

Minneapolis Community Development Agency

Request for City Council Action

Date: July 29, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Jack Kryst, Project Planning & Finance Manager, Phone 612-673-5130

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: Process Recommendations for Levy-Funded Programs – Affordable Housing, Minneapolis Industrial Land and Employment Strategy (MILES), Commercial Corridors, and Small Business Assistance

Previous Directives: On December 13, 2001, the City Council authorized the MCDA to levy a 2001 property tax payable in 2002, not to exceed \$4,000,000, and stipulated that the levy not be spent until the City Council has approved the MCDA/Planning/NRP reform plan. On July 15, 2002, the Community Development Committee approved the MCDA staff recommendation to authorize the release of \$4,000,000 in 2001 property tax levy dollars allocating \$2,000,000 for affordable housing, \$1,000,000 for the Minneapolis Industrial Land and Employment Strategy (MILES), and \$1,000,000 for commercial corridors and small business assistance. This recommendation is to be considered by the City Council on July 26, 2002.

Ward: Citywide

Neighborhood Group Notification: Not applicable.

Consistency with *Building a City That Works*: Not applicable.

Comprehensive Plan Compliance: Not applicable.

Zoning Code Compliance: Not applicable.

Impact on MCDA Budget: (Check those that apply)

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Living Wage / Business Subsidy: Not applicable.

Job Linkage: Not applicable.

Affirmative Action Compliance: Not applicable.

RECOMMENDATION:

City Council Recommendation: Endorse staff recommendations regarding the process of allocating levy funds for affordable housing, MILES, commercial corridors and small business assistance and forward to the Board of Commissioners.

Board of Commissioners Recommendation: Approve staff recommendations regarding the process of allocating levy funds for affordable housing, MILES, commercial corridors and small business assistance.

Background/Supporting Information

On July 15, 2002, the Community Development Committee approved the MCDA staff recommendation to authorize release of the Minneapolis Community Development Agency's 2001 property tax levy funds allocating \$2,000,000 for affordable housing, \$1,000,000 for MILES, and \$1,000,000 for commercial corridors and small business assistance.

MCDA staff were directed to report back to the next cycle of Community Development and Ways & Means/Budget Committees with recommendations for a process for funding activities within the affordable housing, MILES, commercial corridors, and small business assistance categories.

The recommended process for each category varies depending on the nature of the program and the requirements and expectations of the MCDA's development partners. Specific recommendations are noted below:

Affordable Housing

The Multifamily RFP process occurs in February of each given year and corresponds with the Minnesota Housing Finance Agency's Super RFP process. In the 2002 Multifamily RFP round, numerous multifamily development and stabilization proposals were appropriate candidates for awards but were not able to receive funding because the number of requests exceeded the available resources.

We are proposing that the current available levy dollars for affordable housing be allocated to the remaining unfunded projects from the 2002 Multifamily RFP process and that, for subsequent levy allocations, the established Multifamily RFP process and selection/ranking criteria be used for allocating project funding. Funding

recommendations and appropriation actions will be presented to the City council and MCDA Board for approval.

MILES

The Minneapolis Industrial Land and Employment Strategy (MILES) is a highly successful program operating under City Council-approved guidelines. MILES evaluations and recommendations are made by an inter-agency MILES Committee consisting of MCDA, City Environmental, and Hennepin County staff and meets on a bi-monthly basis. The committee prioritizes and allocates MILES funds from the Council-approved appropriation to projects that seek to create new jobs, expand the City's tax base and redevelop vacant and underused light industrial sites. Proposed projects are evaluated based on cost-effectiveness, site marketability, project timeline, commitment to hiring of Minneapolis employees and payment of living wage, leverage of non-local funds, reinforcement of current redevelopment activities, and whether the project will generate revenues back to the MCDA.

We recommend that the current MILES committee process and criteria continue to be used for allocating project funding.

Commercial Corridors

The MCDA Commercial Corridors Review Team consists of MCDA, Planning Department, NRP and Empowerment Zone staff. The purpose of Commercial Corridors funding is to support projects that will provide benefits to multiple businesses, including mixed-use developments, along commercial and community corridors identified in The Minneapolis Plan. The team evaluates proposals based on desired outcomes, cost-benefit, leverage of non-local funds and the ability of the project to repay funds.

We propose that the current MCDA Commercial Corridors Review Team process and criteria be used for recommending project funding. Funding recommendations from the team will be brought to the Council for approval on a quarterly basis following the proposed TIF funding cycles.

Small Business Assistance Programs

We expect that recommendations for Chapter 595 Levy assistance to small businesses -- other than that provided through the existing Small Business Loan programs -- can be managed through the proposed TIF funding cycles. The existing loan programs, however, are working within Council-approved program guidelines that provide the flexibility and timeliness that our lending partners and small business require. They are:

- **Two Percent Loan**

Two-Percent Loans provide financing to small Minneapolis businesses (retail, service or light manufacturing) to purchase equipment or to make building improvements. A private lender provides half the loan at market rate and the MCDA provides the rest, up to \$40,000, at 2-percent interest. The loan term is set by the private lender and can be

up to 10 years. Bank fees vary, but the MCDA charges a \$150 origination fee, due at closing.

- Working Capital Loan

The MCDA Working Capital Loan program provides Minneapolis small business revolving credit lines and term loans from private lenders for working capital and general business operations. The MCDA helps business owners arrange bank financing by guaranteeing up to 75 percent - or the first \$40,000 - of the loan, whichever is less. MCDA loan guaranties help businesses who may not otherwise qualify for financing. MCDA's guaranty cannot exceed \$40,000, but there is no ceiling on the loan amount. Businesses may use their own lender or receive a referral for an MCDA-participating lender. Borrowers must repay the loan even if they relocate outside of Minneapolis.

- Micro Loan Program

Micro loans help start-up and existing small businesses, including home-based businesses with low-interest financing, for inventory, equipment or working capital. The MCDA works in cooperation with the Minneapolis Consortium of Community Developers to offer loans up to \$25,000.

- Business Development Fund Loan

The MCDA set up the Business Development Fund (BDF) to give Minneapolis entrepreneurs another tool to expand their businesses and to create living-wage jobs for Minneapolis residents. The BDF offers Minneapolis businesses market-rate loans up to \$75,000 and, in some cases, prepayment credits for each Minneapolis resident hired (during the first three years of the loan) and employed at least one year. BDF loans, provided by the MCDA through participating, private lenders, can be used in tandem with other MCDA business assistance programs, such as Industrial Revenue Bonds, SBA 504 Loans or private financing. BDF loans are also provided to companies building or expanding on MCDA industrial sites. BDF loans are not to be the sole source of financing -- they must leverage private financing.

In order to ensure maximum flexibility and responsiveness to small-business needs, we propose that funding recommendations for these loan programs continue to be made within the current program guidelines and procedures.