

OVERVIEW OF NRP FUNDING

In December 1989, the City Council created the Common Development and Redevelopment Project (the "Common Project") to expand most of the City's redevelopment project areas and development districts to include all of the other participating projects. Tax increment revenues generated within the Common Project were now available to be used to meet physical redevelopment needs anywhere within the Common Project area.

In 1990, the Legislature authorized the City of Minneapolis to use up to \$20 million per year (through 2009) of its tax increment financing (TIF) proceeds and other revenues generated from the newly-created Common Project for the Neighborhood Revitalization Program (NRP). Since the use of tax increment revenue to fund NRP is not an authorized use under the Tax Increment Act, this special legislation was required.

At the time the Legislature authorized the use of tax increment revenue for NRP, it also mandated that a portion of the NRP funding be provided directly to the County and School District to reduce property taxes and school aids from 1990 through 1999. The City Council adopted an ordinance that provided that the NRP would be held harmless and that the funding for these direct payments to the County and School District would be over and above the \$20,000,000 annual capitalization of NRP. Direct payments to the County and School District totaled \$11,524,186 and are shown in column (f) of the schedule on the next page.

Based on the State legislation's definition of funds available annually for NRP, it was estimated that \$392,782,900 would be available to fund NRP during the twenty years of the program. Including the direct payments to the County and School District, the total funding was estimated to be \$404,307,086.

State-initiated changes to the property tax system in 2001 resulted in reduced tax increment revenue generation by tax increment districts statewide including the Common Project. As a result of this reduction in revenue, the NRP Ordinance was amended in 2003 to clarify how tax increment and other revenues of the Common Project were to be prioritized: (1) debt service and other contractual obligations; (2) administrative costs of the Common Project; (3) NRP, up to \$20 million per year through 2009; and (4) discretionary development activities of the City.

At the same time, in recognition of the fact that reduced revenues were insufficient to fund any discretionary development activities noted in priority 4 above, the City Council adopted and the NRP Policy Board concurred with the Discretionary Development Funding Plan to allow the City (via the MCDA, later CPED) to draw revenues from the Legacy Fund for the City's discretionary development needs and to repay those draws with the subset of Common Project revenues generated from the Gaviidae project. (The Legacy Fund was created with the proceeds of the City's sale of its interest in the Hilton Hotel for \$40.5 million. The Legacy Fund is not part of the Common Project and, therefore, is not a part of the funding of NRP.)

The schedule below provides an overview of the amount of funding that has been made available to the NRP from its inception in 1990 through 2006, as well as the funding now expected to be available from 2007 through 2009.

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(a) Year	(b) Program Money * to NRP	(c) Interest Earnings	(d) Additional Common Project Revenue	(e) NRP Capitalization (b)+(c)+(d)	(f) Program Money * to Reduce County Taxes and School Aids	(g) Total NRP Contributions (e)+(f)
Phase I Funding						
1990	12,782,898	-	-	12,782,898	2,255,806	15,038,704
1991	12,111,096	1,123,550	6,765,354	20,000,000	2,137,252	22,137,252
1992	13,884,271	1,594,906	4,520,823	20,000,000	2,450,165	22,450,165
1993	13,740,196	1,938,299	4,321,505	20,000,000	2,424,740	22,424,740
1994	7,342,246	3,043,539	9,614,215	20,000,000	1,295,690	21,295,690
1995	1,073,176	3,951,424	14,975,400	20,000,000	189,384	20,189,384
1996	1,127,364	2,867,411	16,005,225	20,000,000	198,947	20,198,947
1997	1,086,606	3,353,908	15,559,486	20,000,000	191,754	20,191,754
1998	1,126,726	3,410,930	15,462,344	20,000,000	198,834	20,198,834
1999	1,029,146	3,034,739	15,936,115	20,000,000	181,614	20,181,614
2000	-	3,501,672	16,498,328	20,000,000	-	20,000,000
	65,303,725	27,820,378	119,658,795	212,782,898	11,524,186	224,307,084
Phase II Funding						
2001	-	2,693,704	17,306,296	20,000,000	-	20,000,000
2002	-	2,076,815	8,923,185	11,000,000	-	11,000,000
**2003	-	1,475,247	9,274,544	10,749,791	-	10,749,791
2004	-	717,155	4,034,528	4,751,683	-	4,751,683
2005	-	1,314,824	-	1,314,824	-	1,314,824
2006	-	1,244,191	-	1,244,191	-	1,244,191 (actual)
2007	-	1,200,000	875,351	2,075,351	-	2,075,351 (projected)
2008	-	900,000	3,902,177	4,802,177	-	4,802,177
2009	-	600,000	16,373,004	16,973,004	-	16,973,004
		12,221,936	60,689,085	72,911,021	-	72,911,021
Total Phase I & II Funding - As Currently Projected						
	65,303,725	40,042,314	180,347,880	285,693,919	11,524,186	297,218,105
Total Phase I & II Funding - As Originally Projected						
	65,303,725	***	327,479,175	392,782,900	11,524,186	404,307,086
Difference Between Original and Current Projections						
			(147,131,295)	(107,088,981)		(107,088,981)
				27% Reduction in NRP Funding		26% Reduction in Total NRP Contributions

* Program money is defined by Minnesota Statutes as the debt service savings on refunded tax increment bonds and the money which would have been distributed as excess tax increments under the City Ordinance had it not been modified. There is program money only in the years 1990-1999.

** NRP Ordinance adopted August 2003 to prioritize Common Project obligations.

*** Interest Earnings included in Additional Common Project Revenue

As a result of the reduction of available revenue related to the tax law changes of 2001 and the application of the amendments to the NRP Ordinance, it is now projected that a total of \$285,693,919 will be available to fund NRP, a 27% reduction from the original estimate. When the direct payments to the County and School District are included, the total contributions are currently expected to be \$297,218,105, a 26% reduction in the original estimate.

A significant consequence of this reduced level of NRP resources is that the total dollars now projected to be available for Phase II neighborhood plans is less than the total amount allocated for those plans (see table below). Based on the best available information at the time, the NRP Policy Board in April 2004 adopted Phase II 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, the Community Oriented Public Safety Initiatives Reserve Fund, the Youth Coordinating Board, NRP Administration, approved contingencies and Phase I over-obligations) there remains a gap of \$12.6 million between planned expenditures and currently projected revenues.

At the time they determined the plan allocations, the NRP Policy Board recognized the uncertainty of projections and limited spending in each plan to 70% of the plan allocation. The application of this limit essentially eliminates the gap between the allocation and resources.

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)

Please note that the 2007-2009 portion of the capitalization shown above is based on projections. Given the number and volatility of the variables involved in making these projections, they should not be considered certain. However, actual 2007 first-half Common Project tax increment collections now show a growth trend consistent with the larger set of City tax increment districts which justifies a higher degree of confidence. Nonetheless, the caution that has always applied to these projections – that these are estimates and are subject to change – must still be observed.

PROGRAM INCOME

In addition to the annual capitalization, NRP also receives revenue as a consequence of its activities. Sources of this program income include, but are not limited to:

- (1) NRP funded loan and grant repayments and collections (exclusive of contractually defined administrative costs), including principal, interest, late fees and penalty payments.
- (2) Proceeds from the sale or lease of real property purchased with NRP funds that require the repayment or recapture of all or a portion of the NRP funds.
- (3) Proceeds from the sale or rental of equipment or other personal property purchased with NRP funds and held by a neighborhood group for its offices or administrative purposes.
- (4) Proceeds from the sale of loans and other repayment obligations made with NRP contract funds.
- (5) Interest earnings on NRP contract funds, including program income, held in NRP contractor or subcontractor accounts.

Some of these revenues are received and deposited with City; others are received and managed by third-party vendors. Some, such as those created by revolving loan programs, have been re-cycled within those programs. Some have also been reallocated to other NRP activities, while other program income has not been re-contracted.

In August of 2005, in recognition of the significant amount of program income generated by the NRP, the Council adopted Resolution 2005R-468 which in part:

- encouraged NRP neighborhoods to invest in programs that generated program income and
- committed to “hold, reserve and account for program income generated within an NRP neighborhood for future use by that NRP neighborhood...”

These revenues will continue to be generated for some time after 2009 and under current law will need to be spent consistent with NRP law. Since NRP program income is also City revenue it requires appropriate City accounting and auditing controls.

The table below shows the gross amount of NRP program income received, the portion that has been subsequently re-contracted, and the un-contracted balance.

Program Income Held by the City (1990-2006)	
Neighborhood Program Income (1990 - 2006)	12,013,961.65
Program Income not generated through Action Plans (“Non-Neighborhood Program Income”) (1990 - 2006)	396,725.58
Total Prog. Income Received by City (1990-2006)	12,410,687.23
Neighborhood Program Income Re-contracted	8,166,650.28
Non-Neighborhood Program Income (1990 - 2006)	24,037.87
Total City-held Program Income Recontracted	8,190,688.15
Neighborhood Program Income Available	3,847,311.37
Non-Neighborhood Program Income Available	372,687.71
Total City-held Program Income Available	4,219,999.08
Program Income Held by Third Party Vendors	
Program Income Currently Available	6,607,840.00
Total NRP Program Income Currently Available	10,827,839.08
NOTES:	
1. City-held program income information current as 12/31/2006	
2. Third-party program income information current as 3/31/2007	
3. Third-party program is generated through NRP-funded revolving loan programs. To date, contracts for these types of programs total \$58.4 million.	

FUND BALANCES

Unspent NRP balances as of October 2007 total approximately \$35.7 million including the 2006 capitalization of \$1.2 million. Note that these balances predominantly comprise funds committed to approved Phase I and Phase II neighborhood plans and that \$4.2 million represents City-held program income – part of the \$10.8 million program income mentioned above.