

**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
<hr/> Total	<hr/> \$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 and (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 million annually 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 CDBG 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

