Request for City Council Committee Action from the Department of Community Planning and Economic Development

Date: August 29, 2011

To: Council Member Betsy Hodges, Chair, Ways & Means Committee

Referral to: None

Subject: Response to staff directions on CPED business plan, long range budget issues

Recommendation: Receive and file

Previous Directives: As part of its review of the CPED business plan in April, the Community Development and Ways & Means committees approved a series of staff directions asking for further work on several revenue and expenditure options; these are summarized on page two.

Department Information

Prepared by: Jeff Schneider
Approved by: Mike Christenson ______________________________
Presenters in Committee: Chuck Lutz

Reviews

Permanent Review Committee (PRC):	Approval ___ Date _________________
Civil Rights Approval	Approval ___ Date _________________
Policy Review Group (PRG):	Approval ___ Date _________________

Financial Impact

As requested by the Ways & Means Committee, this report presents several options for increasing revenues and decreasing expenditures in order to bring CPED's long term budget into balance. A number of individual funds would be impacted by these options.

Community Impact

Depending on which options are approved, there would be a variety of impacts on neighborhoods, city goals, the comprehensive plan, and the city's zoning code.

Supporting Information

This report is a response to a broad set of staff directions given by the Community Development and Ways & Means Committees. A summary table on those directions follows. Included in those directions was a request for a list of prioritized service reductions that would be necessary to balance the department's budget by 2015 assuming no new revenue, i.e. a worst case scenario. The department's 2012 budget request and its Five Year Financial Plan both propose a combination of new revenue and service reductions to address its long term budget challenge, so the list of service reduction options included this report – a "cuts only" approach - does not reflect the department's recommendation.

Status of April 2011 CPED Business Plan staff directions as of August 29, 2011	
Item	**Status**
Staff directions approved by Community Development and Ways & Means in April:	
1) CPED to propose amendments to capital budget process related to development infrastructure	CPED proposed amendments to the City's capital budget process in spring related to development-related infrastructure; discussions with PW and Finance are ongoing; there is also a 2012 capital budget proposal to set-aside at least $3 M for development infrastructure, currently being considered by the Mayor
2) CPED to work w/ Assessor and Finance on options for structuring a "growth fund"	Proposal submitted to Mayor; memo summarizing the proposal is attached
3) CPED to work w/ IGR staff on TOD TIF legislation and amendments to current City TIF policy	-No movement on TIF legislation - TIF policy amendments drafted for Council consideration this cycle
4) Engage McKinsey for a follow-up organizational assessment	Meetings so far have focused on housing area; per Mayor's Office, further work with McKinsey is contemplated this fall
Additional staff directions by Ways & Means only:	
1) Provide more detail on service reduction options outlined in business plan, and 2) Provide a prioritized list of these reductions assuming no new revenue or rate model relief	See enclosed narrative and prioritized list service reduction options list
3) Provide more detail on internal CPED overhead costs and efforts to control them	Financial analysis and response in process; - a Retirement Incentive Program is being proposed to the City Council this cycle; - Reduction in space costs via Crown Roller Mill sublease being pursued - Reduction in admin staff [2 FTEs]

In accordance with its approved business plan and the related committee staff directions, CPED has developed a package of both revenue enhancement and expenditure reduction proposals that address the department's long range budget challenges. The department's proposed Five Year Financial Plan reduces the department's expenditures by $6 million annually while seeking an equal amount annually in new ongoing revenues. The $6 million reduction includes both capital and operating costs, including a decrease in FTE complement from the 2011 original level of 128 FTEs to 100 FTEs by 2015. CPED's 2012 budget request is consistent with this Financial Plan.

The major elements of this package are as follows:

Revenue Options

Ongoing

Consistent with the recommendations of the Mayor's Council on Economic Development Finance [January], and the Mayor's subsequent letter to the City Council [March], the department has worked with the City Assessor and Finance Department to develop a new funding proposal to support its work on growing the City. The "**Growth Fund**" would utilize a portion of city taxes derived from "new" tax base to support work by CPED and other departments to help create new tax base. See attached summary of this proposal for further details; depending on the amount of new tax base allocated to the Growth Fund, the amount raised could be as much as $2.8 million in 2012. The rationale for this proposal is that municipal efforts to grow the city and its tax base make a difference, are worth supporting but are not cost free.[1] CPED also worked with Public Works to develop a proposal to utilize at least $3 million in NDB-supported capital funds for **development-related infrastructure**. Both proposals are under consideration by the Mayor at this time.

One-time

CPED's Five Year Plan also proposes to utilize several one-time sources of funds as new ongoing revenues and expenditure reductions are phased in over the next four years. These include the return of $5 million in recaptured UDAG funds previously allocated to the Planetarium, $4 million in pooled TIF revenues to be allocated for housing purposes, $2.5 million in GARFS reserves, and increased net revenues from asset sales, estimated at $300 K in 2012.

Expense reduction options

Service/Program Reductions

As requested, a list of prioritized service reduction options and internal management reductions is attached to this report. These total over $10 million and would reduce the department's staff complement by 40 FTEs, or nearly one third of its presently authorized level. There are numerous implications of these potential service reductions which the department is prepared to discuss in more detail. The department is also reducing its overhead costs by working with the Finance Department to reduce the cost of internal city services where possible, and reducing its own overhead through head count reduction, reduction in space costs, and an early retirement incentive, which is described in a separate report before the City Council this cycle.

---

[1] A comparison of 10 comparable cities done for the Mayor's Task Force found that Minneapolis was tied for last in the percent of its community development budget supported by the General Fund: 4%.

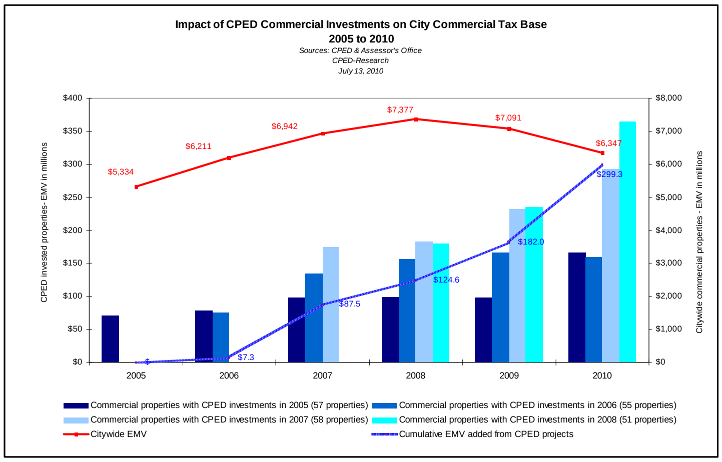
Growth Fund Proposal Summary

7/26/11

Background

- Identified need: new ongoing source to support ongoing efforts to "grow the city"

- 2010/ CPED 2011 budget request: CPED programs help to expand tax base in spite of overall recession/C/I tax base decline:



Red line = citywide commercial/industrial tax base
Blue line = cumulative tax base of CPED-assisted projects

- January 2011/ Mayor's Panel on Economic Development Finance:
  "The City should reserve a fixed portion of the revenue from new property tax value created by CPED's work for supporting future CPED programs and operations."

- March 2011/Mayor letter to Council:
  "*We should annually allocate a portion of the revenue derived from newly realized tax base as a "Growth Fund." … Finance, the City Assessor and CPED to develop options for structuring such a Fund for consideration as part of the 2012 budget."*

- April 2011/Council staff direction:
  "CPED to work with Finance and the City Assessor to develop options for structuring a "Growth Fund" for consideration as part of the 2012 budget.

Rationale

- The City must make explicit and ongoing efforts to "grow the economy" both at the regional level <u>and at the city level</u>. "Growing the city" doesn't just happen by itself and it is not cost free.

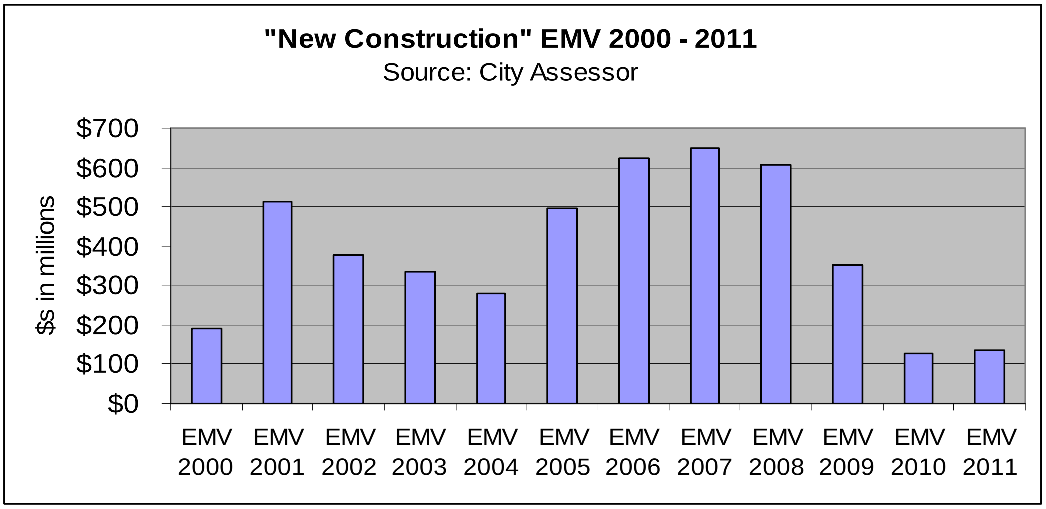
July 11 Op/Ed piece about state budget by James Campbell and B. Kristine Johnson:

3) The spending in this year's budget should focus on growing the Minnesota economy. That is, we will all be better off by working together to grow a bigger economic pie rather than fighting about how to reslice a smaller one. State spending can and should lay the foundation for future growth.

Methodology recommended by CPED / Assessor / Finance

Revenue calculation

Growth Fund to be tied to that portion of city tax base derived from "new construction", which is already calculated annually by City Assessor:



Due to volatility in annual amounts, use moving five year average. Finance to calculate amount of city tax levy derived from this five year average. See table below:

City Property Taxes Based on

Recent Five-Year Averages of EMV of New Construction

Five year average ending in:						
Assessment Year	2006	2007	2008	2009	2010	2011
Payable Year	2007	2008	2009	2010	2011	2012
	$2,675,180	**$2,891,048**	**$3,247,816**	**$3,409,639**	**$3,476,011**	**$2,783,563**
Amount to be levied for "growth fund" at various levels:						See Note
% of Total =50%	**$1,337,590**	**$1,445,524**	**$1,623,908**	**$1,704,820**	**$1,738,006**	**$1,391,782**
% of Total =40%	**1,070,072**	**1,156,419**	**1,299,126**	**1,363,856**	**1,390,404**	**1,113,425**
% of Total =30%	**802,554**	**867,314**	**974,345**	**1,022,892**	**1,042,803**	**835,069**
% of Total =20%	**535,036**	**578,210**	**649,563**	**681,928**	**695,202**	**556,713**
% of Total =10%	**267,518**	**289,105**	**324,782**	**340,964**	**347,601**	**278,356**

Note: Finance used applicable levy rates for each year, and 2011 rate for Pay 2012

Spending process

Mayor and Council to establish an ongoing amount [either $ or %) of this levy as annual "Growth Fund" [sub fund within General Fund].

Departments request funds for programmatic efforts to "grow the city."

Mayor and Council allocate "Growth Fund" revenues for departmental efforts to "grow the economy" as part of the annual budget process.

Departments report back annually on tax base impact of their use of these funds.

CPED Long Range Service Reduction Options

The following list of budget reduction options responds to the Ways & Means Committee's April 25 staff direction to present a scenario which balances CPED's budget by 2015 assuming no additional revenue or rate model relief. The service reductions resulting from this scenario would fundamentally change the City's role in planning and shaping development: instead of providing long range planning, front end support for housing projects and business clients, and intervention in areas of market stress, the department's role would be essentially limited to piecemeal, case-by-case regulatory responses to private initiatives. CPED projects would focus on those supported by outside funds, or by bond fees generated from private financings. Many of the department's current services and initiatives would either be severely curtailed or eliminated. For example:

- the **planning** division would jettison most business lines not mandated by federal, state, and local law and ordinances. Non-mandatory services include certain long range, heritage preservation and transportation planning; support for the Arts Commission and CLIC; zoning code enforcement and text amendment; and development support and consultation.

- the **housing** division would administer programs funded by outside sources, would severely curtail its role in managing overall responses to housing challenges such as foreclosures, and would cease proactive efforts such as the Minneapolis Advantage Program;

- the **economic development** division would also be forced to rely on a combination of outside funding and revolving loan programs. Small business assistance programs would be severely reduced, business retention and attraction efforts would cease, and comprehensive place-based approaches aimed at addressing market failure – e.g. West Broadway - would be curtailed. Without local funds for adult and youth employment training programs, the City would lose its ability to design and deliver programs targeted to the City's needs.

In sum, such a scenario would change the department's mission from "growing the city" to doing what it could to "maintain the city." The department and city's ability to proactively influence the location, scope, and design of development as well as its ability to intervene in distressed areas would be severely limited.

POTENTIAL CPED SERVICE REDUCTIONS FOR 5 YEAR FINANCIAL PLAN

Priority Order	TIER 1 Program / Service Activity	Estimated Savings Annual Cost	FTEs	Revenue Shortfall
1	Eliminate Ongoing Support for Partnerships (e.g. Midtown)	$100,000	0.0	
2	Eliminate Administrative Support for Arts Commission	$5,000	0.1	
3	Eliminate Technical / Policy Assistance for CLIC	$36,000	0.5	
4	Discontinue Business Association Assistance	$150,000	0.0	
5	Eliminate Support for Small Batch Food Mfg	$170,000	0.0	
6	Heritage Preservation Planning & other non-regulatory	$123,000	1.5	
7	Small Area Planning, other policy plans, Rezoning Studies	$328,000	4.0	
8	Zoning Code Enforcement, Text Amendments	$385,000	4.8	Up to $2.0M
9	Discontinue Purchasing Blighted Properties	$300,000	1.0	
10	Increase Pace of Selling Blighted Properties	$60,000	0.0	
11	Outsource Property Maintenance	$150,000	0.0	
12	Slow 311 Service Responses	$82,000	1.0	
13	Eliminate "It's All About Kids"	$150,000	0.0	
	Tier 1 Reductions Subtotal	**$2,039,000**	**12.8**	
	TIER 2 Program / Service Activity			
14	Eliminate Support for Greater MSP	$150,000	0.0	
15	Reduce Adult Training & Placement	$1,000,000	1.0	
16	Discontinue Catalytic Commercial Projects	$500,000	0.5	
17	Regional Transit Planning	$328,000	4.0	> $2.0M but
18	Higher Density Corridor Housing	$730,000	1.0	< $6.5M
19	Reduce Great Streets	$600,000	1.0	
20	Development Support & Consultation	$246,000	3.0	
21	Reduce Affordable Housing Trust Fund	$1,000,000	0.0	
	Tier 2 Reductions Subtotal	**$4,554,000**	**10.5**	
	TIER 3 Program / Service Activity			
22	Further Reduce Affordable Housing Trust Fund	$2,000,000	2.0	> $6.5M but
23	Reduce Business Attraction / Expansion / Retention	$600,000	7.0	< $10.5M
24	Reduce STEP UP Activity / Support	$147,000	1.0	
	Tier 3 Reductions Subtotal	**$2,747,000**	**10.0**	
	Total Direct Service Reductions - all 3 Tiers			**$9,340,000**
*	**Miscellaneous Management Support Functions**	**$850,000**	**7.0**	
	* To be further defined and prioritized within the three tiers			
	Total Reductions - 3 Tiers plus Mgmt Support		**40.3**	**$10,190,000**