

**City of Minneapolis
2011 Budget
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 Common Project tax increment and non-tax increment revenues, 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 Neighborhood Revitalization Program (NRP.) This policy was in place only through 2009, the final year of the City's statutory obligation to provide funding for the NRP. The year 2010 was 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 had 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.)

Background

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 could be realized from the new district allowed under the special legislation was 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 Finance Department transmitted and delivered a proposed plan to the Council known as the Consolidated Tax Increment Financing Plan (the "Plan") for its consideration on July 31, 2009.

Council Adopted Plan

On December 4, 2009 the City Council directed the Finance Staff to amend the Plan for the Consolidated TIF District to: (1) reduce the size of the proposed Consolidated TIF District by approximately 50%, (2) adjust the tax increment budget contained in the plan accordingly, (3) change the tax increment allocation methodology or funding distribution, (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 Plan, as amended, on December 18, 2009.

The Consolidated TIF District, as adopted, containing 50.8% of the total net tax capacity of all of the former pre-1979 TIF districts and 51 percent of the parcels, represents the most diverse and stable subset of pre-1979 TIF districts that achieve the 50% target.

The tax increment that will be received from the Consolidated TIF District in 2011 will 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 Consolidated TIF District. The remaining "Net Tax Increment" will be allocated 50% for Target Center debt service and 50% for neighborhood revitalization purposes.

An amendment to the Mayor's recommended budget adopted by the City Council on December 13, 2010, directs the Finance Department to report to the Ways & Means/Budget Committee no later than February 1, 2011, with a plan to provide property tax relief in 2012 and 2013 by capturing only 50% of the value of the properties in the Consolidated TIF District in those two years.

An additional amendment to the Mayor's recommended budget directs CPED, with the assistance of the Finance Department, to develop a plan to fund ongoing development activities, including prioritizing the services CPED provides. CPED is to report back to the Community Development and Ways & Means/Budget Committees no later than March 1, 2011.

2011 Budget

Revenues

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

- Revenues from federal grant programs will remain 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 from 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 2011-2015 projections do not include the use of any revenues from the Legacy Fund. With the sunset of funding to the NRP, one-time Common Project revenues resulting from certain interest earnings, leases and land sale proceeds are now available to CPED and are allocated as one-time revenues in 2011 in the Development Account. Additionally, certain land sale proceeds and parking revenues generated from outside the Common Project are being allocated as one-time revenues in 2011 in the Local Contribution Fund. Actual revenues in these two funds must also be closely monitored to track development revenues that may be available in future year.
- Revenue from the Consolidated TIF District will be used to pay existing Target Center debt and neighborhood revitalization activities. Table 1 does not include any assumptions regarding this district, since currently none of the revenues will be directly available for CPED activities.
- 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.

- As of 2009, CPED has repaid all draws from the Legacy Fund. The only projected revenue available to CPED from the Legacy Fund in 2011 and beyond is Program Income generated from CPED activities previously funded from the Legacy Fund draws.

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.

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.

Finance Plan - Table 1

Projected CPED Revenues & Expenditures 2011 - 2015

	2010 Revised Budget	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
1 Local Funds						
2 General Fund Total	3,407,000	3,320,000	3,406,000	3,487,000	3,608,000	3,759,000
3 GF Property Tax & Non-Direct Revenue	1,864,000	1,702,000	1,852,000	1,909,000	2,020,000	2,159,000
4 General Fund LGA	442,000	478,000	414,000	438,000	448,000	460,000
5 General Fund Direct Revenues	1,101,000	1,140,000	1,140,000	1,140,000	1,140,000	1,140,000
6 Tax Increment	47,996,939	61,329,001	62,255,829	48,975,962	46,512,096	43,179,104
7 Capital Bonding (CIP) (Public Arts Proj)	203,000	347,000	366,000	366,000	366,000	366,000
Dev Acct (Non-TI)	1,600,000	4,830,000	2,085,000	2,035,000	1,785,000	1,785,000
Local Contribution Fund		2,385,000	330,000	100,000	-	-
Legacy Fund (program income)	-	500,000	100,000	100,000	100,000	100,000
8 Total Discretionary Development Revenue	1,600,000	7,715,000	2,515,000	2,235,000	1,885,000	1,885,000
9 Interest Earnings all Funds	4,610,107	2,189,801	2,080,310	1,248,186	1,248,186	1,185,777
10 Housing Program Fees & Revenues	1,396,009	1,339,000	1,365,780	1,393,096	1,420,958	1,449,377
11 Economic Dev Program Fees & Revenues	4,814,250	4,332,825	4,549,466	4,776,940	5,015,787	5,266,576
12 Other Project & Program Income	9,947,174	9,449,815	8,977,324	8,528,458	8,102,035	7,696,933
13 Transfers (Debt Services)	6,000,000	6,000,000	4,000,000	4,000,000	4,000,000	4,000,000
14 Federal Funds						
15 CDBG	10,383,000	10,316,189	10,316,189	10,316,189	10,316,189	10,176,189
16 ESG	577,000	572,765	572,765	572,765	572,765	573,765
17 HOME	3,787,000	3,765,884	3,765,884	3,765,884	3,765,884	3,765,884
18 Other State/Local Grants	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
19 Total Projected Revenues	99,221,479	115,177,280	108,670,548	94,165,479	91,312,899	87,803,605
20 Appropriated						
21 <u>Business Lines:</u>						
22 Economic Policy & Development	15,225,648	15,351,895	15,582,173	15,815,906	16,053,144	16,293,941
23 Workforce Development	10,992,309	11,029,021	11,194,456	11,362,373	11,532,809	11,705,801
24 Housing & Policy Development	20,648,634	16,020,521	16,260,828	16,504,741	16,752,312	17,003,597
25 Community Planning	1,715,702	1,775,617	1,802,251	1,829,285	1,856,724	1,884,575
26 Development Services	2,310,025	2,374,999	2,410,624	2,446,783	2,483,485	2,520,737
27 <u>CPED Support:</u>						
28 Executive & Support Services	5,715,473	4,760,511	4,831,919	4,904,397	4,977,963	5,052,633
29 Transfer & Debt Service	41,673,236	52,908,732	52,481,983	49,566,169	39,891,519	40,157,263
30 Total Appropriated	98,281,027	104,221,295	104,564,235	102,429,654	93,547,957	94,618,547
31 Total Projected Uses	98,281,027	104,221,295	104,564,235	102,429,654	93,547,957	94,618,547
32 Difference	940,452	10,955,984 *	4,106,313	(8,264,175)	(2,235,057)	(6,814,942)

* The projected revenue balance in budget year 2011, generally, represents 2011 tax increment collections that are pledged to the payment of debt service in future years.