



1997 ANNUAL REPORT



City of Saint Paul
Sales Tax Revitalization (**STAR**) Program



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Sales Tax Revitalization (STAR) Program 1997 Annual Report

This Report

St. Paul's *Sales Tax Revitalization (STAR) Program* has just completed its third year of awarding loans and grants for capital improvement projects in St. Paul neighborhoods and the downtown cultural district. This annual report on the STAR Program includes:

- o an overview of the STAR Program
- o key program features
- o application and project selection process
- o estimated future sales tax collections
- o STAR awards by project type and geographic area
- o 1997 distribution of STAR fund balance
- o program accomplishments to date
- o outside investment and job creation
- o loan program features
- o contracting process

What is the STAR Program?

The Minnesota State Legislature provided legislative authorization for the City of Saint Paul to levy an additional 1/2 percent sales tax in May, 1993. The authorizing legislation states that revenues may be used to pay all or a portion of the capital expenses for expansion and remodeling of the St. Paul Civic Center complex. The legislation further states, "*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*". The City determined that 40% of the sales tax proceeds would pay for 30 year bonds issued to finance the renovation and expansion of the Saint Paul River Centre (formerly the Saint Paul Civic Center). The remaining 60% of sales tax proceeds would be spent on other capital improvement projects in Saint Paul.

In mid-1994, the City Council established the Sales Tax Revitalization (STAR) Program, which includes the Neighborhood STAR and Cultural STAR Programs, to distribute the remaining sales tax proceeds. The Neighborhood STAR Program awards loans and grants for capital improvement projects in Saint Paul neighborhoods, and is funded with 50% of the sales tax proceeds. The Cultural STAR Program, funded with the remaining 10% of sales tax proceeds, awards loans and grants for capital improvement projects that further cultural activities in Saint Paul. However, changes to the state legislation during the 1997 session will enable the City to use funds in the Cultural STAR Program for cultural organization operating expenses as well, beginning in 1998.

Both the Neighborhood and Cultural STAR Programs have completed three annual funding cycles, which were administered by the City's Department of Planning and Economic Development.

Key Features: Neighborhood STAR Program

The Neighborhood Sales Tax Revitalization (STAR) Program awards grants and loans for physical improvement projects in Saint Paul neighborhoods.

Key features include:

- * Program funding: 50 percent of the proceeds of the City's half-cent sales tax.
- * Funds are awarded annually through a competitive application process.
- * STAR funds must be matched on a 1:1 basis with other resources.
- * STAR funds must be spent on physical improvements that have an expected life of at least 7 years.
- * Eligible applicants include any public, private, or non-profit entity located in or doing business in Saint Paul. However, projects located in the Cultural District must apply to the Cultural STAR Program (see below).
- * Proposals developed with neighborhood involvement and support are favored.
- * Program allocation goals: 60% for loans, 30% (or \$950,000 minimum) for grants, and 10% for seed capital proposals.
- * Small grants: a number of small grants are awarded (awards of \$5,000-\$20,000), using a streamlined application and approval process.
- * 1997 program priorities:
 - 1) Business program proposals that respond to business interests year round;
 - 2) Housing proposals for step-up and higher-priced new ownership opportunity projects; and
 - 3) Seed capital proposals for programs with funds available year round to respond to business opportunities such as micro-enterprises, start-ups, and franchises.
- * Funding recommendations are made to the Mayor and City Council by the 15 member STAR Board, which is appointed by the Mayor and approved by the City Council.

Key Features: Cultural STAR Program

The Cultural STAR Program awards grants and loans for capital projects which further cultural activities in Saint Paul. For the first 5 years through 1999, at least 75% of program funding is to be invested in capital projects within the boundaries of the targeted geographical area known as the Cultural District (the downtown area west of Cedar Street). The remaining 25% of the funding

may be allocated to capital projects located outside the Cultural District provided these projects demonstrate a link to or support of activities within the District. However, as noted previously, Cultural STAR funds may be spent for cultural organization operating expenses beginning in 1998.

Key features include:

- * Program funding: 10 percent of the proceeds of the City's half cent sales tax.
- * Funds are awarded annually through a competitive application process.
- * Funds must be matched as required, at least 1:1 (see specific requirements for loans and grants in the program guidelines) with appropriate resources.
- * Funds must be spent on physical improvements that have an expected life of at least 5 years.
- * Eligible applicants include any public, private, or non-profit entity located in or doing business in Saint Paul.
- * Program allocation goals: a minimum of 25% loans, a maximum of 75% grants.
- * 1997 program priorities:
 - 1) Projects which help stabilize , through capital support, cultural organizations within the cultural district;
 - 2) Projects which meet identified cultural customer and visitor needs;
 - 3) Projects which are supported by planning efforts such as the Wabasha Initiative, West of Wabasha report, or the Saint Paul on the Mississippi Development Framework.
- * Funding recommendations are made to the Mayor and City Council by the nine member Saint Paul Cultural District, Inc. Board, of which five of the nine members are appointed by the Mayor and approved by the City Council.

Application and Project Selection Process

Funds are awarded annually through a competitive application process. Applicants to both the Neighborhood and Cultural STAR Programs must submit a pre-application. For the Neighborhood STAR Program, the Board makes an initial cut, inviting selected applicants to submit a more detailed final application. All Cultural Program pre-applicants submit a final application. Each applicant is assigned a contact person in the Department of Planning and Economic Development who will answer questions and review a draft final application upon request.

Funding recommendations for the Neighborhood STAR Program are made by a 15-member board of Saint Paul residents representing various backgrounds and interests. Funding recommendations for the Cultural STAR Program are made by the nine-member Saint Paul Cultural District, Inc.

Board which includes representatives of cultural organizations and the community. Both boards review final applications and make funding recommendations using staff reports, a video tour of project sites, and applicant interviews. The dates for the 1997 application funding decisions are given below:

	<u>Neighborhood STAR</u>	<u>Cultural STAR</u>
Board Funding Recommendations	Apr. 3, 1997 (sm. grant) Sept. 29, 1997 (lge. loan/grant)	May 8, 1997 ---
City Council Funding Decisions	Apr. 23, 1997 (sm. grant) Nov. 5, 1997 (lge. loan/grant)	June 25, 1997 ---

Sales Tax Collections

As of November 30, 1997, nearly \$35 million had been collected through the 1/2 cent sales tax in Saint Paul since collections began in August, 1993. The Neighborhood STAR Program portion of the sales tax revenue is expected to be approximately \$4.2 million for the 1998 cycle, and is projected to increase to \$6.4 million per year by 2007. The Cultural STAR Program portion is expected to grow from \$876,000 in 1997 to \$1.3 million in 2007. Sales tax collections for 1997 have been running approximately 1.0% ahead of collections for a similar period in 1996.

STAR Awards

In 1995, there were 98 final applications for STAR Program funding. Forty-seven of these applications received nearly \$4.4 million in STAR funds. In 1996, there were 83 final applications, of which 44 received over \$5.1 million in STAR funding. In 1997, there were 55 final applications (see the note below), of which 42 received nearly \$5.5 million in STAR funding. The total number of applications, awards, and funding by program component are given below:

	<u>Total Final Applications</u>	<u>Total Awards</u>	<u>Total Funding Awarded</u>
Neighborhood STAR			
1995	50	22	\$3,695,448
1996	47	20	4,064,055
1997	32*	21	4,482,000
Total	129	63	\$12,241,503
Neighborhood Small Grants			
1995	22	14	\$175,254
1996	21	13	183,374
1997	13	12	227,500
Total	56	39	\$586,128
Cultural STAR			
1995	26	11	\$504,600
1996	15	11	778,200
1997	10	9	790,382
Total	51	31	\$2,194,582

*For the first time in 1997, the Neighborhood STAR Board made initial cuts based on 44 preapplications, inviting 35 to submit final applications.

1997 Neighborhood STAR Funding by Project Type

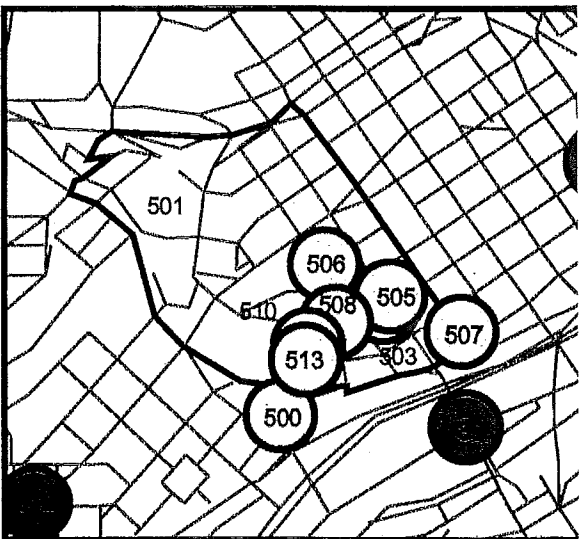
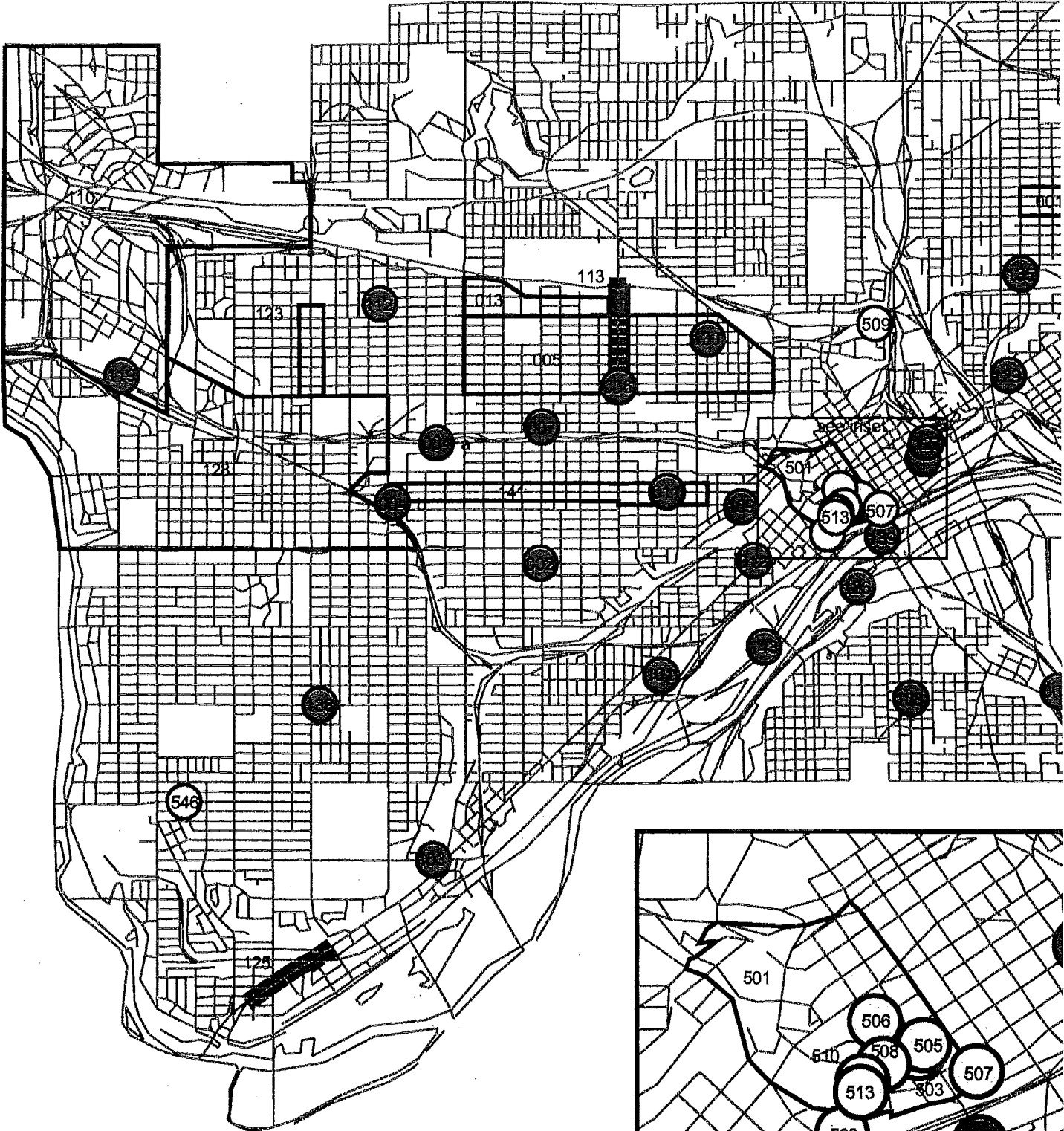
	1995	1996	1997
Commercial/ Industrial	29% (8 projects)	37% (9 projects)	26.5% (9 projects)
Residential	31% (9 projects)	30% (4 projects)	25% (9 projects)
Streetscapes	2% (3 projects)	1% (2 projects)	5% (3 projects)
Park and Recreational Improvements	3% (5 projects)	1% (4 projects)	6% (5 projects)
Educational/ Community & Social Services	31% (6 projects)	25% (11 projects)	37% (5 projects)
Pollution Cleanup	4% (1 project)	6% (1project)	.5% (1 project)

A comparison of awards made from 1995 through 1997 by project type shows an increase in funding from 1995 to 1996 for commercial/industrial projects from 29% to 37% then a decrease to 27% in the most recent cycle; a decrease in funding for residential projects from 31% to 30% then a further decrease to 25% in the most recent cycle; a decrease in streetscape funding from 2% to 1% then a rebound to 5%; a decrease in park and recreational funding from 3% to 1% then an increase to 6%; a decrease in funding for educational, community, and social services from 31% to 25% then an increase to 37% in the latest cycle; and an increase in funding for pollution cleanup from 4% to 6% then a decrease in this latest cycle to .5%.

Geographic Distribution of Awards

The map on pages 6-7 of this report indicates the location of funded projects for the 1997 funding cycle (see list of 1997 funded projects, p. 8, for project numbers that correspond to map numbers). The map shows both *project* locations and the approximate boundaries for *programs* that have been funded through STAR. Further attempts to tally funding awards by ward or planning district are difficult, since some projects and programs straddle ward or planning district boundaries, while others have a citywide impact whose benefits cannot be attributed only to a single area.

Saint Paul STAF



downtown inset

Funding 1997



Funding types

(Individual projects denoted by three digit numbers.)

● Small Grant

● Neighborhood

○(500) Cultural

□ Program areas

▾ Streetscapes

▾ Street grid



Neighborhood STAR Program

1997 Funded Projects

Proj #	Project	Applicant	Ward	Grant	Loan	Seed Cap
97-100	STAR Business RLP	Business Resource Center	CW	\$25,000	\$250,000	
97-101	Brewery Breakthrough	West 7th/Fort Road Federation	2	\$200,000	\$200,000	
97-103	Circus of the Star	Circus of the Star	3	\$200,000		
97-106	Mounds Park Hudson Road STAR Invest.	Dayton's Bluff Neighborhood Housing Service	7	\$149,500		
97-108	617 Stryker Avenue Redevelopment	PED/West Side Community Organization	2	\$25,000		
97-109	Renovation of Maryhill for Deva House	Deva House	2	\$100,000	\$500,000	
97-112	Friends School Playground	Friends School of Minnesota	4	\$20,000	\$10,000	
97-113	Dale Street Facade Grant Program	Frogstown Action Alliance	1	\$50,000		
97-119	Saint Paul Business Incubator	Genesis Business Centers, Ltd.	4		\$222,000	\$278,000
97-123	Snelling Avenue Business Initiative	Hamline Midway Coalition	4	\$100,000	\$50,000	
97-124	Harding Community for Tennis	Harding HS/Saint Paul School District	7	\$200,000		
97-125	Gateway to Saint Paul	Highland Area Comm. Council/West 7th Bus. Assn.	3	\$200,000		
97-126	Harriet Island Park Entrance	Junior League of Saint Paul, Inc.	2	\$37,500		
97-127	Markethouse Condominium Parking	Markethouse Condominium Association	2		\$100,000	
97-128	Pride in Neighborhood Housing	Merriam Park Community Council Inc.	4	\$60,000	\$40,000	
97-129	Community Library East 7th Foot Bridge*	Metropolitan State University	7	\$200,000		
97-130	Charter School Renovations	New Spirit Schools	1		\$700,000	
97-132	Home Improvements Plus	North East Neighborhoods Development Corp.	6,7	\$100,000		
97-135	Payne Center Rehab for Manufacturing	Peoples Network of Minnesota Inc.	6			\$400,000
97-138	Randolph-Snelling Development	St. Patrick's Guild Inc.	3	\$25,000	\$200,000	
97-139	World Class Island Bandstand	Schubert Club	2	\$150,000		
97-141	Loans for Selby	Selby Coalition	1		\$100,000	
97-143	NSP Pumphouse Renovation	Urban Boatbuilders Inc.	2	\$65,000		
			Total	\$1,707,000	\$2,372,000	\$678,000

STAR Small Grant Projects

Proj #	Project	Applicant	Ward	Grant
97-001	Rebuild the City: Ezra Nehemiah Project	East Side Neighborhood Development Co.	6	\$20,000
97-002	Grand Avenue Public Plaza	Grand Ave. Business Assn./Summit Hill Assn.	2	\$20,000
97-003	Mural Project	Guadalupe Area Project	2	\$18,000
97-004	Community Park Improvement Project	Lexington Hamline Community Council	1	\$20,000
97-005	Frogstown Community Enhancement	Frogstown Action Alliance	1	\$19,500
97-006	Frogstown Entrepreneur Center Parking Lot	Neighborhood Development Center	7	\$10,000
97-007	Maxfield Playground Improvements	Independent School District 625	1	\$20,000
97-009	Phalen Village Identity Project	NENDC/Phalen Business Association	6	\$20,000
97-010	St. Anthony Business Facade Project II	St. Anthony Park Business Association	4	\$20,000
97-011	470 Selby Facade Improvement	Saint Paul Curling Club	1	\$20,000
97-012	Salvation Army West 7th Parking	Salvation Army of Saint Paul	2	\$20,000
97-013	Senior Chore Project	Thomas-Dale Block Club	1	\$20,000
			Total	\$227,500

Cultural STAR Projects

Proj #	Project	Applicant	Dist	Grant	Loan
97-500	Science Museum of Minnesota Expansion	City of St. Paul/Science Museum of MN	in	\$336,746	
97-501	Cultural STAR RLP	City of St. Paul, PED	in	\$23,000	\$230,138
97-503	Blue Ribbon Ice Cream Parlor	Blue Ribbon Deli & Cafae	in	\$10,000	
97-505	Capital Centre Plaza (Osborn Plaza)	Ecolab Inc./ St. Paul Parks /PED	in	\$322,744	
97-506	Great Waters Outdoor Plaza	Great Waters Brewing Co.	in	\$20,000	
97-507	Old Cedar Capital Facade Project	Kellogg & Cedar Limited Partnership	in		\$100,000
97-508	Landmark Center Signage & Facade Imp.	Minnesota Landmarks	in	\$47,000	
97-509	Jackson Street Roundhouse Rail Cars	Minnesota Transportation Museum	out	\$22,500	
97-510	Ordway Web Site & Technology Project	Ordway Music Theatre	in	\$75,000	
97-513	O'Shaughnessy Plaza Sculptural Amenities	Public Art Saint Paul	in	\$50,000	
97-546	Hillcrest Rec Center Theater - Phase 2	Highland Area Recreation Project		\$20,000	
			Total	\$926,990	\$330,138
Grand Total				\$6,241,628	

*This project is approved for funding in 2000, and its award amount is not included in the total

1995-1997 Cultural STAR Awards by Project Type

	1995	1996	1997
Cultural Organizations	60% (8 projects)	87% (7 projects)	44% (6 projects)
Commercial Visitor Services	5% (1 project)	9% (3 projects)	29% (2 projects)
Streetscape Improvements	35% (2 projects)	4% (1 project)	27% (3 projects)

A comparison of awards made from 1995 through 1997 by project type is less useful for the Cultural STAR program, since the program is smaller and large projects can significantly affect the percentages. Given that qualification, Cultural STAR awards by project type show an increase in funding from 1995 to 1996 for cultural organizations from 60% to 87% then a decrease to 44% in the latest cycle; a decrease in funding for streetscape improvements from 35% to 4% then an increase to 27% in the latest cycle; and an increase in commercial visitor services from 5% to 9% and a most recent increase in during the last cycle to 29%.

Distribution of the STAR Fund Balance

The City Council approved the following projects and programs, outside of the normal 1997 Neighborhood and Cultural STAR funding cycles, on December 17, 1997. This allocation was made possible through a one time accounting shift of funds designed to more quickly invest sales tax proceeds in the City's neighborhoods. The STAR program fund balance has been growing due to the time it takes neighborhood groups and others to implement projects (up to two years is allowed) and because funding for each cycle has been based on sales tax received the preceding year. STAR funds for these new projects must be spent on capital improvements in accordance with STAR guidelines.

Projects Funded with STAR Fund Balance

Project Name	Managed by	Loan	Grant
The Neighborhood Investment Program	PED		\$750,000
Dunning Field	Parks Dept.		1,500,000
Rice St. Library	Libraries		400,000
Metro State Community Library	PED		500,000
Family Service Center	PED		500,000
Brewery Breakthrough Match to Met. Council Livable Communities Grant	PED	350,000	
STAR Bank Program	PED	1,250,000	
Phalen Corridor Targeted Indust. Dev.	PED	950,000	950,000
Pig's Eye Acquisition & Development	Parks		100,000
PED Program for Neighborhood Projects	PED	350,000	150,000

*Lawson Retail Tenant Improvements	HRA	1,100,000	
*Rice Park Improvements	Parks Dept.		70,000
*Park Square Theater	PED		36,400
	Totals	\$ 4,000,000	\$ 4,956,400

This one-time opportunity to allocate approximately \$9 million allowed a departure from the 70/30 and 25/75 loan to grant allocation ratios in the adopted guidelines.

*Out of the Cultural Program Fund Balance

Program Accomplishments

Currently the STAR Program has completed its third funding cycle, and award recipients are in the process of signing contracts with the City. Although the STAR Program is relatively new and most of the larger projects and programs still have active contracts, there are quantifiable results from the first two cycles. An examination of the STAR Program for cycles 1995 and 1996 shows that through August 1997:

- 165 homes have been improved
- 52 businesses have been improved
- 17 education and community centers have been revitalized
- 4 cultural organizations' facilities have been improved
- 9 parks and recreation projects are safer and better equipped
- 7 streetscapes are more inviting and accessible
- 129 jobs have been created

Other interesting findings

- 30 of 79, 1995 and 1996 projects are complete (the remaining contracts are still open).
- On average, STAR funds are being matched with non-City resources more than 2 to 1.
- A higher proportion of the 1996 match than the 1995 match comes from monetary matches.
- An increased percentage of STAR-fund recipients from 1995 to 1996 have a positive view of the program.

Outside Investment and Job Creation

In 1995, the \$3.7 million awarded in large Neighborhood loans and grants will generate an additional \$4.9 million in outside investment (private, non-profit, or non-City public dollars). Although job creation is difficult to predict, these projects will create an estimated 194 full-time equivalent jobs. The Cultural STAR funds of \$504,000 in 1995 are expected to generate \$534,000 in matching investment.

In 1996, the \$4.1 million awarded in large Neighborhood loans and grants will generate an additional \$23.7 million in outside investment and create an estimated 480 full-time equivalent jobs. Approximately 300 of these are from the Williams Hill industrial redevelopment project. Additionally the \$899,600 in Cultural STAR funds is expected to help generate an additional investment of \$95.4 million. A large portion of this investment is attributable to the new Science Museum of Minnesota.

In 1997, the \$4.4 million awarded in large Neighborhood loans and grants will generate an additional \$17.8 million in outside investment and create an estimated 249 full-time equivalent jobs. This same year \$780,000 of Cultural STAR funds were awarded and are expected to help generate a matching investment of over \$4.5 million.

Loan Program

The loan component is the heart of the STAR Program. Loans are made to projects and programs that cannot qualify for traditional bank financing, but would result in desirable neighborhood improvements. Seventy percent of Neighborhood STAR funds and 25% of Cultural STAR funds are awarded as loans. Loan repayments will allow the STAR Program to grow, enabling the City to invest in even more neighborhood and cultural projects in future years.

The STAR Program started reaping the benefits of loan repayments in 1997. As of 11/30/97, \$163,365 has been repaid. By 2007, loan repayments are projected to be approximately \$2.7 million. Add this to projected sales tax receipts of \$6.4 million, and approximately \$9.1 million will be available for investment in neighborhood projects in 2007. Loan repayment projections have not yet been completed for the Cultural program.

Loan Portfolio

STAR loan applicants are allowed to propose an interest rate and term for their loan. Loan applications are analyzed by a Dept. of Planning and Economic Development (PED) staff credit committee, which recommends conditions of loan approval, changes in the interest rate or term if appropriate, and assigns a risk rating (chance of repayment) for each loan.

The STAR Program has a goal of no more than a 20% loan loss for the program, and an overall rate of return of 5% (this rate of return goal was added to the guidelines for 1996). In analyzing the loan portfolios for the first three cycles, using the risk ratings given each loan by the PED Credit Committee, the predicted loss for first cycle (1995) loans is 27%; the predicted loss for second cycle (1996) loans improved to 25%, however the predicted loss for the third cycle increased to 40%. The average interest rate for first cycle loans is 2.9%; the average interest rate for second cycle loans is 3.8%, and the interest rate for the third cycle is 5%. There is not enough data yet to determine whether the assigned risk ratings will be accurate.

Contracting Process

Entities that receive a STAR award must enter into a contract with the City. The contract specifies exactly what will be accomplished with the STAR funds, including a detailed budget for both STAR funds and leveraged outside investment. If a contract is not signed within six months of City Council approval of funding, STAR funds are reallocated in the next funding cycle. This helps insure that STAR funds are invested in projects that are ready to be completed, rather than tying up STAR funds for several years. Typically, projects and programs must be completed within two years. STAR funds are released on a reimbursement basis, upon presentation of appropriate receipts, invoices, or other documentation, demonstrating that the work has been done.

More Information?

For additional copies of this report or information about the 1998 funding cycle, please call 266-STAR(7827).

Credits

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City Council President David Thune*

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Councilmember Dan Bostrom

Councilmember Joseph Collins*

Councilmember Mike Harris

Councilmember Roberta Megard*

Councilmember Gladys Morton*

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Michelle Vojacek

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*Terms expired at the end of 1997.

1997 Cultural STAR Board

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Jim Beaver and Fran Burns- interns

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