UPPER MINNESOTA VALLEY REGIONAL DEVELOPMENT COMMISSION

REGIONAL DEMOLITION PROGRAM FEASIBILITY REPORT

MARCH 2022

Upper Minnesota Valley
REGIONAL
DEVELOPMENT
COMMISSION

E·D·A
U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

Prepared by:

Ehlers & Associates
3060 Centre Pointe Drive
Roseville, Minnesota 55113

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INTRODUCTION

The Upper Minnesota Valley Regional Development Commission (UMVRDC) is a five-county development commission located in the southwestern part of Minnesota. UMVRDC represents Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine County. While the core function of a regional development commission is to provide technical assistance to counties, cities, and townships, they also provide regional leadership to better position communities for resiliency. More than ever before, communities are interconnected through their local economies and face similar issues, risks, and hazards.

This Demolition Program Feasibility Report evaluates several program structures, capitalization opportunities, and administrative considerations to determine the best approach for establishing a regional demolition fund.

BACKGROUND

Demolition of dilapidated housing and commercial properties continues to be a top issue in the UMVRDC region. It consistently ranks in the top 10 issues on the annual survey sent to the region's stakeholders. In addition, it was also identified in the 2022 UMVRDC Comprehensive Economic Development Strategy (CEDS) planning process through the engagement process with local economic development stakeholders. *"Create financing programs for demolition and rehabilitation projects,"* was listed in the CEDS as an Aspiration under the Foundational Assets cornerstone.

As such, UMVRDC staff have continued to look for impactful ways to assist communities and counties in this area, and has carried out a range of activities over the past few years including hosting a substandard buildings workshop in 2019, assisting with Small Cities Development Program (SCDP) applications and projects across the region, as well as sharing helpful information and case studies to name a few.

In 2020, the Economic Development Administration (EDA) awarded CARES Act funding to the UMVRDC to help address the economic issues resulting from or intensified by the coronavirus pandemic. One of the tasks identified in the UMVRDC's workplan was to review the feasibility of establishing a regional redevelopment fund to provide financial assistance in addressing dilapidated properties.

This lead the UMVRDC to partner with the University of Minnesota Extension program to conduct an initial study identifying resources to inform the possible establishment of a redevelopment fund in the region, including potential funding sources, examples of similar funds in MN (and across the US) and interviews with public finance experts. In addition, the study identified next steps for UMVRDC to consider:

- Estimate funding needs: Contract with a public finance advisory firm to estimate the raise necessary for a redevelopment fund in the region
- Decide on RDC Capacity: Decide if the UMVRDC could take this on or if a partnering organization is better suited or positioned
- Build Support for the Project: Sell the idea to local partners in order to raise local funds as a match for federal resources.

The UMVRDC realized there were many issues a potential fund could address, and funding assistance could come in several forms (grants/loans/combo). It was decided to try narrow the scope of further research to either investigate just demolition or redevelopment. To do this, a survey was sent out to local government representatives including city clerks, managers, county administrators, and economic development professionals in late August 2022. The survey was sent to a total of 51 individuals and 18 responses were received. The survey results led the UMVRDC to refine the feasibility study scope to focus solely on providing demolition assistance to dilapidated residential properties.

Funding assistance for demolition of properties has historically been difficult to obtain. While it is sometimes an eligible activity under various programs, it does not typically score high compared to other types of redevelopment projects. Often, an end use of the property is needed to qualify for funding. However, sometimes a community or neighborhood just wants an eyesore gone, with the thought that an empty lot is more attractive to development than a run-down, hazardous, dilapidated structure.

In October 2022, the UMVRDC contracted with Ehlers & Associates to take a detailed look into the feasibility of establishing a regional demolition fund and how it could be funded, administered, and sustained.

While the feasibility of a Regional Demolition Fund was the primary objective of this work, UMVRDC staff were able to build capacity in this area and provide additional resources to the region’s communities as follows:

- Participated in a panel discussion with federal and state agencies, and redevelopment experts facilitated by KSU TAB (Technical Assistance to Brownfields).
- Attended the DEED Redevelopment Conference to learn about available resources and hear about successful redevelopment projects across the state.

- Partnered with Southwest Initiative Foundation (SWIF) to bring Deb Brown, a nationally known rural redevelopment expert and founder of www.saveyour.town, to speak to community leaders from southwest Minnesota. The event was livestreamed and recorded by Pioneer PBS in Granite Falls.

Through connections made at these events and through their own research, UMVRDC staff has compiled a list of resources, tools, and examples that will soon be posted on their website.

NEXT STEPS

UMVRDC staff hopes to keep this discussion moving forward by engaging willing partners and evaluating all potential means of establishing a regional demolition fund. The UMVRDC is committed to continuing work on this important issue and will continue to share updates, progress and resources along the way. This report is just the beginning of a regional discussion that could lead to a whole host of other redevelopment opportunities in the future. Should this fund come to fruition and be successful, there may be future opportunities to expand the scope of its purpose to include commercial and/or industrial properties or possibly fund smaller redevelopment projects. It is the hope of the UMVRDC that this work will result in finding solutions to reduce the number of dilapidated properties and bring new life to underutilized spaces in the region.

Upon completion of the draft report, the UMVRDC convened the region's stakeholders in early 2023 to present the information contained herein as well as conduct small group/one-on-one discussions to get initial feedback and gauge the interest in pursuing a potential fund. This feedback is provided on Page 14 of this report and indicates that establishing a fund is possible, but comes with some challenges.

TYPES OF PROGRAM STRUCTURES

Public assistance is provided in many different forms. Structural consideration must be given when determining program feasibility since it directly influences the impact and outcome of a program. This section summarizes different types of program structures to start building a framework for a regional demolition fund. Generally, there are two main categories – grants and loans – and each category has several variations for consideration.

Grant Programs

Project Grants: These grants usually fund 100% of specific costs. Project grants are most often competitive and available to eligible organizations and individuals through an application process.

Pros	Cons
• Leverages internal resources to facilitate a desired outcome	• Program funds may be depleted rather quickly
• Highly competitive since recipient would not have to repay the funds	• May be harder to claw back funds if not used as intended
• May be less administratively time consuming than loan programs which require recording loan documents against the property	• Recipient may not use funds efficiently

Matching Grants: These grants require recipients to contribute a specified amount towards project costs. Matching grants may be offered competitively or non-competitively throughout the year.

Pros	Cons
• Encourages organizations and individuals to efficiently manage project costs	• Requires recipient to source matching funds
• Program funds typically stretch further and can benefit more recipients	• May be harder to claw back funds if not used as intended
• May be less administratively time consuming than loan programs which require recording loan documents against the property	
• Leverages external resources	
• Requires organizations and individuals to have "skin in the game"	

Loan Programs

No-Interest Loans: These loans do not require recipients to repay any interest on the funds borrowed, provided that the recipients meet certain requirements for repayment on the principal amount.

Low-Interest Loans: These loans require recipients to begin repaying principal and interest following distribution of funds. While interest rates are below conventional financing rates, the interest charged usually, at a minimum, covers the cost of the lender to make and service the loan. Interest rates may range between 1% - 3%.

Deferred Loans: These loans do not require recipients to repay principal and interest during a specific period of time or until a specific event happens, such as a sale or transfer of ownership. Deferred loans may or may not have an interest rate component.

Forgivable Loans: These loans are typically structured as deferred loans that convert into a grant when a specific event occurs. Most often a recipient will cover the issuance cost and only repay it if a specific event doesn't occur within a specified period of time.

Pros	Cons
• Encourages organizations and individuals to efficiently manage project costs	• May create barriers for future development since funds may be required to be repaid, except for forgivable loans
• Funds will eventually be repaid and recycled back into the program for future use, except for forgivable loans	• Higher administration costs related to issuance and servicing of the loans
• Funds may be clawed back if recipient doesn't use them as intended or does not achieve the desired outcome	• Recipient may not have the means or a revenue stream to payback principal and/or interest over time

Each program structure has pros and cons related to its use and application. Evaluating the best option for a regional demolition fund, however, comes down to the impact and outcomes desired – the reason, or reasons, for establishing it.

For instance, if the main reason to create a regional demolition fund is to incentivize demolition with the lowest possible cost to the recipient, then a grant or a forgivable loan may be the best option since it would cover the cost of demolition and not need to be repaid. However, if the main reason to create a regional demolition fund is to incentivize demolition with the expectation that the assistance would be repaid, then a loan other than a forgivable one would be the best option since it would cover the upfront cost of demolition but would eventually be repaid.

PROGRAM FEASIBILITY

Review of Existing County Programs

Three counties within the UMVRDC's service area currently operate demolition grant programs: Big Stone, Lac qui Parle, and Swift. All of the counties address both residential and commercial property demolition. None of the programs pay for the full cost of demolition, so additional funds must come from either the property owner or the City or Township in which the property is located. Two of the programs specifically require a municipal funding match. The chart below provides some of the key programmatic features of the programs as well as the funding source.

County	Maximum Grant	City Match Required?	Funding Preferences	Amount of Annual Funds
Big Stone	$3,000	No	Residential property; Municipality or owner contributes > 15% of the demolition cost	$18,000 from the General County Levy
Lac qui Parle	$3,500*	Yes	Property must be combined with adjacent parcel(s). Ensures long-term maintenance of property and maintains it on the tax rolls	$25,000 from the Solid Wase Assessment Fund generated by annual fees ($35/residential; $100/commercial
Swift	$2,500	Yes	Preference for municipalities that have not received funding in the last 12 months.	$50,000 from County HRA Levy

*Extra funding from solid waste assessment fund to remediate asbestos

We spoke with administrators of all three programs, and they shared common themes. They thought their programs worked well and were effective. They said that the Counties' funding was adequate because they did not run out of funds on an annual basis. The Counties are absorbing the administrative costs of their programs and the funding levels noted above are all going to demolition grants.

The Counties generally rely on the municipalities to declare the properties hazardous in order to transfer ownership to the municipality, if the property is not already in tax forfeiture. The cities then work to transfer ownership to an adjoining property owner, in the case of Lac qui Parle County. Cities are also instrumental in issuing demolition permits.

When asked what challenges the programs are facing, the number one response was the rising cost of demolition. Lac qui Parle County has increased their funding from $2,500 to $3,500 in response to rising costs but says that average demolition is now $9,000 to $10,000 per home. The rising cost is also problematic for cities, especially the smaller ones, who need to provide a municipal funding match. For example, the City of Lewiston has an annual levy of $16,000. To provide a match of $3,000 to demolish a home is likely above their means. Very few, if any, demolition grants are made in townships because the townships have neither the administrative nor financial resources to participate in the programs.

The program administrators we spoke with offered two suggestions for how the UMVRDC could assist the existing loan programs:

- Supplement the city and township match dollars
- Provide loans or grants to private parties for those that cannot afford it
- Provide administrative support to some of the smaller communities and property owners in transferring property, declaring it hazardous, obtaining demolition bids, and managing the demolition process

Review of Dilapidated Properties

Based on review of tax forfeit properties within the UMVRDC service area and current demand from the three counties offering a demolition grant program, it is estimated that a regional demolition program may fund anywhere from 10 – 15 residential properties annually.

Estimated Demolition Cost

The cost of demolition may range anywhere between **$10,000 – $20,000** depending on several variables such as size of the structure, asbestos abatement, lead remediation, amount of garbage required to be removed prior to demolition, distance to the nearest landfill that accepts the items being disposed, cost of labor and the time of year the demolition commences. All of these costs, plus inflation are directly correlated to the rising costs of demolition of residential properties.

CAPITALIZATION OPPORTUNITIES

When it comes to securing program resources there are two fundamental questions that must be contemplated: From where is the money going to come? And is it on a continual basis? Successful program implementation will require attention to the balance between regional priorities and available resources. These two questions should be answered before a program ever moves forward.

Program resources may be secured through several different means on a singular or annual basis. This section contemplates several options available to secure program resources for initial capitalization of a regional demolition fund, but also on a continual basis to ensure program success over time.

Regional Development Commission

Potential Program Resource: Annual

MN Statues, Sections 462.381 through 462.398, as amended allows regional development commissions to levy $180,000 or 103% of the amount levied in the previous year, whichever is greater. In addition, this act also authorizes the regional development commission the power necessary to enable it to perform and carry out its duties regarding regional program administration and implementation, planning, research, technical assistance, and so forth. Depending upon 1) the amount which the UMVRDC may levy, 2) the amount of the levy UMVRDC currently requires for operational purposes, and 3) the amount of the levy UMVRDC can allocate towards a regional demolition fund are three variables in determining if there are any annual internal resources available to sustain a program.

Housing and Redevelopment Authority

Potential Program Resource: Annual

MN Statues, Sections 469.001 through 469.047, as amended allows counties and cities to establish a housing and redevelopment authority (HRA) and levy a special tax on all taxable property within the area of operation of the authority. For purposes of this feasibility report, we have only contemplated resources from a county established HRA since proceeds from an HRA levy are required to be spent within the area of operation of the authority. Counties may create an HRA through a public approval process for their respective political boundaries, or may create a multi-county HRA, made up of two or more counties, if each participating county declares that there is a need for only one HRA in the region.

The amount of the levy is set by the authority and may not exceed 0.0185% of the estimated market value. The table below provides the maximum amount that may be levied by each county HRA or a multi-county HRA assuming all five counties in the UMVRDC declare participation.

County HRA	Preliminary Estimated Market Value (Payable 2023)	Maximum Amount of Levy Funds
Big Stone	$1,801,666,400	$333,308
Chippewa	$3,146,353,000	$582,075
Lac qui Parle	$2,660,961,200	$492,277
Swift	$3,102,568,500	$573,975
Yellow Medicine	$3,332,857,600	$616,578
Multi-County	**$14,044,406,700**	**$2,597,213**

It's important to note that four counties – Big Stone, Chippewa, Swift and Yellow Medicine – have an established HRA. Under State law these counties may not declare participation in a multi-county HRA unless the established authority relinquishes its power to the multi-county authority. The following table provides what each established HRA has approved for a levy in 2023.

County	Preliminary HRA Levy (Payable 2023)	Percent of Estimated Market Value
Big Stone	$143,628	0.0080%
Chippewa	$50,000	0.0016%
Swift	$250,000	0.0081%
Yellow Medicine	$62,000	0.0019%

Specifically, regarding a multi-county HRA with respect to a regional demolition fund, there is an appeal since proceeds from an HRA levy are required to be spent within the area of operation of the authority. A multi-county HRA's area of operation would be every county that declares participation, whereas individual county HRAs wouldn't necessarily be able to contribute funds to a regional fund unless they were spent back in the area of operation of each individual authority where they were collected. This, however, may create more administrative burdens to the UMVRDC or the authority tasked with oversight and administration of a regional demolition fund.

Currently, there are three muti-county HRAs established in Minnesota. They have been provided below for reference:

Northwest MN Multi-County HRA: The NWMNHRA is a six county HRA in northwestern Minnesota that represents Kittson, Polk, Marshall, Pennington, Red Lake, and Roseau County. It was established to improve the lives of residents in their service area through affordable housing and community development. Their levy approved for 2023 is $634,295.

Southeastern MN Multi-County HRA: The SEMMCHRA is a six county HRA in southeastern Minnesota established to enhance and strengthen communities through advocacy, collaboration and promotion of self-reliance, housing, and community development. SEMMCHRA includes Wabasha, Goodhue, Winona, Houston, Fillmore and Dodge County. Their levy approved for 2023 is $637,307.

South Central MN Multi-County HRA: The SCMMCHRA was established to provide residents with the opportunity to obtain quality, affordable housing in the counties of Martin, Nicollet, Sibley, Waseca and Watonwan. Their levy approved for 2023 is $120,088.

Economic Development Authority

Potential Program Resource: Annual

MN Statutes, Sections 469.060 through 469.1082, as amended allows counties and cities to establish an economic development authority (EDA) and levy a tax in any year for the benefit of the authority. Similar to an HRA, we have only contemplated resources from a county established EDA for purposes of this feasibility report since proceeds from an EDA levy are required to be spent within the area of operation of the authority. While a county may establish an EDA through a public approval process, their area of operation is restricted to only cities and townships within the county who have adopted a resolution electing to participate. Unlike an HRA where a multi-county authority could be established, state law does not allow a multi-county EDA to be established. In addition, a city or township who elected to participate, may also withdraw participation every fifth year following adoption of the resolution electing to participate.

The amount of the levy, at the request of the EDA, is set by the county and may not exceed 0.01813% of the estimated market value. The table below provides the maximum amount that may be levied by each county EDA.

County EDA	Preliminary Estimated Market Value (Payable 2023)	Maximum Amount of Levy Funds
Big Stone	$1,801,666,400	$326,642
Chippewa	$3,146,353,000	$570,433
Lac qui Parle	$2,660,961,200	$482,432
Swift	$3,102,568,500	$562,495
Yellow Medicine	$3,332,857,600	$604,247

Currently, Lac qui Parle is the only county in the UMVRDC service area that has an established EDA. Their approved levy for 2023 is $220,090 and only two communities within Lac qui Parle County – Dawson and Madison – have adopted resolutions electing to participate.

American Rescue Plan Act – State and Local Fiscal Recovery Fund

Potential Program Resource: Initial Capitalization

The State and Local Fiscal Recovery Fund (SLFRF) delivered a substantial amount of funds to local units of government to support their response and recovery from the COVID-19 public health emergency. Local units of government (ie. counties, cities, and townships) may use these funds within four separate eligible use categories.

One category in particular – replace lost public sector revenue – allows communities to fund government services. Government services generally being defined as “services provided by the recipient governments unless Treasury has stated otherwise.” These items could include capital equipment, capital improvements, environmental remediation, payroll, provision of public safety, and so forth.

Demolition of dilapidated residential structures that have become a source of blight within communities would be an eligible use of SLFRF resources. Or, recipient governments could elect to spend their SLFRF allocation on eligible budgeted expenses anticipated to be paid by the general levy. This would unrestricted a specific amount of general levy dollars for the local unit of government to contribute to the regional demolition fund.

For reference, the following table provides the allocation amount each county within the UMVRDC received from the SLFRF. While cities and townships also received an allocation amount, we have only provided information regarding counties since the resources from SLFRF are required to benefit the political boundaries of the recipient. Note: many communities have already spent or have plans to spend their allocation amount so resources from these counites may not be available.

County	SLFRF Allocation Amount
Big Stone	$969,443
Chippewa	$2,292,012
Lac qui Parle	$1,286,440
Swift	$1,799,812
Yellow Medicine	$1,885,859
Total	**$8,233,566**

Lobbying Legislative Action

Potential Program Resource: Initial Capitalization

The 93rd session of the Minnesota Legislature will begin on January 3, 2023. During the legislative session, the UMVRDC may engage the services of a lobbyist to influence legislative or administrative action by communicating or urging others to communicate with public officials and representatives. Based on the November 2022 Budget and Economic Forecast, the state projected $17.6 billion in surplus revenue. Depending upon the lobbyist firm and the required amount of work, lobbying the legislature may cost anywhere between $15,000 – $50,000 or more.

Other Regional Resources

Potential Program Resources: Initial Capitalization and/or Annual

Southwest Initiative Foundation (SWIF): SWIF is an independent community foundation supported by individuals, families, businesses, and organizations who want to strengthen southwest Minnesota. SWIF has awarded grants to nonprofit organizations, schools, government agencies, and projects that use one of these entities as a fiscal partner. While a regional demolition fund may not be eligible for any of their currently open grants, SWIF allows eligible entities to submit pre-application questionnaires describing their program or project and detailing the benefits to southwest Minnesota for funding consideration.

Community Reinvestment Act (CRA): Federal law encourages certain insured depository institutions (ie. banks) to help meet the credit needs of local communities in which they operate. The assistance may be in the form of loans, grants, donations, charitable contributions, in-kind assistance, volunteer services and so forth for qualifying activities under 12 CFR 25.04. A regional demolition fund may be deemed a qualified activity for a community development service under section 25.04(c)(3) which includes activities, such as childcare, education, workforce development and job training programs, health services, and housing services, that partially or primarily serve or assist low- or moderate-income individuals or families.

Corporate Donations/Contributions: UMVRDC could conduct a fundraising campaign to request corporate donations for program funding from some of its major employers. This may be particularly effective if the demolition is tied to infill development, as employers are concerned about workforce housing availability.

U.S. Department of Agriculture (USDA) Rural Development Programs: USDA rural development grants and services have the potential to support rural communities with economic development, maintaining and improving a healthy rural population and supporting community infrastructure efforts. While the existing programs and services offered do not appear to translate into funding of a regional demolition fund, there may be funding opportunities that the UMVRDC may leverage by reaching out to the USDA state office for technical assistance.

ADMINISTRATION

As we review program feasibility of a regional demolition fund, administrative costs will have a direct and indirect impact on the annual fund balance. Consideration should be given to administrative and clerical salaries, as well as other non-salary administrative costs such as legal expenses, supplies, travel, marketing, and other incidentals that may arise. Administration costs typically range between 5% – 10% of the total amount of funds provided to recipients throughout the year. Depending upon program structure of a regional demolition fund, a grant structure may be on the lower side of administration costs, whereas a loan structure may be on the higher end. A grant structure may only require a grant agreement to be drafted while a loan structure may involve drafting of a loan agreement, guaranty agreement, disbursement agreement, and/or a mortgage agreement.

Administration of a regional demolition fund could continue to leverage the existing staff and resources of the three counties administering demolition programs, plus recruit county staff in the other two counties. However, as noted by the county staff currently operating the programs, much of the work in identifying the dilapidated properties and transferring their ownership to the public or another private party occurs at the city level. Smaller communities and townships may not have the staff capacity or resources to perform this function without additional external assistance. One option to consider is whether the UMVRDC could or should centralize administration across all counties in the region and expand support to municipalities. If it chose to do this, the administrative costs would increase above 10% to provide services such as:

- Assistance in finding demolition contractors and developing scopes of work for the demolition for hazardous waste; or
- Assistance to communities to go through the process for declaring properties hazardous under state law.

INITIAL RECOMMENDATION

Based on the information presented in this Demolition Program Feasibility Report and the objectives, goals and scope communicated to us by the UMVRDC, we initially recommended the following as the best suitable option to establish a regional demolition fund.

Program Structure

75/25 Matching Grant. A matching grant where the grant covers 75% of the demolition cost and the recipient covers 25% is most advantageous since it will encourage recipients to efficiently manage project costs, require recipients to have "skin in the game", stretch program funds further, and reduce future costs of development.

Program Criteria

Disbursement of Grant: There are three options for distributing grant dollars: 1) up-front prior to project commencement, 2) on a project draw basis where payments are made directly to contractors, or 3) as a reimbursement to the recipients after they provide evidence that the contractors have been paid. The fund would be the most accountable and flexible if payments are made directly to the contractors on a draw basis so recipients do not need several thousand dollars on hand of their own funds to participate. This disbursement method would, however, entail getting lien waivers from the contractors as another administrative task.

Eligibility: One factor to consider is who can receive demolish funds to accomplish two programmatic goals: 1) making the program as flexible as possible to promote a variety of potential redevelopment scenarios; and 2) ensuring that the lot will be maintained after the demolition. To achieve flexibility, we would recommend that demolition funding be available to both public entities and private parties. However, it should also be tied to a transition of ownership away from the owner who allowed the property to fall into a hazardous state. We would not recommend requiring the lot to be combined with another tax parcel as this may prevent future redevelopment of the property.

Other Consideration: While the initial concept for the regional demolition fund is to focus on residential properties, with the ultimate goals of making lots available for infill development, the program could be expanded to include commercial and/or governmental properties to enhance and make way for redevelopment in commercial districts.

Capitalization

Securing program resources should be a two-pronged approach. First, the UMVRDC and members should identify an initial source to inject a lump sum of cash for program creation, implementation, and growth. The initial cash injection should secure enough funds for three years of program operation. Ideally, the UMVRDC or the entity tasked with administering the program will want to secure **$400,000 – $550,000** for initial capitalization. This assumes three years of program operation with 15 grants provided annually and an annual administrative cost of 7% of the total amount of grants provided. In addition, this should ensure there are enough funds reserved annually for administrative costs and other incidentals that may arise. We recommend lobbying the Minnesota legislature to attempt to secure all or a portion of these proceeds. Should resources not be secured from this recommendation, further investigation and discussions will be required to determine if the UMVRDC could secure Community Reinvestment Act funds from local banks for the program or receive corporate donations to jump start the fund.

Secondly, the UMVRDC and members should identify program partners to secure annual revenue to self-sustain the program after the initial capitalization funds are spent. Based on the capitalization opportunities discussed in this report, we recommend the five counties in the UMVRDC service area establish a multi-county HRA. This would allow the region to have a cohesive program and establish a framework to effectively manage it. In addition, there is more than enough capacity from a multi-county HRA levy to appropriate annual funds to each county based on what is currently being levied in 2023 and to secure an annual revenue source for a regional demolition fund. The annual revenue to support this fund is recommended to be between **$150,000 – $250,000**. This range assumes 15 grants to be provided annually plus the necessary administration costs. The low end assumes total demolition costs of $10,000 per residential structure while the high end assumes total demolition costs of $20,000 per residential structure. In addition, this annual amount may fluctuate up or down over time depending upon 1) the status of the fund balance, 2) the ongoing demand of the program, and 3) if the program expands to include commercial property.

Note: the second prong of our capitalization recommendation is based solely on the most secure annual revenue stream. It does not take into account political appetite and willingness to establish a multi-county HRA. Further discussion with each county is needed to determine political feasibility.

From a big-picture standpoint, another reason why we've recommended the five counties in the UMVRDC service area establish a multi-county HRA is to design a regional demolition fund that ensures every city and township has access to it at a reasonable cost. Many local units of government have competing interest each year when determining tax levy increases (ie. payroll, public services, cost of living adjustments, benefits, capital improvements, capital equipment, and so forth). Generally, an increase in a city's tax levy will impact property owners more than an increase in a county's tax levy since it's spread across more properties, especially if a regional demolition fund is implemented.

For instance, if Big Stone County increases it's HRA levy by $150,000, this increase would be spread across $1,801,666,400 of estimated market value and would be a levy percentage increase of 0.0055%. Whereas, if the City of Graceville established an HRA and levied the maximum percentage (0.0185%), it would only generate $4,848 since the levy is spread across $26,205,900 of estimate market value. While Graceville may be a small city in comparison to others throughout the region, it's the second largest city in Big Stone County and wouldn't be able to generate enough funds through an HRA levy to assist with one demolition.

Now, there is an argument to be had that demolition may be concentrated in larger cities versus smaller cities and townships, yet they would all proportionally be taxed if a county increases it's HRA levy. The question that must be asked and answered by the UMVRDC and its members comes down to the type of community that needs the demolition assistance. Is it larger cities, smaller cities, or townships? If it's smaller cities, there may be a greater benefit to have the counties consolidate into a multi-county HRA to spread the tax impact across $14,044,406,700 (estimated market value of UMVRDC service area). Or, if it's just larger cities, then there may be a greater benefit to have each city leverage its HRA to fund the demolition assistance.

Governance and Administration

Multi-County HRA: In order to comply with the requirements of Code of Federal Regulations, title 24, part 964 and to ensure representation from across the region, we would recommend the multi-county HRA be established with a ten-member Board of Commissioners, appointed by the individual counties, with two members from each of the five counties. This multi-county HRA Board would provide approval, direction, and oversight of the regional demolition fund.

Initially, the multi-county HRA does not need to include all five counties. It could start with those counties interested in participation and grow over time as its services prove impactful.

The multi-county HRA governance structure would support both administrative options outlined on Page 10 and 11:

- A divisional organizational structure whereby each county leverages its existing staff and resources to implement the regional demolition fund within their respective county; or
- A centralized administration where the multi-county HRA contracts with staff at the RDC or one county to provide services across the region.

Additional feedback from the municipalities on their need for administrative support would be helpful in determining which structure would be most beneficial and cost effective.

Alternatives to a Multi-County HRA: The most ideal outcome of forming a multi-county HRA would be to develop a cohesive governance structure and long-term funding source for the demolition loan program. There are other alternatives to accomplish these goals. The UMVRDC Commissioners could provide oversight to the program and UMVRDC staff could take on the administrative function or continue to coordinate with county and/or municipal staff.

The larger challenge will be to develop a long-term funding source without a multi-county HRA levy. If the UMVRDC obtains seed money through the legislature, it could use this initial funding to leverage funds from counties and/or municipalities through a matching program. For example, the UMVRDC could make $100,000 available to each county if they provide $50,000 of their own local funding for two years, or $25,000 per year over four years. This would double the capacity of the program and leverage local resources. Although without a longer-term funding commitment the program may still peter out after a few years, this injection of resources may be sufficient to address any backlog of dilapidated residential structures.

FEEDBACK

The UMVRDC obtained feedback on the initial recommendations in this report from cities and counties within its region by:

1) Holding a forum to receive a presentation on the report from Ehlers and have a facilitated discussion, and

2) Surveying stakeholders.

Four themes emerged from the feedback through the forum and the survey, as indicated by some of the comments quoted below.

First, there was concern that the focus of the analysis was on dilapidated housing while the greatest unmet and most challenging need is to fund the demolition of large commercial and institutional properties such as the school facility that is estimated to cost $1 million to remove.

> *"I think [one] of the … biggest problems with [the] current situation is the potential tremendous financial impact of dealing with larger commercial/industrial and former school buildings, given there is no current availability of outside financing. I don't think [this] problem can be solved effectively by local government, or multi-government authorities. The real fixes can only be addressed at the state level."*

Second, the three counties that currently have demolition programs felt that the programs were meeting the need within their jurisdiction and that there wasn't a role for UMVRDC to play in those counties.

> *"Given the relatively small dollar amount that we currently pay out for citizen demo grants, this isn't really a problem for us."*

Third, the two counties without programs identified a potential need for staff administration and funding to remove blighted residential properties, and they were interested in further exploring concepts that may include UMVRDC involvement.

Finally, the need to remove blighted and dilapidated property was not perceived to be problematic enough to overcome the political challenges of forming a multi-county HRA. To use an analogy, the solution seems like a sledgehammer for a problem the size of a nail, especially when the problem is not experienced to the same degree across the five counties.

> *"Regarding creation of a central multi-county authority, our current grant program requires minimal admin work and I'm not aware that we have unmet needs/requests. Combined with a reduction in local control (even if it's just*

perceived) this is not an option that [my County] would be interested in."

"I shared the study with the HRA board and had a discussion with the board members. The board feels our current demo program is successful. The board felt that the risks of joining a multicounty HRA would outweigh the benefits. There were concerns about [our] County funding being utilized in other counties (even if it is just the appearance of that)."

A PATH FORWARD

Based on the feedback received, we understand that a Multi-County HRA may not be the preferred path forward. Other options would include UMVRDC providing staff capacity and expertise to the two counties without existing programs, and/or UMVRDC leading a lobbying initiative to obtain state funding to demolish large and expensive buildings without a redevelopment project in place.

UMVRDC Assistance for Yellow Medicine and Chippewa Counties

The two counties within the region that do not currently have demolition loan or grant programs may wish to work with UMVRDC to develop and staff these programs. In this scenario, the County would need to increase its levy or implement an HRA levy to fund both the program and administration expenses, and UMVRDC would provide the technical support to set up and market the programs and/or provide ongoing administration. Based on the size of the other county programs, the annual levy in each county would need to be in the range of $25,000 to $50,000 to address two to four properties per year.

UMVRDC Assistance in Obtaining Funding for Large Demolition Projects

This project was focused on residential demolition programs and thus we have not done an analysis of the inventory or costs of demolishing large commercial, industrial, or institutional properties. Nevertheless, the large and challenging projects have come up enough in discussion to conclude that a few of those properties pose a significant problem for the region. The previous recommendations about lobbying for special legislation could apply here as well, and UMVRDC's role could be to coordinate and potentially help pay for the lobbying effort. Any proposed legislation is more likely to be successful if a particular project(s) and budget is identified than if the UMVRDC asks for general funding for a demolition grant program for unspecified large projects.