

Transportation Committee Management Committee

For the Metropolitan Council meeting of August 10, 2016

Subject: Right-of-Way Acquisition Loan Fund (RALF) Policy Modification

Proposed Action

That the Metropolitan Council modify the eligibility requirements of Right-of-Way Loan Fund (RALF) parcels as follows:

- Limit RALF loan requests to rights-of-way threatened by development or to hardship acquisitions of homestead properties, with exceptions for other properties considered on a case-by-case basis.

Summary of Committee Discussion/Questions

Metropolitan Transportation Services Interim Director Amy Vennewitz presented this item at the 7/25/16 Transportation Committee. Vennewitz answered questions from committee members: repayment term (no typical term for repayment, could be 8, 10, 30 years); existing loans to be sold on a non-MDOT project (would need written communication from MDOT that they have no plans to use, then we'd notify city); outstanding loans/parcels (outstanding loans \$45M; parcels – unknown, would have to get back to Committee); list of RALF properties (will bring update in future). Commers expressed concerns about loan repayment while Barber had favorable comments regarding communities benefiting.

Motion by Barber, seconded by Munt and passed with Commers voting against at the Transportation Committee.

Ms. Vennewitz also presented this item at the 7/27/16 Management Committee.

CM Wulff spoke in support for the item.

Motion by Cunningham, seconded by Barber and passed at the Management Committee.

Transportation Committee

Meeting date: July 25, 2016

Management Committee

Meeting date: July 27, 2016

For the Metropolitan Council meeting of August 10, 2016

Subject: Right-of-Way Acquisition Loan Fund (RALF) Policy Modification

District(s), Member(s): All

Policy/Legal Reference: Mn. Statute 473.167 Highway Projects, Subd 2, Loans for acquisition

Staff Prepared/Presented: Amy Vennewitz, Deputy Director MTS, 651-602-1058

Division/Department: Transportation / Metropolitan Transportation Services (MTS)

Proposed Action

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Background

The RALF program was set up in state law in 1982 to enable the Council to make loans to cities to purchase needed highway right-of-way in advance of roadway development. The program was originally limited to undeveloped land, based on the premise that purchasing the land later, after it was developed, would be much more expensive. The law was amended to allow purchase of homes in a hardship situation, defined as occurring when a homeowner must sell the home for health or financial reasons, but is unable to do so because buyers are unwilling to purchase a property that lies within the right-of-way of a planned road. The law was later amended to allow purchase of any property offered by any willing seller. The underlying assumption of the RALF program was that all real estate would continuously increase in value, so the earlier it was purchased the lower the cost would be.

In 2010, the Council suspended the RALF program to assess its financial effectiveness, ensure that loans being made were consistent with the highway plans expressed in the Transportation Policy Plan (TPP), and determine what changes, if any, should be made to the program. A financial evaluation of the program and input from a group of RALF stakeholders concluded that the RALF program had been beneficial for both MnDOT and the communities by assisting in highway program delivery in a cost-effective manner and providing a means to acquire properties facing hardship situations. However, the analysis did note that the downturn in the price of real estate after 2008 made it difficult to determine whether early purchase of already developed land would be cost effective in all situations.

Thus, in March 2014, when the Council reinstated the RALF program it adopted the following modifications:

- Consider and exercise approval over individual RALF loan requests, doing so on a case-by-case basis to ensure consistency with the Transportation Policy Plan (TPP) and to determine policy and priority implications

- Limit RALF loan requests to rights-of-way threatened by development or to hardship acquisitions of homestead properties
- Require an annual review that assesses the program's status, anticipates its financial needs, recommends a levy amount for the next annual budget and addresses related matters

Rationale

The Council has not made any loans since the RALF program was re-instated in March 2014. Met Council staff has had meetings with the cities of Chanhassen, Ramsey, and Lakeville to discuss potential RALF loans during this period. However, the potential parcels have not met the new, stricter second requirement for loan eligibility. The potential parcels are already developed, typically with a commercial use, although in many cases, the property in question is currently vacant.

Due to the current eligibility requirements and the lack of future highways on new alignments identified in regional plans, staff believes potential locations for purchasing property with RALF funds are limited. All of the region's major highways have been completed and the need for advanced acquisition of right-of-way has narrowed primarily to land needed for reconstruction of existing roads and new interchange construction. These projects are often in locations that have already been developed with non-residential properties which are ineligible for RALF loans under the conditions adopted in 2014. Since hardship is restricted to homestead properties, any commercial property, even vacant or under-utilized properties, are not eligible for hardship considerations and therefore are not eligible for RALF loans under the current eligibility requirements.

The proposed modification to consider exceptions to the eligibility requirements would allow flexibility for cities to apply for RALF funds on parcels that are not eligible for hardship consideration but are needed for future highway projects that are consistent with the TPP. The Council would hear proposals for exceptions on a case-by-case basis and vote on the exception and the RALF loan application.

The proposed modification would not change the eligibility criteria and review for the highway improvement project. The planned highway project would still need to be consistent with the TPP and supported by MnDOT. In addition, purchasing property for smaller-scale highway improvements, such as roadway reconstructions and new interchanges, in already developed locations would also support the policies and investment strategies in the TPP.

The current RALF fund balance is \$14.3 million. If the modification is approved, staff does not anticipate that the change will result in a large number of new RALF loan applications due to the lack of planned major highway projects in the region needing right-of-way. However, staff anticipates some cities will request RALF loans if the Council adopts the recommended exception.

Known Support / Opposition

No known opposition.