City of Minneapolis
FY 2010
Financial Plan

Community and Economic Development Funds

Background
Community and Economic Development Funds support the City's development efforts and are primarily managed by the Community Planning and Economic Development (CPED) department with the assistance of the Development Finance Division of the Finance Department. These resources have faced several challenges in past years, including lower than expected tax increment revenues in the Common Project (the subset of the City's tax increment districts that support the Neighborhood Revitalization Program [NRP]), reductions in federal grant allocations, and limited flexible resources.

The reduction in Common Project revenues previously led the City Council to adopt a policy in August 2003 regarding how these funds were to be prioritized between City-wide discretionary development and the NRP. This policy was intended to be in place only through 2009 but not beyond, 2009 being the final year of the City's statutory obligation to provide funding for the NRP. The year 2010 will be the first year to reflect the full reduction in tax increment revenues resulting from the decertification of the City's pre-1979 tax increment districts and the first year in which CPED no longer has authority to borrow from the City's Legacy Fund, which is represented in the financial projections. (Please see the *Financial Policies* section of the budget book for the policy detail.)

Financing Assistance for Target Center and Neighborhoods

Background
Established in 1990, the twenty-year Neighborhood Revitalization Program and its funding are set to sunset in 2009. The City and neighborhood groups have been pondering this major turning point for almost 10 years. In addition, the City's purchase in 1995 of the Target Center increased long-term demand for resources.

During the 2008 Legislative Session, the Minnesota Legislature authorized the City to establish a non-contiguous redevelopment tax increment financing (TIF) district which would be comprised of properties that were located in specific TIF districts, commonly known as "pre-1979" TIF districts, which terminated in 2009. The earliest year the tax increment revenue can be realized from the new district allowed under the special legislation is 2011. Without further action by the City, the value within those pre-1979 TIF would initially go back into the general tax base in 2010 and thereafter remain, increasing the overall size of the tax base, effectively resulting in property tax relief for many property owners.

Under the special legislation, tax increment from the new district could only be used to pay principal and interest on Target Center bonds or for "neighborhood revitalization purposes." The legislation does not specify or require any particular allocation of revenues between these purposes.

The legislation also explicitly stated that the certification of the district will not impact the City's "property wealth" factors in the Local Government Aid program. This loss in these amounts will occur whether or not the City uses the special legislation to create a new district; however, the legislation requires the additional tax capacity to be included in the calculation of LGA, even if the value is re-certified in a new district. This requirement results in a $9 million drop in the City's LGA in 2011, with most of that impact in the general fund ($8 million).

Overall Recommended Funding from the District
A Council direction given at the end of 2008 had called for Finance Department staff to present a TIF plan for consideration by July 31, 2009, certifying expiring pre-1979 districts so that $24 million dollars of net tax increment would be generated and available to the City in 2011, the earliest year allowed under the special legislation. That Council direction allocated the projected net tax increment revenues as follows:

Target Center principal and interest	$10.0 million
Target Center expedited debt payments	$ 2.0 million
General Neighborhood Revitalization Purposes (neighborhood operations, department of Neighborhood and Community Relations)	$ 8.5 million
Community Revitalization	$ 3.5 million
Total	$24.0 million

This direction would have led to the certification of 100% of the tax capacity of the proposed district. If none of the parcels in the district were recertified, residential taxpayers could possibly expect to see an estimated reduction in their tax bills from $61 up to an estimated $307 annually. Pursuant to this direction,100% of the tax capacity of the district would be certified for up to ten years (through 2020) or until the Target Debt is fully paid, at which time parcels representing 50% of the tax capacity of the district must be decertified.

As directed, Finance Department staff transmitted and delivered the plan to Council known as the Consolidated Tax Increment Financing Plan in time for its consideration on July 31, 2009. On July 31, 2009, the Council did not act to adopt the plan and authorize the establishment of the Consolidated Tax Increment Financing District (the "District"), but rather referred the item back to the Ways and Means/Budget Committee for further review and discussion.

Council Adopted Plan
On December 4, 2009 the City Council directed the Finance Staff to amend the Consolidated Tax Increment Financing Plan for the District to: (1) reduce the size of the proposed District to approximately 50%, (2) adjust the tax increment budget contained in the plan accordingly, (3) change the tax increment allocation methodology or funding distribution an (4) reduce the maximum amount of bonds to be issued shown in the plan and (5) and return to the Committee of Whole on December 17, 2009 with the amended plan and related documents for its consideration. The City Council approved the Consolidated TIF plan, as amended, on December 18, 2009.

The District, as adopted, is comprised of five of the former pre-1979 TIF districts. It represents 50.8% of the total net tax capacity of all of the former pre-1979 TIF districts and contains 51 percent of the parcels. The District represents the most diverse and stable subset of pre-1979 TIF districts that achieves the 50% target.

The tax increment that will be received each year from the District shall first be used to 1) make the necessary reimbursement payments to Hennepin County required under the Special

Legislation, and 2) pay for the City and County costs of administering the District. The remaining "Net Tax Increment" to be allocated:

50% for Target Center debt service and
50% for neighborhood revitalization purposes

Financial recommendation for Target Center principal and interest and neighborhood operations and programming

The 10-year Consolidated TIF budget projects Net Tax Increment of $53,650,000 being available for both Target Center Debt and Neighborhood Revitalization purposes, for a total of approx $107.3 million for both activities over the 10-year life of the District.

The current Target Center finance plan (absent the 2008 special State legislation allowing for the formation of the Consolidated Tax Increment Financing District) is not structurally balanced. While the current debt is being refunded as of year-end 2009 to reflect a reduced interest rate due to the current market conditions, the financial plan does not take into account two cost pressures: an operating subsidy for the operator (up to $1.6 million annually) and capital refurbishment of the arena. The revenue to come from the Consolidated TIF district, along with the interest savings from the refunding of the debt provides the opportunity to redirect resources to the unfunded capital and operating needs. The Finance Department will prepare an updated finance plan for the Target Center arena based upon these actions.

The current plan relies on the following revenue sources:

- *Property tax* generated at the arena - $100,000 annually through 2012, $550,000 when the arena TIF district decertifies in 2013 and beyond.
- *Tax Increment* from the Arena - $1 million annually through 2012. This resource may only be used for debt service, certain administrative costs, and capital costs.
- *Entertainment tax* generated at the arena - $1.1 million annually.
- *Event parking* - $2.6 annually million in 2010, escalating to $5.6 million by 2024.
- *Tax Increment* from the Common Project – approximately $1.9 million annually through 2013 and $1.6 million annually through 2024. This resource may only be used for debt service, certain administrative costs, and capital costs.

Of these resources only entertainment tax, parking revenues and property tax can be used to fund the operating subsidy. But for dedication in the plan, any of these three resources could be used to reduce financial pressures in the general fund or the parking fund. The $750,000 annual payment from the Minnesota Amateur Sports Commission was repealed in 2009, increasing the pressure on the current plan.

2010 Budget

The Mayor recommended shifting a total of $1.5 million of Community Development Block Grant (CDBG) funds collectively from the programs comprising the Affordable Housing Trust Fund (AHTF) into the programs which make up the City's Great Streets Program, bringing the total AHTF capitalization below the current $10 million needed per mandate by City Council. Any increase in CBDG federal funding realized in excess of 5% could be used to backfill the amounts shifted away from the AHTF.

Council adopted the Mayor's recommendations. Further, Council directed any increase in CDBG the City realizes over and above 5% will now be split 85/15 between Affordable Housing

Trust Fund and funding Crime Prevention Specialists in the Minneapolis Police Department, respectively. Further, Council directed funding in the Community Development fund Legacy fund program income to be decreased by $31,000, and funding for the St. Anthony Heritage Board to be increased by $31,000. Additionally, funding in the Community Development fund Legacy fund program income is decreased by $50,000 and funding to the Riverfront Development Corporation is increased by $50,000. CPED is directed to reduce CDBG funding for Youth Employment by $110,000 and the Mortgage Foreclosure Prevention Program by $140,000.

Furthermore, CPED is directed to eliminate the existing vacant Community Planner position in the planning division and use general fund and CDBG resources to keep the Arts Coordinator position. This position and associated resources should be transferred to the City Coordinator in 2011.

Revenues
These revenue projections are based on assumptions that need to be validated annually:

- Revenues from federal grant programs will remain somewhat constant.
- Revenues from state and local grants vary in relation to project need and availability but are also expected to remain somewhat constant, reflecting CPED's success with grant seeking.
- There will be continuing modest increases in bond-related fee income from housing and economic development activities, but actual revenues need to be closely monitored for the impacts of changes in the lending and housing markets.
- There will be annual variations in project income. These are shown as declining at a 5 percent rate from 2009.
- The 2010-2014 projections do not include the use of any revenues from the Legacy Fund. One-time revenues available to CPED as part of the lease revenue from the Brookfield project on the Nicollet Mall expected to be received in December 2009 are allocated as one-time revenues in 2010 and are included in the Development Account.
- Legislative action in 2008 allowed the creation of a redevelopment tax increment district created from the parcels and frozen tax base by recertifying properties located in the pre-1979 TIF districts. Revenue from this district is permitted to be applied to existing Target Center debt and neighborhood revitalization activities. Table 1 does not include any assumptions regarding this district.
- There will be no further legislative actions or valuation events that have a significant negative impact on tax increment or General Fund collections.
- There is only inflationary growth in Planning's fee revenue.
- Assuming the successful conclusion of the Brookfield transaction in 2009, all draws made by CPED from the Legacy Fund will have been repaid. The availability of any Legacy Fund revenue from 2010 through 2014 is not assumed in these projections.

Expenditures
The expenditure projections contain assumptions that also need to be revisited annually in the context of revised revenues and department performance measures:

- CPED staff levels remain constant or reduced slightly with personnel costs increasing 2 percent per annum while non-personnel expenditures increase approximately 1 percent per annum.
- The tax increment revenues of the Common Project will continue to be restricted to existing debt and contractual obligations while such obligations exist.

CPED revenues will peak in 2009, a result of the approximately $29.4 million Brookfield lease repayment. Subsequent years show a significant revenue decline, which mirrors the loss of Common Project revenue associated with the decertification of the pre-1979 tax increment districts and the end of the Legacy Fund annual loan to City discretionary development funding.

The five-year projection Table 1 makes no assumptions of a source for discretionary development investment past 2010, although the availability of new tax capacity created by the decertification of the pre-1979 districts could allow, as one policy option, the re-use of Chapter 595 levy authority with little or no increase of residential property taxes.

Debt Service
Debt service on the post-1979 Common Project tax increment districts continues past 2012 and is projected to be serviced by the tax increment revenue from those districts.

General Fund Resources
Projected general fund revenues and expenditures are consistent with the Five-Year Financial Direction.

Neighborhood Revitalization Program
The continuing reduction of Common Project revenues that started in 2001 has reduced (from $20 million per annum in Phase I) the level of funding available to capitalize the NRP. Table 1, Line 33 displays the May 2009 projection. This amount also assumes a Brookfield repayment in 2009 under current contract terms. Under current law and City policy no additional capitalization of the program after 2009 is required. Expenditure of NRP fund balances and NRP program income would continue post-2009 under approved Neighborhood plans.

Table 1

Projected CPED Revenues & Expenditures 2010 - 2014

	2009 Revised Budget	2010 Budget	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast
Local Funds						
General Fund Total	3,873,000	3,642,000	3,731,000	3,891,000	4,521,000	4,698,000
GF Property Tax & Non-Direct Revenue	1,775,000	2,021,000	2,158,000	2,307,000	2,849,000	3,008,000
General Fund LGA	508,000	520,000	472,000	483,000	571,000	589,000
General Fund Direct Revenues	1,589,000	1,101,000	1,101,000	1,101,000	1,101,000	1,101,000
Tax/Increment/Abatement	72,462,731	47,996,939	48,207,014	48,627,302	33,797,122	33,797,122
Capital Bonding (CIP)	317,000	333,000	347,000	366,000	383,000	383,000
Dev Acct (Non-TI)*	28,302,997	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Interest Earnings all Funds	4,852,744	4,610,107	4,379,601	4,160,621	3,952,590	3,754,961
Housing Program Fees & Revenues	1,342,317	1,396,009	1,451,850	1,509,924	1,570,321	1,633,133
Economic Dev Program Fees & Revenues	4,585,000	4,814,250	5,054,963	5,307,711	5,573,096	5,851,751
Legacy Fund	3,500,000	-	-	-	-	-
Other Project & Program Income	10,470,709	9,947,174	9,449,815	8,977,324	8,528,458	8,102,035
Transfers & Reserves	46,692,590	6,000,000	6,000,000	4,000,000	4,000,000	4,000,000
Federal Funds						
CDBG**	10,362,000	10,383,000	10,383,000	10,383,000	10,383,000	10,383,000
ESG	591,861	577,000	577,000	577,000	577,000	577,000
HOME	3,802,361	3,787,000	3,787,000	3,787,000	3,787,000	3,787,000
Other State/Local Grants	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Total Projected Revenues	195,654,310	99,586,479	99,468,243	97,686,882	83,172,587	83,067,002
Appropriated						
Business Lines:						
Economic Policy & Development	12,195,890	15,222,373	15,450,709	15,682,469	15,917,706	16,156,472
Housing & Policy Development	18,149,566	20,260,516	20,564,424	20,872,890	21,185,983	21,503,773
Community Planning	1,616,173	1,715,700	1,741,436	1,767,557	1,794,070	1,820,981
Development Services	2,256,567	2,324,025	2,358,885	2,394,269	2,430,183	2,466,635
Workforce Development	8,307,778	10,653,866	10,813,674	10,975,879	11,140,517	11,307,625
CPED Support:						
Executive & Support Services	8,143,395	5,740,451	5,826,558	5,913,956	6,002,665	6,092,705
Transfer & Debt Service	74,582,382	41,673,236	34,725,917	35,618,682	32,561,552	32,561,552
Total Appropriated	125,251,751	97,590,167	91,481,602	93,225,702	91,032,678	91,909,744
To be appropriated						
Potential NRP Capitalization	20,000,000	-	-	-	-	-
Brookfield repayment to Legacy	10,979,286	-	-	-	-	-
Total Projected Uses	156,231,037	97,590,167	91,481,602	93,225,702	91,032,678	91,909,744
Difference	39,423,273	1,996,312	7,986,641	4,461,180	(7,860,090)	(8,842,742)

** entitlement, program income and federal workforce grants