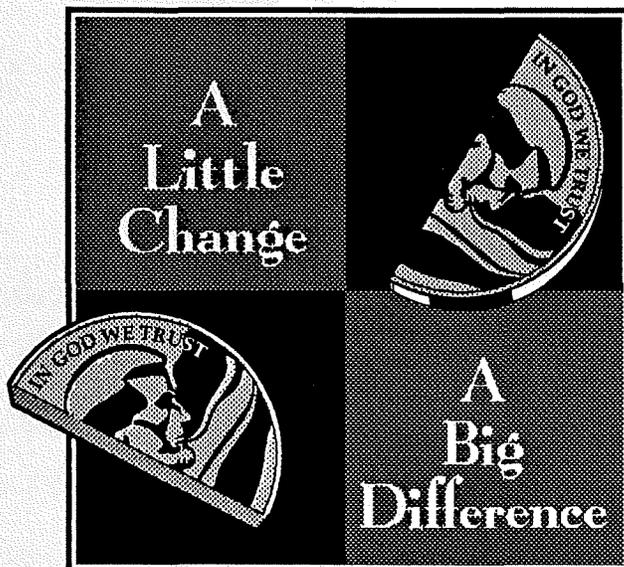


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A Little Change, A Big Difference

Investing the 1/2 Cent Sales Tax
in Our Neighborhoods

Final Report of the
Citywide Economic Revitalization Committee

March 30, 1994

**CITYWIDE ECONOMIC REVITALIZATION COMMITTEE
(CERC)**

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Nonprofit Development Organization

Stacey Millet
Ron Pauline

Neighborhood Business Association

Mimi Doran
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Business Representatives

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Planning Commission

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EXECUTIVE SUMMARY

A LITTLE CHANGE, A BIG DIFFERENCE INVESTING THE 1/2 CENT SALES TAX IN OUR NEIGHBORHOODS Report of the Citywide Economic Revitalization Committee

A UNIQUE RESOURCE - A MAJOR RESPONSIBILITY - AN INCREDIBLE OPPORTUNITY

The sales tax is a unique, relatively unrestricted funding source for capital projects, which is available to help revitalize Saint Paul neighborhoods over the next 30 years. It is a major responsibility and opportunity for elected officials, city government and residents to seek imaginative, and strategic use of this money. This money can provide a catalyst for addressing the changing physical and economic needs of Saint Paul.

Neighborhood needs include such capital projects as:

- Housing rehabilitation and development
- Parking lots and structures
- New commercial/industrial development
- Commercial strip rehabilitation

Related neighborhood service needs which could indirectly benefit from investment of tax dollars, because of the projects and an increased tax base, include:

- Targeted job training
- Commercial business support
- Effective social services
- Continuing education services
- More police
- Longer library hours
- Effective social services

GENERAL CRITERIA FOR SELECTING PROJECTS

1. The best proposals would be funded - creative, comprehensive strategies should be encouraged.
2. This money would be "catalytic" and not used in lieu of other funding.
3. As a city wide tax, the investment would be city wide. Geographic equity should be demonstrated over time.
4. The process to apply for funds would be flexible, responsive, and with as

few rules as possible.

5. Because the funds are limited, they would be targeted to projects with highly visible impact and/or targeted according to priority economic development goals of Saint Paul's elected officials.

REVIEW BOARD

The committee recommends the establishment of an eleven member review board. Members would be appointed through the Mayor's open appointment process and should include people who provide expertise in such areas as neighborhood based economic development, banking, housing, land, and business.

Responsibilities of the review board should include:

1. Staying educated on the economic status of Saint Paul and the economic development priorities of the Mayor and City Council.
2. Reviewing and recommending projects to the Mayor and City Council for funding.
3. Identifying, evaluating, and recommending additional funding sources or financing vehicles which will maximize sales tax dollars.
4. The review committee shall continue to define and modify policies and procedures for use of these funds.

Staffing, by the city, would provide coordination with other city programs. New methods for encouraging innovative proposals should be investigated.

IMPORTANT COMPANION ISSUES RELATED TO EFFECTIVE SALES TAX ALLOCATION

- Some neighborhoods need greater access to skills necessary for writing proposals and developing strategies. The City should provide resources to build maximum capacity in all neighborhoods.
- Evaluation of the projects and the program is critical. Funding must be identified and provided.
- Because neighborhoods have differing capacities to respond, there should not be a set leveraging ratio.

GENERAL ALLOCATION GUIDELINES

The program will include a variety of financing mechanisms such as loans, grants, revolving loan funds, common bond funds. Matching opportunities with state and federal programs, etc. should be reviewed and considered.

FINAL REPORT
CITYWIDE ECONOMIC REVITALIZATION COMMITTEE

March 30, 1994

THE COMMITTEE

The resolution implementing Saint Paul's new 1/2 cent sales tax called for the establishment of a citizen committee, the Citywide Economic Revitalization Committee (CERC). They were charged with providing definitions of eligible programs and projects and guidelines for the allocation of funds in city neighborhoods. It was the intent of the City Council that the proceeds be used in such a way that they have significant and positive economic impact, and are targeted at such efforts as supporting housing and commercial revitalization initiatives, tax generation throughout the city, and leveraging private investments. (See attached excerpts from the pertinent State law and City Council resolution). Twenty two citizens were appointed by Mayor James Scheibel to serve on this committee. (See attached membership list).

MEETINGS AND HEARINGS

The CERC held it's first meeting approximately a week after confirmation of their appointments by the City Council on October 28th, 1993. They met eleven times over the next four months, identifying questions, discussing issues, and listening to presentations from the following:

- The Department of Planning and Economic Development
- The Budget Office
- The Port Authority
- Mayor-elect Coleman
- The Neighborhood Caucus, ad hoc group of representatives from a wide range of neighborhood interests such as district councils, community development corporations, and business associations.

A public hearing, advertised through the Early Notification System, was held on November 23, 1993 at Capitol Community Services at Washington Middle School on Marion Street. Approximately 15 people attended and shared their thoughts on the use and allocation of sales tax proceeds with the committee.

REPORTS

The CERC committee, in an effort to meet the December 15th deadline in the resolution, met weekly through November and the beginning of December. However, because of the complexity of the issues involved and the abbreviated time line, they issued an interim report to the Mayor and the City Council in the middle of December rather than a final report. They started meeting again in early January and met bi-weekly through the beginning of March at which time they finalized their recommendations to the Mayor and Council.

A UNIQUE RESOURCE - A MAJOR RESPONSIBILITY - AN INCREDIBLE OPPORTUNITY

The committee was well aware of the unique nature of the sales tax money. The unusual state legislation granting the authority to impose the tax, the relatively unrestricted use of the money, and a thirty year time frame marks this resource as a special opportunity for revitalizing our neighborhoods. Imposing this tax signaled our commitment to rolling up our sleeves to meet and overcome the challenges of our city. It is now a major responsibility of the elected officials, city government, and residents to guide and demand wise investment of these funds in our neighborhoods. Imaginatively and strategically used, this money can provide a catalyst for addressing the changing physical and economic needs of Saint Paul. We must seize the opportunity to find dynamic new ways to use this money in addressing ~~our city's~~ needs.

The sales tax money can only be used for capital projects, but invested wisely in capital projects it can indirectly help address other needs as well. Building tax base through increased commercial/industrial development and improved housing stock increases tax revenues which can be used for general services throughout our community. Capital projects which also provide jobs and job training help stabilize our neighborhoods. Proposals for sales tax money should stretch creative and collaborative limits in addressing our community's needs.

Neighborhood needs include such capital projects as:

- Housing rehabilitation and development
- Parking lots and structures
- New commercial/industrial development
- Commercial strip rehabilitation

Related neighborhood service needs which could indirectly benefit from investment of these tax dollars, because of the projects and an increased tax base, include:

- Targeted job training
- Continuing education services
- Commercial business support
- Better transportation
- More police
- Effective social services
- Longer library hours

GENERAL CRITERIA FOR SELECTING PROJECTS

The CERC recommends several general criteria for reviewing project proposals:

1. **The best proposals should be funded.** Those projects that meet the goals and objectives for the neighborhood portion of the 1/2 cent tax should be given higher priority if they uniquely address areas of greatest need, demonstrate cooperation among different neighborhood interests, provide creative financial approaches for maximizing the use of the money, and use imaginative strategies to address Saint Paul needs.
2. **This money should be "catalytic" and should not be used in lieu of other funding.** It could be the seed money for a project, the gap financing that makes a project happen, or the matching funds for federal or state dollars and other forms of outside revenue. It should be used only if other fund sources are not available. It should be coordinated with other funding.
3. **As a city wide tax, the investment should be city wide.** The CERC does not favor strict geographic distribution of the money by ward, planning district, or any other geographic designation. Geographic distribution alone does not create challenge in the neighborhoods - we need a competitive approach to bring out the best proposals. It is appropriate and necessary that geographic equity in the distribution of projects should be demonstrated over time.
4. **The process and funds should be flexible, responsive, and burdened with as few rules as possible.** Because the process can be shaped over the next thirty years, it is the committee's hope to start with fewer rather than more restrictions. It is also their recommendation that some funds be reserved at all times for unique investment opportunities.

5. **Because the funds are limited, they should be targeted either in comprehensive projects with a visible impact and/or targeted according to the priority economic development goals of Saint Paul's elected officials.** Goals selected by the Mayor and Council might focus on a single goal or only a few goals, such as job creation or home ownership, during a funding cycle or year. The goals should be reviewed and revised regularly to closely reflect the City's needs.

REVIEW BOARD

There was extensive committee discussion about the most effective procedure for selecting projects for funding. The committee was concerned that decisions be made with a sensitivity to neighborhood needs, with educated evaluation of the economic impact of a project, and in the context of a guiding community vision. They want to provide a process that meshes with the accountability elected officials have for the investment of these public tax dollars and they would like to see a process that facilitates the creation of a new paradigm for neighborhood investment. Because this is the fresh beginning of a new and unique program, particular attention needs to be paid to those persons who will review proposals and those persons who will staff the process. This is an opportunity to open our minds to a process which uses past elements that work well and to new elements that we hope will work as well or better.

Taking these issues into account, the committee recommends the establishment of a **review board of eleven members**. An eleven member board was chosen as the maximum size for an effective working board which would still allow for significant representational variety. Members should be appointed through the Mayor's open appointment process and approved by the City Council. They should represent expertise in neighborhood or community based economic development, banking, housing, business, and additional relevant forms of expertise which would be helpful in achieving the goal of the program. Review committee membership should also provide geographically balanced representation across the city.

Terms should be for three years and should be staggered. In order to establish the staggering, appointees should initially be appointed to 1, 2 and 3 year positions with the chair appointed for three years. A person should serve no more than two consecutive terms, but could be reappointed after a three year break from service.

The responsibilities of the review board should be:

1. **Stay up to date and well educated on the economic health and well being of Saint Paul and the economic development priorities of the Mayor and City Council.** It is extremely important that the review committee have a rich context of facts, trends, and ideas within which to make project decisions.

2. **Review and recommend projects to the Mayor and the City Council for funding:** prepare a package of projects to be presented to the Mayor and City Council for approval
3. **Identify (with the help of staff), evaluate, and recommend additional funding sources or financing vehicles** which leverage and maximize sales tax dollars (e.g. look at matching opportunities with State and Federal programs or with private foundations; and/or evaluate the effects of placing a portion of the funds in revolving loan funds; common bond funds; market rate, below market rate, and/or deferred project loans; loan guaranties, etc. It is the recommendation of the committee that in the case of revolving loan funds, repayment funds revolve directly back into the neighborhood account of the sales tax trust fund.) Stewardship of sales tax money for continuing investment in our neighborhoods is an important responsibility of the review committee.
4. **The review committee shall continue to define and modify policies and procedures for use of these funds within these guidelines.** Such suggested changes and modifications will be sent to the Mayor and Council for review and adoption.

REVIEW BOARD STAFFING

The review board should be staffed by the City, possibly by Planning and Economic Development. This will provide the important and necessary coordination with other city programs. Continuity in staffing is very important as well as providing staff that will be solely responsible to the review board and has the dedicated time to assure the smoothest, most successful results for the review board. Staff responsibilities shall include organizing educational presentations regarding economic development issues in the City, preparing and distributing applications, providing preliminary review and assistance to applicants, investigation, and organization of applications for presentation to the review board and other related duties as required. The review board should have the right to review staffing on an annual basis.

Beyond this traditional staffing, the CERC recommends looking at innovative methods for producing and approving project proposals - particularly in the early years of the program. Perhaps a consultant could meet with both the review board and potential applicants to explore the types of projects that could be funded and what their impact could be. A pre-application forum like this might enhance the character of project proposals.

IMPORTANT COMPANION ISSUES RELATED TO EFFECTIVE SALES TAX ALLOCATION

The committee, discussed at length differences among neighborhoods and their capacity for developing investment strategies, writing grants, etc. Another repeated topic was the difficulty of investing this money throughout the neighborhoods equitably and to best advantage, while also trying to support coordinated targeted efforts which allows for the best use of these funds.

The committee feels action is required on several of these issues in order to facilitate the best use of sales tax money:

- **There are neighborhoods that need greater access to skills necessary for formulating and writing proposals or strategies.** The city should provide resources to facilitate the planning and proposal process. We must build maximum capacity in the neighborhoods throughout the city.
- **Evaluation is critical and funding must be provided.** Since sales tax proceeds must be used for capital projects, a different source must be identified to pay for evaluation. The allocation process should be evaluated and adjusted every two or three years and projects should always be evaluated for effectiveness and efficiency to help inform future funding decisions. Projects should be evaluated against a list of stated objectives of the project and considered over the lifetime of the project.
- **There should not be a set leveraging ratio** because every neighborhood has a different capacity to respond. Leveraging and matching are, however, good goals to encourage where ever possible. Maximizing neighborhood revitalization as fully as possible is the program goal.

GENERAL ALLOCATION GUIDELINES

This program should not be a pure grant process. While the CERC is not prepared at this time to recommend specific mechanisms or ratios for the use of the money, we envision the final program including some combination of loans, grants, and other financial mechanisms for funding projects. Where possible, projects will also be expected to identify matching funds, loans, or other sources of support.

We must not miss the opportunity to generate the most money possible for neighborhood revitalization. Before any project applications are considered, financial mechanisms should be identified that maximize the sales tax resource. The review committee should start meeting well in advance of the first review round to address these issues. Revolving loan funds, common bond funds, matching opportunities with state and federal programs, etc. should be reviewed and considered.

Draft Guidelines for the use of 1/2 Cent Sales Tax Proceeds in the Neighborhoods

I. GOAL

To most effectively employ the Neighborhood Account of the 1/2 Cent Sales Tax Trust Fund to add value to our community by strengthening, stabilizing, and revitalizing Saint Paul neighborhoods.

Primary economic development objectives are: (not in order of importance)

- A. Improve and/or stabilize housing stock
- B. Improve and/or stabilize local commercial and businesses
- C. Leverage private improvement efforts through use of sales tax funds
- D. Fund projects or programs that result in a high visual or economic impact within the identified project area.
- E. Promote creative use of coalitions and imaginative development of strategies to address Saint Paul neighborhood needs
- F. Build community
- G. Build neighborhood capacity within neighborhoods to help residents undertake and identify economic development initiatives
- H. Build tax base
- I. Create living wage jobs
- J. Provide job training

II. PROGRAM DESCRIPTION

A. Funding

The Neighborhood Account will be available to support this program. The CERC is concerned that a review board not co-opt future decisions by obligating future income. Money must be available yearly to respond to the changing and/or immediate needs in our city's neighborhoods. A large project, however, may need multi-year funding. In such a case,

either all of the money required for the project should be set aside or the first phase of the project must be viable as a stand-alone project, regardless of whether additional funding is received in the future. Applications for second phase funding must compete on an equal basis with all other applications in a particular funding cycle.

B. Eligible Areas

Any location within the legal boundaries of the city of Saint Paul. All Saint Paul neighborhoods including the downtown neighborhoods are eligible locations for projects receiving sales tax funding.

C. Eligible applicants include:

Any public and/or private entities which are located within or do business within Saint Paul. The committee does not want to prejudge which people or groups can best help our neighborhoods by excluding any possibilities.

D. Ineligible Activities Include

Any activity not leading directly to the completion of a capital project is ineligible.

E. Completion of Project:

Activities funded by sales tax proceeds should be completed or self sustaining within a time frame designated in the project proposal and negotiated with the City after approval for funding.

F. Administrative Expenses:

Costs required to complete a capital project are generally eligible. Related administrative costs should not exceed 15% of the total project cost. Legal, design, engineering, environmental, etc. costs can be included in the 85% of the project cost. Requests for a higher amount must be justified by the nature of the project.

G. Neighborhood Contributions:

Proposals may leverage other resources including: direct financial resources such as private expenditures for commercial or residential physical improvements, contributions or funds raised from within the neighborhood, foundation and corporate grants, the value of local lender below market commitments, and jobs created by businesses. Indirect contributions can include: in-kind services from neighborhood residents and businesses such as personnel, professional services, office space and supplies, volunteer labor, and sweat equity for physical improvements.

III. APPLICATION GUIDELINES

- A. A pre-application must be submitted to begin the application process and requires:
 - a. A brief description of the project proposed
 - b. An estimate of the amount of funds to be requested from the sales tax funds, and the total cost of the project and sources for additional funds
 - c. The organization and/or persons responsible for developing and implementing the project proposal.
 - d. A brief description of the types of coordination that the proposed project will have with other groups, projects, and/or programs.
- B. Attendance at an orientation workshop held at the beginning of each cycle is recommended. This workshop could address questions with the application procedure as well as provide an opportunity to expand thoughts on types of proposals which could be submitted.
- C. Final applications must be submitted. Staff assistance with the application will be provided if requested. The final application should include information such as:
 - 1. Purpose of the proposal and how it meets the program goal
 - 2. Detailed description of the proposal's activities or elements
 - 3. Documentation for the proposal - such as demographic data, statistics, priorities and policies which support the targeting of money for this particular project
 - 4.. Neighborhood impact and projected results
 - 5. Method and level of citizen and neighborhood participation
 - 6. Applicant's experience and capability related to the successful completion of the proposed project
 - 7. A complete budget including: amount and type (loan/grant) of funds requested and other sources of funds and support expected

- D. All applications must be complete and on time.
- E. Application Time Line:
There will be two funding cycles per year; If possible these funding cycles should be synchronized with other program funding cycles
- F. Completed applications will be sent to affected district councils, business organizations, and CDC's for information purposes.

IV. SELECTION

A. Selection Process

1. The selection process is competitive. The review panel will determine quality of the proposals. The number of applicants funded will depend on the size and quality of the proposals and the availability of funding. Projects considered to be of insufficient quality will not be recommended for funding, even if funds are available.
2. There will be two funding cycles per year as long as the program has funds.
3. Applications will be reviewed for completeness, eligibility, and feasibility by review committee staff.
4. The Review Committee will review complete applications and make funding recommendations to the Mayor and City Council.
5. The City Council will, by resolution, make final project selection and set their budgets.

B. Eligibility and Selection Criteria

Eligibility of applications is based on both eligibility and selection criteria. If an application is in conflict with any eligibility criteria, it will be dropped from the selection process. Eligibility criteria are:

1. Proposal is an eligible program activity.
2. Proposal will not be a duplication of but may supplement an existing private or public program

3. Proposal is financially feasible with the public and private resources identified by the applicant
4. Managing organization, it's staff, and/or it's board of directors has the capability to successfully complete the project.
5. Proposal has significant neighborhood impact - indicated if:
 - a. its activities are sufficiently concentrated within an identified geographic area to result in a high visual or economic impact
 - b. sufficient planning or feasibility analysis indicates a high probability of success;
 - c. there is an appropriate mix of residents, property owners and/or business people relevant to the project included in the planning, development and implementation of the proposal;
6. Proposal has been prepared within context and recognition of any existing neighborhood-generated strategic plans.

V. PROGRAM DEVELOPMENT AND IMPLEMENTATION

Upon selection by the City Council, each project will have five months to refine its program, secure its private match and enter into a partnership contract with the City of Saint Paul.

A. Proposal Refinement

The applicant shall be responsible for the development of specific program activities, the generation of cost estimates, the securing of other financial commitments and/or contributions, and the identification of and resolution of maintenance issues.

B. Accountability for Matching Funds

Each selected applicant will be responsible for securing other financial contributions that match the declaration contained in the application. If progress on obtaining the match is insufficient, the City will work with the neighborhood applicant to review and possibly revise its contribution proposal and 1/2 Cent Sales Tax funding request. If any applicant is dropped, its funds will be reallocated to the next funding cycle.

ONE POSSIBLE MODEL FOR ALLOCATION

The committee found it useful to discuss the allocation of funds using a rough model which approximates a yearly appropriation. This helped keep discussion realistic when talking about how much can or cannot be accomplished. The model (See appendix) flexibly accommodates multi-year as well as one year projects, small and large projects, and considers the establishment of revolving loan funds and other ways to fund projects besides direct grants.

- \$ 100,000 for small proposals.** (This pot of funds is purposely small to discourage large numbers of small projects. However, it would allow for special projects that are unique and for which there is no other funding source.)
- \$ 3,400,000 for proposals ranging from \$100,000 - \$300,000/yr for up to three years** (This allows support of multi-year proposals, without promising or tying up future funds. There should be no pre-allocation of funds.)
- \$ 1,000,000 for a single focused comprehensive proposal** (This could accomplish a larger project for which funding is difficult or feed a revolving loan fund or another financial strategy)

Using this example the project profile for the first three years of the program might look like this:

<u>YEAR 1:</u>	5 projects	at \$ 20,000	=	\$ 100,000
	4 projects	at \$ 100,000	=	\$ 400,000
	3 projects	at \$ 250,000/2 yrs	=	\$1,500,000
	2 projects	at \$ 250,000/3 yrs	=	\$1,500,000
	<u>1 project</u>	at \$1,000,000	=	<u>\$1,000,000</u>
	TOTAL 15 projects			TOTAL \$4,500,000

<u>YEAR 2:</u>	5 projects carried over from year #1			
	4 projects	at \$ 25,000	=	\$ 100,000
	3 projects	at \$ 300,000	=	\$ 900,000
	2 projects	at \$ 250,000/2 yrs	=	\$1,000,000

2 projects	at \$ 250,000/3 yrs	=	\$1,500,000
<u>1 project</u>	at \$1,000,000	=	<u>\$1,000,000</u>

TOTAL 17 projects

TOTAL \$4,500,000

YEAR 3:

2 projects carried over from year #1			
4 projects carried over from year #2			
1 project	at \$ 50,000	=	\$ 50,000
2 projects	at \$ 25,000	=	\$ 50,000
3 projects	at \$ 300,000	=	\$ 900,000
4 projects	at \$ 250,000/2 yrs	=	\$2,000,000
<u>2 projects</u>	at \$ 250,000/3yrs	=	<u>\$1,500,000</u>

TOTAL 18 projects

TOTAL \$4,500,000

EXCERPTS FROM STATE LEGISLATION AND CITY COUNCIL RESOLUTION

State Statute: Revenues received from the tax may be used

- a) to pay all or a portion of the capital expenses of construction, equipment and acquisition costs for the expansion and remodeling of the St. Paul Civic Center complex.

- b) The remainder of the funds must be spent for capital projects to further residential, cultural, commercial and economic development in both downtown St. Paul and St. Paul neighborhoods."

City Council Resolution #93-783:

"The CER Committee shall provide the Mayor and the City Council with a report before December 15, 1993, detailing recommended definitions of eligible capital programs and projects and recommended guidelines and procedures for allocation of funds. The City Council shall review guidelines and procedures for allocation of funds on an annual basis.

"The net sales tax proceeds shall be allocated for capital projects to further residential, cultural, commercial and economic development and that the intent of the City Council is that the proceeds be used in such a way that they have significant and positive economic impact, and are targeted at such efforts as supporting housing and commercial revitalization initiatives and tax generation throughout the city, and leveraging private investments."

