# Hiawatha Campus Expansion Fiscal Note

**Repayment of the Waterworks Fund Expense**
Public Works Hiawatha expansion project has incurred $12.9M in expense from the waterworks fund. The Waterworks Fund Ordinances require that "[a]ll revenues shall be collected by the city finance officer and the money so collected shall be deposited and credited to the water treatment and distribution services enterprise fund in accordance with law, Generally Accepted Accounting Principles (GAAP), and the requirements of the city council." *See* Minneapolis Code of Ordinances, Chapter 509.310.

Waterworks Fund revenues are received from water rents, proceeds of bonds issued by the City for Waterworks purposes and other monies appropriate by the City Council for Waterworks purposes. Water rents customers include City of Minneapolis residents and seven suburban customers and institutional users such as the Metropolitan Airports Commission and the University of Minnesota. Funds are specifically designed to be used for "repairs, additions or alterations to any pumping stations, treatment facilities, equipment, water mains or other facilities of any kind related to water treatment or distribution." *Id.*, Chapter 509.320 (*see below*). City attorney's office has reviewed the City Charter, past City Attorney Opinions, and state law, and there is no set time in which the Waterworks Fund must be repaid once the Hiawatha project is suspended. *See* Minneapolis Code of Ordinances, Chapter 509.250.

Risks to the City in delayed repayment of funds:

1. Minneapolis Code of Ordinances, Chapter 509.320 outlines that if sufficient funds are not available in the waterworks funds for any major waterworks project repairs, additions or alterations to any pumping stations, treatment facilities, equipment, water mains or other facilities of any kind related to water treatment or distribution, to defray the costs prior to the full repayment of the Waterworks Fund, the City Council may need to appropriate funds for said project out of the general fund

2. Over 22 percent of water sales occur to suburban customers. These customers have an interest in ensuring that Waterworks funds are expended for intended purpose in a fiscally responsible manner. Therefore, repayment of the $12.9M in funds in a timely manner needs to be considered.

**General Fund Levy increase to payback the waterworks fund**
While the City is required to repay the entire $12.9M to the waterworks fund, the City may, in the future, be able to recoup a portion of these costs when the property is sold. If a more expedient repayment is desired, the City Council has the authority to use an increase in levy to repay the waterworks fund by $12.9M. Any increase would need to be brought forward to Board of Estimate and Taxation prior to the 2022 maximum levy is set. Mayor's 2022 budget proposal calls for a 5.45% increase. Adding the one-time repayment of $12.9M with levy would increase the property tax levy to 8.7% in 2022.

**Holding Costs**
While the costs to the water fund are defined in the fiscal note, the City Council staff direction stopped the work on the Hiawatha Campus expansion but did not give direction on what to do with the existing buildings and improvements on the 1860 28th St E and 2717 Longfellow Avenue property. Holding this

real estate will produce additional costs to the City. The exact costs will depend on the direction the City Council makes for final disposition. Below are four likely options and the range of holding costs depending on the City Council's choice. These options only estimate costs to the City to a point of sale or lease to another party and does not quantity any subsidy that would be needed to complete any redevelopment of the property.

- **Declare property as surplus and sell by public bid** – The City Council could choose to sell the property through a sealed bid process, setting the a minimum bid amount slightly below an appraised value (roughly estimated between \$3.5M and \$6.5M based on values of adjacent industrial properties). The City would recoup proceeds from the sale to offset the water fund deficit and this sale would be "as is" relieving the City of additional property management costs. This process would also minimize staff costs. The City would not control the outcome of the site outside of conventional land use entitlement processes. This option would still require the City to find funding in an amount of \$6.4M to \$9.4M.
- **Declare property as a redevelopment site and continue a low maintenance approach to the property** – The City Council could choose to assign this property under its redevelopment authority to guide the outcome of the site. This option preserves the City's options to either reuse the building or to remove it in the future for another plan while keeping expenses low. With this option, the City would continue a low-maintenance approach to the building making no improvements and performing the minimal property maintenance of the grounds. The building would continue to deteriorate under this option increasing costs to redevelopment if the chosen path is to reuse it. This option requires full repayment of the City's water fund of \$12.9M before it can be transferred from a public facilities site to a redevelopment site. The City could eventually recoup some of these costs with land sale or long-term lease proceeds, but this will likely not happen for years, if ever, and the City would need to appropriate \$12.9M of funds upfront to repay the water fund before any redevelopment activity could be considered. This process will have increased staff costs from the public bid option raising overall costs.
- **Declare property as a redevelopment site and demolish and remove the existing improvements** – Similar to the previous option, the City Council would assign this property to the redevelopment inventory after appropriating \$12.9M to repay the water fund. It could determine not to reuse the building in redevelopment plans and proactively remove it and other improvements from the site. Pursuing this option removes contaminations in the community earlier in an expected lengthy redevelopment period. Demolition of the Roof Depot building would cost the City an estimated \$2.8M. It could also choose to proactively remediate the contamination on the site for a yet-to-be-determined cost for clean-up or wait until the City identifies an end user to better position the City to offset these costs by brownfield grants. After the costs of the demolition, the City's on-going holding costs would then be minor property maintenance such as mowing, removing illegally dumped materials, and snow services, estimated to be \$125,000-per-year. Staff need costs are similar to the previous redevelopment option. The City may recoup some of these costs with land sale or long-term lease proceeds. This option requires a City one-time appropriation of \$17.2M (\$12.9M to repay water fund + \$2.8M for demo + \$1.5M for interim encapsulation) and an ongoing annual appropriation of \$125,000 during the period the City holds the property.
- **Declare property as a redevelopment site and preserve the building for reuse** – The final redevelopment option is the most expensive. The City could determine that a redevelopment of the site will reuse the building and it would like to minimize deterioration during the expected lengthy redevelopment process. This option has an estimated cost of \$4M to stabilize the building (add a heating plant, electrical service, repair the roof, address water

infiltration, and other general building envelope repairs). This option increases property maintenance costs for building operations (heating and electrical) and security to monitor the building, estimated to be $250,000-per-year. This option also requires staff oversight of the building and the redevelopment process. This option requires a City one-time appropriation of $17.1 million ($12.9 M to repay water fund + $4 M for building stabilization) and an ongoing annual appropriation of $250,000 during the period the City holds the property.