



Request for City Council Committee Action from the Finance and Property Services Department

Date: August 5, 2014

To: Council Member Lisa Goodman, Chair, Community Development & Regulatory Services Committee
Council Member John Quincy, Chair, Ways & Means Committee

Subject: 2013 Financial Status report on CPED Development Projects & Programs

Recommendation: Receive and File

Previous Directives: The 2014 Financial Policies adopted on December 11, 2013 as part of the overall budget directed that an annual report on the financial status of CPED's capital projects and programs be provided to the Community Development and Ways & Means Committees

Department Information

Prepared by: Jeff Schneider, Enterprise Finance Specialist	<u>673-5124</u>
Approved by: Sandy Christenson, Finance and Property Services	_____
Presenters in Committee: Jeff Schneider	

Financial Impact

- There is no current budgetary impact. See attached table for detailed 2013 year end financial information on individual projects and programs.

Supporting Information

The Financial Policies approved as part of the 2014 budget process added a new annual reporting requirement for CPED capital [development] projects. This is the first such report, which summarizes the appropriation and spending status of CPED's major development programs and projects as of 2013 year-end. Finance staff worked closely with CPED managers to prepare this report; this collaboration has resulted in a better understanding of CPED's financial reporting needs, and an improved linkage between program and financial management. A second amendment to these Policies also extended the existing four year appropriation time limit for *CDBG* capital appropriations to *all* CPED capital project and program appropriations, beginning in 2014.¹ Thus, next year's report will include information about the spending status, by year of appropriation. Projects which have not spent a minimum of 75% of an appropriation after four years [i.e. by 2017] will need to be renewed by the City Council in order to retain the appropriation.

¹ See text of both amendments at the end of this report.

What is included in the report

The report focuses on the capital [*housing and economic development*] activities of CPED, and therefore omits operational services such as planning and regulatory activities. For budget and accounting purposes, CPED's budget is structured as a series of 250+ "budgetary projects" across 120+ funds. A budgetary "project" typically means that a specific appropriation in a given fund has been approved for a specific purpose in a given year. In several cases, multiple "projects" collectively comprise one broad "program", which is the level at which Mayor/Council budget discussions take place, and the level at which this report is displayed. For example, the Affordable Housing Trust Fund has multiple funding sources spread over multiple years, but in this report is displayed in the aggregate:

<u>AFFORDABLE HOUSING TRUST FUND</u>		<u>2013 Adopted Budget</u>	<u>2012-13 Capital Rollover</u>	<u>Council & Finance Officer Approp. Amendments</u>	<u>Total Appropriation</u>
<u>CDBG & HOME Allocations</u>					
Multiple Years	MULTI FAMILY AFFORDABLE HOUSING		4,233,676		4,233,676
G4890MF39	MULTI FAMILY AFFORDABLE HOUSING	2,966,776			2,966,776
G4890DA35,36,37	NON-PROFIT DEVELOPER	400,998			400,998
G5890HM47	HOME GRANT - MULTI FAMILY	1,613,480	4,741,266		6,354,746
					13,956,196
<u>Special Revenue Funds</u>					
MCLC013	AFFORDABLE HOUSING TRUST FUND - 2011		200,000		200,000
MSCDMF	MULTI FAMILY AFFORDABLE HOUSING		108,254		108,254
MSCD011	AFFORDABLE HOUSING TRUST FUND - 2013			393,000	393,000
MSDA003	AFFORDABLE HOUSING TRUST FUND - 2010		160,467		160,467
					861,721
MCFR002	AFFORDABLE HOUSING TRUST FUND - 2012		500,000		500,000
MCFR003	AFFORDABLE HOUSING TRUST FUND - 2013	100,000			100,000
MCHC002	AFFORDABLE HOUSING TRUST FUND - 2011		750,000		750,000
MCHL002	AFFORDABLE HOUSING TRUST FUND - 2012		925,000		925,000
MCPD002	AFFORDABLE HOUSING TRUST FUND - 2012		70,000		70,000
MCRS002	AFFORDABLE HOUSING TRUST FUND - 2012		525,000		525,000
MCST002	AFFORDABLE HOUSING TRUST FUND - 2012		300,000		300,000
MCST003	AFFORDABLE HOUSING TRUST FUND - 2013	100,000			100,000
MCTE002	AFFORDABLE HOUSING TRUST FUND - 2012		75,000		75,000
MCTE003	AFFORDABLE HOUSING TRUST FUND - 2013			1,350,000	1,350,000
MCUB002	AFFORDABLE HOUSING TRUST FUND - 2012		200,000		200,000
MUV002	AFFORDABLE HOUSING TRUST FUND - 2012		405,000		405,000
MUV003	AFFORDABLE HOUSING TRUST FUND - 2013	450,000			450,000
					5,750,000
TOTAL AHTF					20,567,917

In other cases, such as Heritage Park and the Hi-Lake Triangle, projects are individual and site specific.

The attached table includes some terms for which definitions may be helpful:

"2013 Total Appropriation" includes 3 parts: the original 2013 budgetary appropriation approved by City Council, plus any rollover of previous year capital appropriations, plus any approved appropriation amendments during 2013.

"Expenditures" mean expenditures recorded during the 2013 fiscal year.

"Encumbrance" means commitments related to unperformed executory contracts for goods or services. In this context, encumbrances are typically recorded when a contract is executed with a developer or end user of CPED development funds.

"Council Commitments" means the dollar amount of past Council actions which have approved specific dollar allocations to site-specific projects. So for example, last October the Council approved \$8.2 million in 2013 Affordable Housing Trust Fund project allocations to 9 projects. Since none of them were under contract, and therefore encumbered by year end, this amount is included under this column, along with previous years' commitments. Including this information helps to present a more accurate picture of available resources.

“Unspent Appropriation as of 2013 Year End” reflects the remaining appropriation balance after expenditures, encumbrances, and commitments have been deducted. Unspent capital appropriations may lapse, or can be rolled over into next year, by the authority of the Finance Officer. The fact that a project has unspent appropriation does not automatically mean that funds are available to be spent in a future year. In some cases, the underlying fund ended the year in a negative cash position, so although individual projects show unused appropriation, there were no available resources in the fund to cover a rollover of that appropriation. It should also be noted that in most cases where there is unspent appropriation, there are programmatic plans in place to use that appropriation in 2014 or beyond, whether or not there is an encumbrance. Those plans are included in the comments section of the table. Finally, it is useful to note that these year end balances do not reflect any 2014 activity, so the current status of program balances will be different.

“Comments” Explanatory comments were provided by the relevant CPED managers.

Some key observations

The financial structure and multi-year nature of the City’s development functions are complicated, and there are challenges in displaying the status of federal grant budgets on a calendar year basis, since they are managed on CDBG program year [June 1st to May 31st]. With these caveats in mind, the attached table presents a financial snapshot of CPED’s major development projects and programs at the close of 2013. Some key observations are:

- *A number of projects ended 2013 with appropriation surpluses.* The four projects with the largest balances relative to their expenditures are presented in the table below and reflect some of the factors that contribute to balances. In the community development arena, the timing of expenditures is dependent on several outside factors, such as the readiness of development projects to move forward, general economic conditions, etc. Therefore appropriation balances may temporarily rise while development projects mature, and spending catches up. There are also situations where funds initially appropriated to a particular use or program have been redirected by Council action and there is a necessary period for program development and rollout before the funds are expended. That is the case with CDBG funds initially appropriated to the Great Streets program for commercial real estate development loans on commercial corridors. As CPED found that demand for these loans was low, staff identified other ways to deploy these dollars including the Business Technical Assistance Program and the Grow North program, and received Council authorization to redirect some of these dollars. As a result, the 2014 expenditures of these dollars will be significantly greater than in 2013 when these new programs were under development.

With these caveats in mind, the following programs ended 2013 with large balances relative to their expenditures:

Program/Project	Total Approp	Expenditures	Encumbrance/Commitments	YE uncommitted balances	Comment
Economic Development/ CDBG portion: Great Streets, B-TAP, Grow North	\$ 3,337,139	\$ (106,953)	\$ (956,066.00)	\$ 2,274,120	The remaining \$2.3 M available balance is currently programmed as follows: \$800 K to the Grow North program, \$200 K of which has been directed to the DC Group expansion; \$1 M to Great Streets RE loans; and \$300 K to the BTAP program.
Affordable Homeownership Combined Program	\$ 925,668	\$ (43,299)	\$ (342,388.00)	\$ 539,981	A portion of The Council supported the use of these funds for interim construction financing for NSP-funded projects. As part of its 2015 budget request, CPED is requesting that \$395,500 of this balance be reallocated to a new HOME Minneapolis program.
High Density Corridor Housing	\$ 1,964,737	\$ (301,722)	\$0	\$ 1,663,015	This program supports property management and acquisition along corridors, and also serves as a revolving fund as properties are sold and revenue received.
Heritage Park 1 & 2	\$ 259,525	\$ (41,761)	\$0	\$ 217,764	The Heritage Park project is not yet complete. These funds are expected to be spent in 2014 primarily on maintaining City owned property.

As the comments indicate, CPED has plans in place for spending these balances, some of which have been previously reviewed and/or approved by Council. With only one year of expenditures reviewed, it is premature to draw too many conclusions. Finance and CPED will continue to monitor these and other project balances in the coming year and will provide an update in next year's report.

- *Two programs ended 2013 with negative project balances:*
 - The **Affordable Housing Trust Fund** shows a negative \$2.5 M YE project appropriation balance, after including all past Council project allocations; this means that the program has been overcommitted by this amount. This is partially caused by staff charging more time to this project than budgeted over the course of several years. CPED and Finance staff have now reconciled the overall financial status of this program and CPED Housing staff will manage future AHTF project allocations to address this gap.
 - The **Neighborhood Stabilization Program** showed a negative \$1.1 M appropriation balance at year end, but this was due to the timing of revenue recognition which took place in March of 2014 and this negative balance has been addressed.

This report is intended to provide useful financial summary data on CPED's development efforts for policymakers and the public; comments and suggestions are welcome.

CPED capital appropriation amendments to Financial Policies

Adopted December 11, 2013

[New in 2014] Annual Capital Project Status Report. The Community Planning and Economic Development Department will report to the City Council's Community Development and Ways & Means/Budget Committees annually on the status of capital projects funded by CDBG as well as other development funds. The annual capital project status report shall contain the following information by project and capital program year:

- 1) A list of open capital projects;
- 2) The current, expended and remaining appropriations;
- 3) An aging report showing the duration of existing and incomplete projects;
- 4) The balance of project shortfalls or funds available for reprogramming; and
- 5) A list of outstanding capital projects with the amount appropriations identified for expiration in the following year, i.e. have met the four year appropriation duration.

[Amended for 2014] Capital Allocations and Re-appropriation. Beginning in 2014, appropriations for capital projects and program allocations for those projects/programs that have not moved forward toward implementation as indicated by a minimum of 75% of appropriation expended on tangible project activities by the end of four years including the appropriation year are subject to expiration (i.e. unspent 2014 appropriation is subject to expiration in 2018). The expiration of project appropriation will occur unless a request for extension is specifically made to the Ways & Means/Budget Committee and approved by the City Council.