during the preceding calendar year. Unless a greater amount has been agreed upon between the authority and the governing body or bodies for which the authority was created, in whose jurisdiction the project is located, five percent of the aggregate shelter rentals shall be charged to the authority as a service charge for the services and facilities to be furnished with respect to that project. The service charge shall be collected from the authority in the manner provided by law for the assessment and collection of taxes. The amount so collected shall be distributed to the several taxing bodies in the same proportion as the tax rate of each bears to the

total tax rate of those taxing bodies. The governing body or bodies for which the authority has been created, in whose jurisdiction the project is located, may agree with the authority for the payment of a service charge for a housing project or a housing development project in an amount greater than five percent of the aggregate annual shelter rentals of any project, upon the basis of shelter rentals or upon another basis agreed upon. The service charge may not exceed the amount which would be payable in taxes were the property not exempt. If such an agreement is made, the service charge so agreed upon shall be collected and distributed in the manner above provided. If the project has become occupied, or if the land upon which the project is to be constructed has been acquired, the agreement shall specify the location of the project for which the agreement is made. "Shelter rental" means the total rentals of a housing project exclusive of any charge for utilities and special services such as heat, water, electricity, gas, sewage disposal, or garbage removal. "Service charge" means payment in lieu of taxes (PILOT). The records of each project shall be open to inspection by the proper assessing officer.

As noted in the above underlined text, the Authority may agree with a political subdivision to pay a higher service charge as long as the service charge does not exceed the amount that would have been obligated as property taxes for the property. For many years, the Cooperation Agreements (Agreements) between the City and MPHA specified a PILOT of 10% of net shelter rent. However, over time, that amount was decreased to the minimum specified by Minn. Stat. 469.040 at 5%. Over time, 5% became the standard, regardless of the existence of amendments to the Agreements.

Future

Going forward, staff recommends that the City Council consider a budget appropriation for this repayment on an annual basis in lieu of re-instituting the annual levy for the HRA. Projections for annual receipts of the MPHA PILOT payment are approximately \$220,000 to \$250,000 per year which may be appropriated for this purpose. A total of approximately \$480,000 would be needed on an annual basis. For 2014, the portion of MPHA levy received by the City may be budgeted for \$223,000 (or the actual amount received) to be paid back to the MPHA. Staff further recommends that the MPHA submit similar requests to the school district and Hennepin for the remaining portion of the PILOT for reimbursement. Actions for the 2014 budget will be determined as part of the 2014 budget process.