

Request for City Council Committee Action From the Department of Finance

Date: December 3, 2007

To: CM Paul Ostrow, Chair, Ways & Means/Budget Committee

Subject: **NRP Phase II Minimum Funding Level Guarantee**

Recommendation:

Provide funding from the Legacy (Hilton) Fund, as necessary and available, to the Neighborhood Revitalization Program to assure that sufficient Phase II funds are received to fund Phase II Neighborhood Action Plans at no less than 70 percent of their approved April 19, 2004 allocations. This assurance excludes 1) any NRP funding shortfalls related to loan repayments and other revenues associated with the Brookfield Loan or Saks Parcel; and 2) shortfalls created by future legislative action.

Previous Direction:

On October 19 the City Council approved the following recommendation:

Development Finance Staff is directed to work with CPED and other appropriate City staff to review and identify funding sources for the Neighborhood Revitalization Program (NRP) and provide this Council with a recommendation to prudently assure funding for Phase II Neighborhood Action Plans in an amount of not less than 70 percent of the approved April 19, 2004 NRP Policy Board allocations. Any recommendation should consider the City's interests if unanticipated changes occur to the scheduled Brookfield repayment. Recommendations should be brought back to Ways and Means and Community Development Committees for Consideration by the City Council by December 21, 2007.

Prepared by: Jack Kryst, Director, Development Finance (673-5130)

Approved by: Steven Bosacker, City Coordinator _____

Patrick Born, Finance Officer _____

Presenters in Committee: Jack Kryst

Background

As a result of the State tax law changes of 2001 and the application of the amendments to the NRP Ordinance, it is now projected that \$72.9 million will be available to fund Phase II of the NRP. This is a reduction of \$107.1 million from the amount expected at the start of the program.

Based on the available information at the time, the NRP Policy Board in April 2004 adopted Phase II neighborhood action plan allocations totaling approximately \$41.8 million. When these allocations are combined with \$43.7 million in non-plan set asides (which include the Affordable Housing Reserve Fund, Community Oriented Public Safety Initiatives Reserve Fund, the Youth Coordinating Board, NRP Administration, approved contingencies and Phase I over-obligations), as the table below shows, there is a gap of \$12.6 million between planned Phase II expenditures and currently projected revenues.

When the allocations were made, the NRP Policy Board recognized the uncertainty of projections and limited spending for the first three years of each plan to 70 percent of the plan's allocation. Current projections bring revenues within \$95,455 of this 70 percent amount. Given the volatility of projections to date, NRP and its component neighborhoods have been reluctant to rely on the current forecast as they make contractual and other Neighborhood Action Plan spending decisions.

Current Projected Phase II Capitalization	\$ 72,911,021
Total Non-Plan Set Asides	\$ 43,740,449
Balance for Phase II Plan Allocations	\$ 29,170,572
Total Phase II Plan Allocations	\$ 41,808,610
Phase II Plan Gap at 100% Plan Funding	\$ (12,638,038)
Phase II Plan Gap at 70% Plan Funding	\$ (95,455)

Financial Risk of 70 Percent Assurance

Current projections show that an additional \$95,455 is needed to fund allocations at 70 percent. The level of actual tax increment receipts for 2007, verification of the valuation trends for commercial/industrial Common Project properties, and the short time-frame under analysis lend confidence to this estimate. The City's tax rate through 2009 should continue to decline due primarily to overall tax base growth. This growth, although beneficial to the taxpayer, has a negative effect on tax increment collections that has already been built into the projections.

Brookfield/Gaviidae

All projections of NRP revenue since 2003 have presumed that a loan repayment related to the Gaviidae II project of approximately \$27.7million will be received from Brookfield in 2009 and used to: 1) reimburse the Legacy Fund \$13 million, for the remaining balance of discretionary development loans made to CPED; and 2) provide NRP with \$14.7 million (20.4 percent) of total Phase II 2009 NRP funding.

If this anticipated payment is delayed by default, refinancing or in the exercise of contractual obligations triggered by the sale of the property, it would have a larger impact on the revenues available for Phase II than any other foreseeable event. Staff has no knowledge or expectation that any of these events is likely, but given the significant financial consequence believes that it would not be prudent to attempt to guarantee against reductions solely and directly attributable to these specific revenues.

Legislative Actions

Legislative actions which change the status quo for the property tax system, applicable tax increment law, or NRP law may have negative consequences for available Common Project revenues in 2009. We do not anticipate such actions but since they are somewhat unpredictable, the City should not attempt to guarantee against revenue losses that such actions may cause.

Funding Source

Hilton (Legacy) Fund:

At the end of 2009 and assuming the receipt of the Brookfield loan repayment discussed above, it is expected that all loans from the Legacy Fund will be completely repaid and the fund balance should stand at approximately \$24.6 million. If no part of the Brookfield loan repayment were received, the fund balance would stand at approximately \$11.6 million.

These funds are unrestricted and may be used by the City for any legal purpose. Policy direction provided by the Council in 1999 shortly after these funds were received identified their primary purpose as community development. With the exception of a Council decision in 2003 to use \$12.5 million to provide debt service relief to City pension funds, the original direction has been followed.

This balance is recommended as the source for the Phase II guarantee.