



## Request for City Council Committee Action from the Department of Regulatory Services

**Date:** April 25, 2011

**To:** Council Member Betsy Hodges, Chair – Ways & Means/Budget Committee

**Subject:** Revolving fund report

**Recommendation:** The proper City officials are directed to increase 2011 expense appropriations as follows:

- a. 01600-8350100 by \$20,000
- b. 01600-8350600 by \$30,000
- c. 01600-8350700 by \$100,000
- d. 01600-8350900 by \$290,000
- e. 01600-8351000 by \$1,960,000

This is a one-time appropriation through the end of 2012

**Previous Directives:** Regulatory Services and Finance were directed at the 2011 budget markup to return to Ways and Means/Budget by 2/1/11 with a report on the revolving account balance. In addition, on February 11, 2011, City officials were directed to establish an updated financial policy that allowed for a new nuisance abatement revolving fund with a 15% minimum balance and a requirement for the Finance Department to report quarterly on the balance in the new fund.

### Department Information

Prepared by: Lee Larson, Manager of Business Finance – (612) 673-2055

Approved by:

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Rocco Forté, Director of Emergency Preparedness & Regulatory Services

Presenters in Committee: Rocco Forté, Henry Reimer, Lee Larson

### Financial Impact

- Request provided to the Finance Department

### Supporting Information

Please see attached report.

**RESOLUTION  
of the  
City of Minneapolis**

Resolved by The City Council of The City of Minneapolis:

That the above-entitled resolution, as amended, be further amended by:

Increase 2011 expense appropriations as follows:

- a. 01600-8350100 by \$20,000
- b. 01600-8350600 by \$30,000
- c. 01600-8350700 by \$100,000
- d. 01600-8350900 by \$290,000
- e. 01600-8351000 by \$1,960,000

# Nuisance Abatement Revolving Account

## Follow-up Report on Postponed Items

**The current fund balance is higher than a typically recommended minimum fund balance of 25%, although Regulatory Services has been maintaining a plan to spend down the balance to 25%.**

The unreserved balance is high. The Regulatory Services Department is requesting an appropriation to spend the fund balance down. The full amount requested is \$4.8 million. The current reserve balance is due to the following factors:

- i. Regulatory Services planned to save funding in the revolving fund for a land management system. To the extent possible, expenses that would have been legitimate revolving fund expenses were instead paid from the General Fund or grant funds. The business plan for Regulatory Services specifically calls for saving for a land management system by using existing funds. The Regulatory Services budget has been cut every year since the inception of the revolving fund, and so the ability to do this has been sharply reduced.
- ii. Grants (i.e., NSP) were used to offset costs associated with the revolving account, to the extent grants were available and expenses were eligible under the grants. Staff applied for the grants, planned their initiatives and followed the grant requirements. However, the grants have been fully spent down as of the end of 2010, and it is very unlikely that other grants will be available.
- iii. Initiatives of several years ago such as North Force produced increased revenue, as the resulting assessments have been collected through subsequent years tax payments. However, the initiatives have not continued and the collection rate on assessments has declined, so the assessment revenue will continue to decline.

The City Attorney provided a legal opinion that the revolving fund must only be used for nuisance abatement-related activities and that "any excess balance in the revolving fund cannot be used to fund deficiencies in the City General Fund budget."

Recommendations:

Increase expense appropriations in the revolving fund by \$2,400,000 in 2011 and again in 2012 for nuisance abatement related activities. These appropriations will be used as follows:

1. Land Management System
  - a. The City Attorney has advised that the City could potentially justify funding a percentage of the Land Management System that is directly or indirectly attributable to the Regulatory Services Department's nuisance abatement efforts. Regulatory Services has conservatively estimated that 30% of the Land Management System can be funded from the nuisance abatement revolving fund based on nuisance inspections as a percent of total inspections, and on nuisance Kiva users as a percent of total Kiva users. Thirty percent of the total project of \$12 million is \$3.6 million. Three million has already been provided to the project, so this allows an increased appropriation of \$600,000.
  - b. Several analyses by Regulatory Services have found that at least 30% of the Land Management System cost is eligible for payment from the revolving fund based on a direct correlation with the nuisance abatement function of the department. In summary, the analyses indicate the following:
    - i. 34% of all KIVA users for 2010 were responsible for nuisance abatement activities
    - ii. 34% of inspections tracked in KIVA for all users in 2010 were for nuisance issues.
    - iii. 50% of inspections conducted by Housing Inspectors were for nuisance issues.
    - iv. 56% of orders issued by Housing Inspectors were for nuisance issues.
2. Electronic photo storage is 50% eligible as the photos that are stored are for Housing Inspections. The total unfunded project for 2011 and 2012 is estimated at \$200,000 of which 50% is \$100,000.
3. Mobile Housing is 50% eligible as the program is for Housing Inspections. The total unfunded project for 2011 and 2012 is \$88,000, of which 50% is \$44,000.

4. The Aldrich Facility project is 12% eligible because 12% of Construction Code Services inspections are for emergency demolitions and code compliances, which are considered to be nuisance abatements. The full project cost is \$750,000, of which 12% is \$90,000.
5. \$100,000 for Hamilton School parking lot. A project is in development to create a parking lot at Hamilton School for the Problem Properties Unit and various housing inspection staff that work on nuisance abatement activities.

The parking lot is 100% eligible as the staff who will park there work on nuisance abatement activities. The project cost is estimated at \$100,000 including the cost to move PPU to Hamilton.

6. \$2,000,000 for demolition and restoration agreement activities during 2011 and 2012. Demolitions have had a very low collection rate due to tax forfeitures. Revolving fund demolitions had a collection rate in 2010 of 18%. Restoration agreements are not reimbursable, but provide added property tax once the property is re-occupied and the market value rises. Also, building permits are typically required.

Demolition and restoration agreement activities are 100% eligible as they are nuisance abatements.

7. \$1,000,000 for interns, temporaries, feeder positions and stepups during 2011 and 2012 that work on nuisance abatement-related initiatives.

Interns, feeder positions, temporaries and stepups are 100% eligible when they work on nuisance abatement activities.

8. \$416,000 for increased nuisance abatement contracts in 2011 and 2012 due to the nuisance abatement initiative, which is 100% eligible.

9. \$30,000 for environmental nuisance monitoring equipment, which is 100% eligible.

10. \$100,000 for a technology assistant in 2011 and 2012 (\$50,000 per year) to assist the Land Management Project Manager with the project.

30% of the Land Management System is eligible, and the project manager plus assistant total is \$170,000 each year and therefore \$51,000 is eligible from the revolving fund.

11. \$200,000 for the MPD police officer in the Problem Properties Unit (\$100,000 each year for 2011 and 2012). The officer works

100% of the time on nuisance abatement issues, so it is 100% eligible.

12. \$120,000 for credit card fees to Regulatory Services (\$60,000 each year for 2011 and 2012). Department credit card fees are estimated at \$240,000. Of that total, 25% is estimated to be revolving fund expenses, or \$60,000. 2010 actual revenues for the Revolving Fund as compared to the General Fund were 25%.

The total of the above one-time requests is \$4,800,000. This plan should reduce the reserve down to 25% by the end of 2012. The 25% balance is recommended, since it is predicted that declining revenue trends due to reduced collection rates will continue and the exhaustion of grant funding will necessitate use of the fund balance.