



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

**Date:** April 6, 2010  
**To:** Lisa Goodman, Chair, Community Development Committee  
**Referral to:** Betsy Hodges, Chair, Ways and Means/Budget Committee  
**Subject:** Adopt Brownfield Grant Administrative Fees

**Recommendation:** Approve and adopt the brownfield grant application processing fee and the brownfield grant award administration fee described below.

**Previous Directives:** None.

<b>Prepared by:</b> Kevin Carroll, Principal Project Coordinator, 612-673-5181	
<b>Approved by:</b> Charles T. Lutz, Deputy CPED Director	_____
Catherine A. Polasky, Dir. of Economic Policy & Development	_____
<b>Presenter in Committee:</b> Kevin Carroll, Principal Project Coordinator	

### Financial Impact

Action requires appropriation increase to the  Capital or  Operating Budget.

Action provides increased revenue for appropriation increase.

Action is within Business Plan.

### Community Impact

**Neighborhood Notification:** The City's plan to implement fees related to the administration of grants was clearly identified in the City's proposed 2010 budget, which underwent neighborhood review.

**City Goals: An Enriched Environment.** The adoption of the proposed City administrative fees related to brownfield grants will facilitate the investigation and subsequent cleanup of contaminated land, which in turn supports the City's overall sustainability goals.

**Sustainability Targets:** The adoption of the proposed City administrative fees related to brownfield investigation/remediation grants will help the City meet its goal of remediating 100 brownfield sites by 2014.

**Comprehensive Plan:** The projects involved in each semi-annual grant round typically comply with the "land reclamation" and "providing a healthy

environment” elements of The Minneapolis Plan for Sustainable Growth.

Zoning Code: Not applicable.

Other: The intent to adopt grant-related administrative fees of the type referred to in this report was noted in the City’s adopted 2010 budget (see pages 506-507).

Living Wage/Business Subsidy Agreement: Yes \_\_\_\_\_ No  X

Job Linkage: Yes \_\_\_\_\_ No  X

### Supporting Information

In recent years, City staff members have implemented improvements to the City’s brownfield program and have aggressively sought environmental investigation and remediation grant funding for the benefit of the City’s public and private sector development and redevelopment projects. The following table summarizes grant statistics for the period from 2004 through 2009 (inclusive):

**Minneapolis brownfield grants summary, 2004-2009**

	2004	2005	2006	2007	2008	2009	Total
<b># of sites</b>	11	11	17	17	26	15*	97
<b>Total acres</b>	46.5	36	39.1	56.09	61.9	26.64	266.23
<b>Total funds awarded</b>	\$4.3 million	\$4.3 million	\$4.1 million	\$5.72 million	\$4.35 million	\$5.69 million	\$28.66 million

\*20 sites were awarded grants, but five of those sites had been previously awarded grants

A statistic that is not reflected in the preceding table is the number of grant applications that are actually received, reviewed and processed by City staff in each grant round. The table is based on awarded grants, and not all applications result in grant awards. Also, the table identifies the number of sites that received grants, and many sites involve multiple grant applications and awards. For example, although 26 sites were awarded grants in 2008, 46 individual pre-applications (or final applications) to DEED, the Metropolitan Council and Hennepin County were involved in the two grant rounds in question.

In addition to the City staff time devoted to the processing of brownfield grant applications, substantial staff time is also devoted to the “post-award” administration of grants. The latter includes circulating and executing grant agreements, preparing and circulating/executing subrecipient agreements, processing reimbursement requests, and preparing/filing annual reports required by the grantors (in some cases, for up to five years or more after the expenditure of grant funds). One of the cumulative effects of the City’s success in securing brownfield grant funding in recent years is that City staff members are currently administering over 120 individual brownfield grants that are in the reimbursement stage or the subsequent annual reporting phase.

To date, the City has neither sought nor received compensation from any source for the many services that it has provided in connection with brownfield grants. The local grantors

(DEED, the Metropolitan Council and Hennepin County) do not allow awarded grant funds to be used for administrative costs incurred by municipal grantees (or developers, consultants or property owners, for that matter).

During 2009, City staff conducted a preliminary analysis of the City's internal staff costs related to the administration of the City brownfields program, which represents approximately 75% of the annual workload of one Business Development staff member and approximately 75% of the workload of one Development Finance staff member. Based on those percentages, and the hourly pay rates, benefits (at 28.9%), and indirect costs (at 105%) for the staff members in question, the total estimated cost of the services that they provided to the City's brownfield program was approximately \$256,994 in 2009.

The preceding figure is a conservative estimate of the total financial impact of the brownfields program, because it does not include the value of other City staff members who are involved in various phases of the program, including (but not limited to) planning staff members who review and comment on the applications, attorneys who prepare and approve grant-related documents, engineering staff members who review and comment on reimbursement requests from developers, project coordinators who serve as the primary City contact persons for projects that have been awarded grants, CPED supervisory and management staff, etc.

Current economic realities have made it necessary and prudent for the City to begin exploring options for recovering (in connection with future brownfield grants) at least a portion of the staff costs that the City will incur in connection with the financial benefits that others will derive from the grant assistance provided by the City. The City's adopted 2010 budget included the following language (see pages 506-507) in this regard:

*"The department is also exploring a new fee structure to help defray costs related to administering certain external grant applications and awards, e.g. brownfield remediation grants, Metropolitan Council Livable Communities grants, and other grants that do not compensate the City for required administrative services."*

Extensive staff discussions during 2009 and early 2010, which included the consideration of a number of grant-related revenue generating alternatives, resulted in the recommendations outlined below regarding the adoption of two types of brownfield grant administrative fees.

1. Grant Application Processing Fee

Applicability: A "flat rate" fee would be paid with every pre-application (or application, if the grant process in question does not require a City pre-application) that is submitted to City staff for consideration in connection with any "external" grantor's grant program, without regard to whether that pre-application or application results in a grant award.

Rationale: Significant City staff time must be devoted to the review, analysis and processing of every pre-application or application that is received by the City, even if a grant is not eventually awarded. However, the amount of work required is generally unrelated to the amount of the grant request, which makes the "flat rate" approach more logical than a fee that is based on a fixed percentage of the grant request.

Proposed Fee: Application fees ranging from \$100 to \$1,000 per application were considered. It was determined that fees toward the lower end of that spectrum would generate insufficient revenue in relation to the staff time devoted to the “front end” of the brownfield grant process. However, there was a concern that fees toward the upper end of the spectrum might discourage some worthy projects from applying, inasmuch as there would be no guarantee that an application would result in a grant award. Accordingly, the following mid-range fee amounts are being proposed by staff:

*\$500 application fee for pre-applications or applications seeking investigation funding*  
*\$750 application fee for pre-applications or applications seeking remediation funding*

Applications that seek investigation funds are typically less complicated and request less funding than applications seeking remediation (cleanup) funding. Accordingly, lower application fees for the former seem appropriate. No grant application fees would be due for applications related to City-initiated projects on City-owned property.

Some projects opt to apply to more than one brownfield grantor in the same grant round. Those who do might argue that the staff time required to analyze a given development project is unrelated to the number of grant applications submitted for that project, and that a *per application* fee therefore essentially penalizes them for fully exploring their funding options. The counter-argument is that the City staff analysis is not limited to the details of the project; it also addresses the content and merits of each individual application (e.g., does the DEED application for Project X satisfy DEED’s application criteria?). A staff recommendation in this regard is the following compromise approach:

*For any project that submits more than one pre-application or application in the same grant round, the full application fee shall be paid for the first such application. The application fee for any other application for the same project in the same grant round shall be 50% of the fee paid for the first application.*

In the spring 2010 grant round, grant application fees would be due to the City prior to the grantors’ final application deadlines (May 3, 2010 for DEED and Hennepin County and May 17 for the Metropolitan Council). In subsequent rounds, grant application fees would be due by the City’s deadline for submitting pre-applications, with the understanding that the fee would be refunded in any case where the Council did not authorize staff to submit the related final application to the grantor.

Projected Fee Generation: During 2009, City staff conducted an analysis of projected application fee revenue. That analysis was based on statistics from the two 2008 brownfield grant rounds, which involved 26 Minneapolis-based projects that ultimately submitted a total of 40 individual grant applications to the three local brownfield grantors. (Six pre-applications that did not lead to corresponding final applications are not include in this total.) Based on the fee structure recommended above, the 2008 investigation and remediation grant applications would have generated a maximum of about \$24,750 in application fees. Please note that this amount is only a very general indication of potential future application fee revenue, inasmuch as the number of applications and the ratio of investigation applications to remediation applications varies considerably from one round to the next.

## 2. Grant Award Administration Fee

Applicability: An amount equivalent to a fixed percentage of each brownfield grant award would be paid to the City upon the execution of the subrecipient agreement related to that award. (In every brownfield grant round, some of the Hennepin County ERF pre-applications that the City receives are for applications that will ultimately be submitted directly to Hennepin County by the applicants. In such situations, pre-applications are submitted to the City merely to get that project's name included in the eventual City Council resolution of support, which Hennepin County typically requires even for "direct submission" applications. However, "direct submission" applications that result in ERF grants do not require City subrecipient agreements and are not administered by City staff. Accordingly, such grants would not generate City grant *award* administration fees, but the staff time involved in processing the pre-applications would generate grant *application* processing fees.)

Rationale: For every City-administered grant that is awarded (i.e., all DEED and Metropolitan Council grants and some Hennepin County grants), significant City staff time must be devoted to the processing of grant agreements, subrecipient agreements, reimbursement requests, reimbursement payments, annual reports to the grantors, and various other administrative tasks. The amount of work required is related, at least in part, to the amount of the grant award – for example, larger awards typically involve more remediation-related invoices to review and more reimbursement requests and payments to process – which makes a percentage-based fee fairer and more logical than a "flat rate" approach.

Proposed Fee: Grant award administration fees ranging from 1% to 4.5% of the amount of the awarded grant were considered. Hennepin County currently imposes a 4.5% fee on grants awarded through its Transit Oriented Development [TOD] grant program. Inasmuch as this is the City's first venture into the imposition of such fees, it was believed that a more moderate percentage should be initially adopted, with the understanding that resulting revenue will be reviewed and that the percentage can be adjusted at later time if necessary or appropriate.

*Accordingly, the staff recommendation is that a 3% grant award administration fee be initially adopted.*

The 3% fee would be collected at the time of execution of the subrecipient agreement between the City and the developer. No grant administration fee would be due on or for grants awarded to City-initiated projects on City-owned property.

Projected Fee Generation: As noted above, during 2009 City staff conducted an analysis of projected revenue related to potential brownfield administrative fees. That analysis was based on data from the two semi-annual brownfield grant rounds in 2008. The spring and fall grant rounds in that year resulted in \$1,613,468 and \$1,924,203 (respectively) in City-administered grant awards from DEED, the Met Council and Hennepin County for Minneapolis-based projects, or a total of a total of \$3,537,671. Projected grant award administration fees at the recommended 3% rate would have been \$106,130 in 2008. This amount is substantially less than the documented staff costs that the City's brownfield program incurred in 2009 (see page three of this report) and that the City is likely to incur this year and in future years. The new administrative fees proposed in this report are intended to

merely defray a reasonable portion of the City's costs without discouraging prospective applicants from participating in the City's brownfield program.

As previously noted, the projection that appears above is only a very general indication of potential future fee revenue, inasmuch as the number of successful applications and the total amount awarded varies considerably from one round to the next. The total amount of potential grant funding available from each local grantor in any future grant round also cannot be accurately predicted.

City staff members have met with staff members from DEED, the Metropolitan Council and Hennepin County to discuss the proposed City administrative fees outlined above. They have indicated no objection to the adoption of the fees in question, as long as the City makes it clear to prospective applicants that (a) the fees are being imposed by the City and not by the grantors and (b) grants funds cannot be used to reimburse anyone for any grant-related administrative fees paid to the City.

The brownfield grant fee recommendations that appear herein, if adopted, can serve as a pilot program or test case for the eventual development and adoption of administrative fees related to other City-administered grants, including (for example) Redevelopment Grant Program awards obtained from DEED and Livable Communities Demonstration Account [LCDA] grants obtained from the Metropolitan Council.

In conclusion, the staff recommendation in this instance is that the City Council approve and adopt the two brownfield grant administrative fees described above.

