

Strengthening Community and Economic Development in the City of Minneapolis

Report to the Mayor and City Council

INTRODUCTION

It is a critical time for community and economic development in Minneapolis. Over the last decade, the city has been very successful, with growth in population and jobs, large increases in property values, and the completion of myriad neighborhood development, historic preservation, downtown, and riverfront development projects.

However, in spite of this success, the city currently faces many critical challenges related to community and economic development. As property values have risen and apartment vacancy rates have decreased, housing within the city has become much less affordable. While job growth in Minneapolis was positive over the last decade, employment grew only a quarter as fast in the city as in the suburbs, and trailed the national job growth average. Traffic congestion in the metro area is worsening, and the city lags peer cities across the country in availability of mass transit. And in 2000, the Minneapolis public school 4-year graduation rate was only 43%, 41 percentage points below the state average. These issues, coupled with an uncertain city financial situation due to the economic slowdown and changes in state tax law, suggest that now is a critical time for the city to invest its community and economic development resources as effectively and efficiently as possible. Indeed, with projected revenue losses of over \$40 million per year and the increasing cost of current city plans and commitments, the city must take action immediately to avoid rapidly increasing tax rates, spending deficits, or service cutbacks.

Recognizing these challenges, Mayor R. T. Rybak and representatives of the City Council asked McKinsey & Company to help the city determine how it can best address these development issues. During the resulting 6 month *pro bono* study, we collected input from a large number of stakeholders through over 300 personal interviews and contacted nearly 1000 additional people through an Internet development survey. We also reviewed over 125 documents and performed in-depth financial, process, and organizational analyses of development in Minneapolis. In doing so, we identified a number of barriers which hinder effective development spending and impede private investment in Minneapolis.

The following sections outline the specific issues that we believe the city faces with regard to community and economic development and detail our recommendations for resolving these issues.

PRIMARY DEVELOPMENT-RELATED ISSUES

Our study identified several major issues that the city needs to address in order to improve its community and economic development situation.

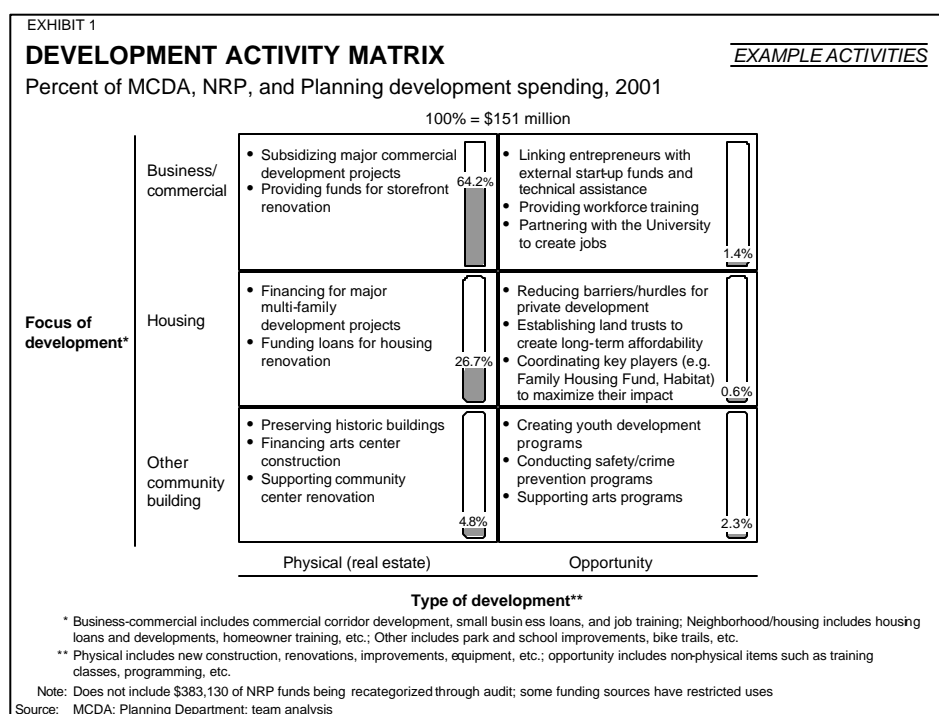
1. Financial constraints. The city's current financial situation and previous development results suggest that Minneapolis will be unable to meet its development priorities using current approaches. Over the past 5 years, nearly \$1 billion was spent on development by the MCDA, NRP, and Planning Department, but the city saw a net increase of only 52 housing units and job

growth significantly lagging the suburbs and the national average.¹ Due to increasing city commitments, changes in property tax law, and potential state and federal funding cuts, the city will have even less development funding in the future, requiring the city to do more with less.

2. Lack of strategic leadership. City leadership has not been strong and consistent in setting its economic and community development strategy, making project decisions, and managing the execution of its vision. In a number of instances, the City Council has disregarded standing policies when making individual development project decisions, causing confusion for staff and frustration in the community.

3. Lack of clear goals and priorities. The current approach to development lacks clear citywide priorities and measurable short and long-term development goals. This results in a lack of clear direction and desired outcomes to be generated by city staff. In addition, the lack of specific, measurable goals makes it very difficult to gauge the city's progress in addressing its needs.

4. Narrow focus on physical development. The current spending strategy focuses on physical (real estate) development, neglecting other attractive approaches, levers and tools, as illustrated in Exhibit 1. By doing this, the city ignores many potentially powerful but inexpensive strategies, such as working with the University to encourage new technology businesses startups in Minneapolis.



5. Lack of development management processes. The city lacks a number of clear development management processes (e.g. project selection and prioritization, performance management, strategic planning). Since the Mayor and Council do not have top-down processes which can be used to control development, they often resort to micromanagement of city staff to impact development, frustrating staff and sometimes providing direction counter to standing policies.

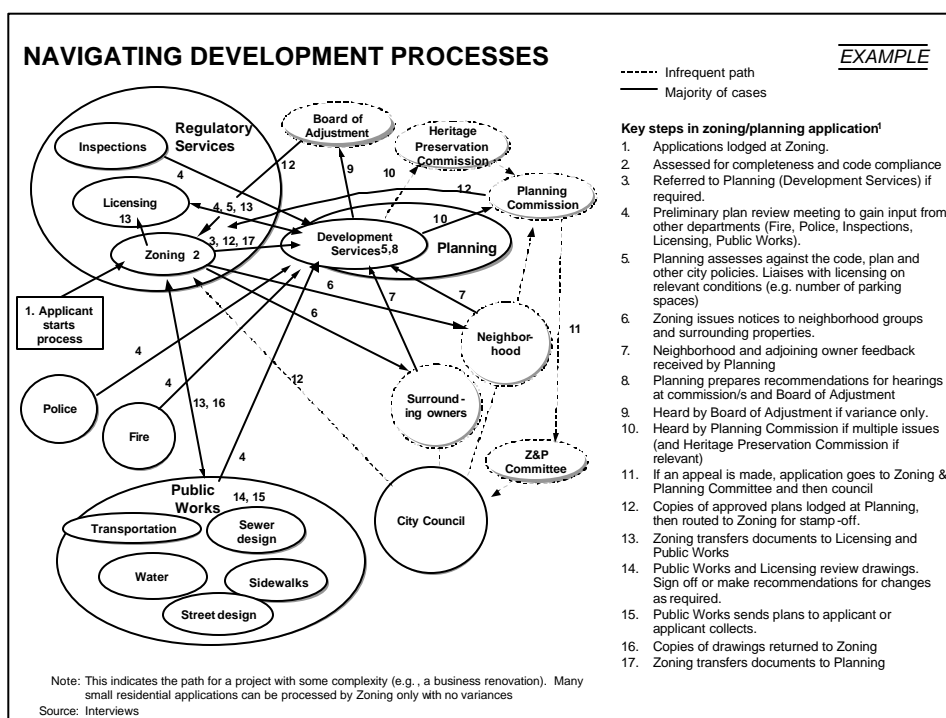
¹ These departments also focused on and had impact in other areas beyond housing and job creation, such as historic preservation.

In addition, our study identified many organizational obstacles to executing an effective development strategy. Most are related to the city's flat, fragmented organizational structure (see Exhibit 2). These obstacles include:

6. Fragmentation of development planning. Development planning is fragmented across many city entities, with neighborhoods, Planning, MCDA, MPHA, Public Works, and others having their own (sometimes conflicting) plans. While neighborhoods have developed thoughtful plans through the NRP, most city development entities disregard them due to this fragmentation.

7. Lack of accountability. The city's flat organizational structure and fragmented responsibility for development results in a lack of accountability for meeting citywide goals and targets. The absence of a central manager leaves no one accountable for meeting overall city development goals through interdepartmental cooperation.

8. Poor customer service. People perceive the city's bureaucracy to be Byzantine, slow moving, and unresponsive. Neighborhoods, developers, and businesses need to deal with numerous city departments and agencies to move their projects through the system, and complain of contradictory actions between and even within departments. This time consuming and costly process makes it difficult to do business with the city, discouraging development in Minneapolis. While all developments are different, Exhibit 2 shows the extremely complicated path which a typical medium to large project (e.g. restaurant renovation) might follow.



9. Lack of coordination. While each development department has distinctive capabilities, there are often conflicts or frictions where their duties intersect. Because of the city's flat organizational structure, there is no clear, systematic way to resolve these conflicts in a way that helps the city. Neighborhoods struggle with many relationships with city departments and no single contact which can help them to navigate all of them, and complain that only NRP truly supports them.

RECOMMENDED CHANGES

We recommend that the city implement an integrated package of actions to address these financial, strategic, and organizational barriers. In short, we believe that the Mayor and City Council should:

- I.** Agree on development priorities and establish goals for its top priority development issues
- II.** Adopt new processes to ensure better strategic planning and development management
- III.** Change the development organization to increase accountability, improve coordination, and align the organization with stated city priorities.

I. Agree on priorities and establish clear goals

The Mayor and City Council should immediately discuss the city's current development needs and agree on a set of city development priorities. These priorities should be clearly articulated to the public, neighborhoods, and city staff to clarify city leadership's vision for the direction of development in Minneapolis. While setting priorities is a first step, the Mayor and Council must also adhere to these priorities, using them to guide future policy and development decisions.

We believe that the city's top development priorities should be housing and job creation. These were identified as top issues by both survey respondents and interviewees, and recent statistics highlight these issues. Over the last decade, rents and home prices in Minneapolis have risen over 10% faster than income, the city sustained a net loss of 1,882 housing units, and housing quality in the city decreased substantially. Over the same time period, Minneapolis significantly lagged both the suburbs and the national average in job growth – in fact, a 1999 Brookings Institute study ranked Minneapolis 76th of 92 major cities on the gap between urban and suburban job growth.²

Transportation, education, and community building should also be recognized as critical development priorities which are very important to the long term success of the city. While city development entities do not have direct control over these issues, the city should proactively assert its influence in these areas, monitoring and holding responsible agencies (e.g. Minneapolis Public Schools, Met Council) accountable for progress. In addition, these priorities must be considered when making all spending decisions related to jobs and housing.

Once agreement on priorities is achieved, the Mayor and Council should set specific, measurable goals to guide development activity and measure progress against top priorities. These goals must be aggressive but attainable. Citywide goals should not focus on how many units the city funds or erects itself, but on overall progress within the city (e.g. quantity, affordability, and quality of housing; number and quality of jobs created). This will encourage non-traditional housing and business development activities, such as changing regulations, developing creative programs to leverage private investment, and improving city processes to start and grow businesses in Minneapolis. Specific goals will also give clear direction to staff on where to focus their efforts.

II. Adopt new processes

The city should adopt four new processes, including a strategic planning process for development, to improve the governance and management of development activities.

1. Strategic planning. Every four years, the city should perform a major reevaluation of its development priorities, goals, strategies, and organization. Annually, the city should measure its progress against development goals and refine its implementation strategies accordingly.

² "Where are the jobs?: Cities, suburbs, and the competition for employment," Brookings Institute, November 1999

2. Performance management. Accountability for contributing toward progress on citywide goals should be instituted through regular goal setting and performance evaluations for individual departments, with clear consequences and interventions if these department-level goals are unmet.

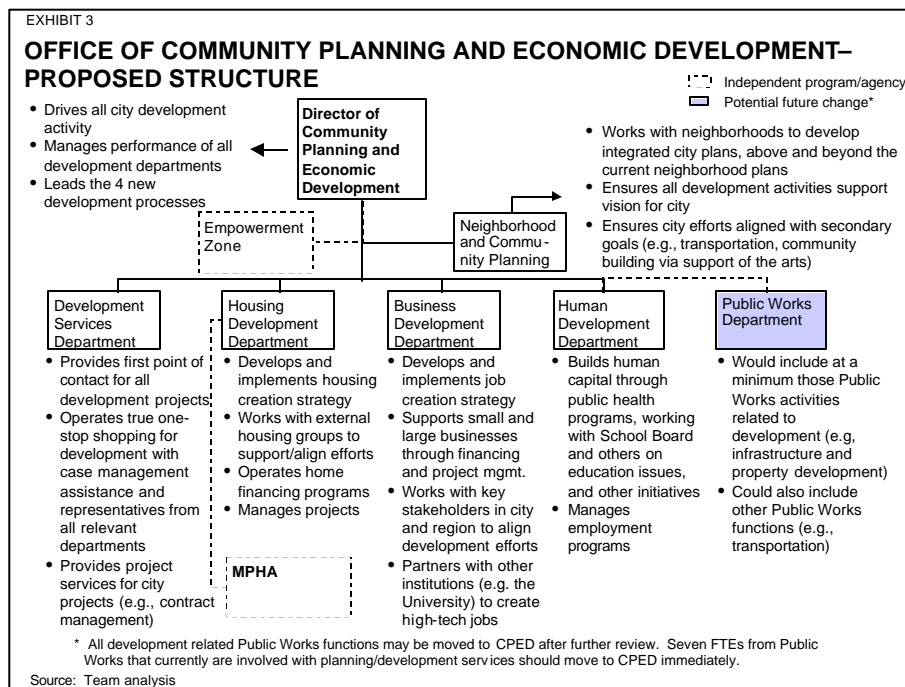
3. Project selection and prioritization. The city should institute a process to make clear, fact-based tradeoffs between development opportunities based on city strategy and priorities. This will provide more transparency to neighborhoods, developers, and staff about how decisions are made.

4. Customer service improvement. The city should aggressively make improvements to development processes in order to make it easier for neighborhoods, developers, and businesses to work with the city. The city should measure its progress using specific metrics, such as turnover time for permit applications or the frequency of customer complaints about city inspections.

III. Change the development organization

Several organizational changes are needed to address the fragmentation, lack of collaboration and accountability, and lack of linkage to development priorities which currently characterize the city's development organizations. Current development staff should be reorganized into five new departments charged with executing development strategies and reaching city goals, as shown in Exhibit 3. These departments should be overseen by a new Office of Community Planning and Economic Development (CPED). These new departments will subsume the functions of many of the city's current development entities, including MCDA, Planning, Regulatory Services, NRP, and Health and Family Support.

Note that these changes do not require a change in overall staffing levels – these recommendations are designed to increase development effectiveness, not to provide staffing efficiencies. No assessment of whether current staffing levels are appropriate was performed.



1. Ensure coordination between departments. Create a single Office of Community Planning and Economic Development (CPED) to which the five development department heads report. The CPED Director should also lead the development processes described above. Having a central

manager will encourage cooperation between departments, create accountability for meeting citywide development goals, and help provide clear direction and authority to development staff.

2. Make it easy to do business in Minneapolis. Make the city an easy place to do business by creating a Development Services department responsible for streamlining development processes and operating a One-Stop Development Shop for all city reviews, inspections, and licenses.

3. Integrate neighborhoods into city planning. Create a new Neighborhood and Community Planning (NCP) department that (a) gives neighborhood planning groups a leading role in shaping city strategies and (b) integrates all city planning activities from neighborhoods, Planning, MCDA, Public Works, and all other development related departments into one organization. This department will also provide neighborhoods with a single point of initial contact with the city. Geographic teams including current NRP staff will support neighborhood based planning, help with implementation of neighborhood projects, and field neighborhood concerns regarding city development projects. Neighborhoods should maintain discretion over their funds, but should be encouraged to align most of their spending with stated city priorities.

This planning department (NCP) will be advised by the NCP Policy Board, a body resembling the current NRP Policy Board in composition. This board will both administer the NRP program and undertake a broader city planning role by overseeing city planning functions. This Board will resemble the current NRP Policy Board in composition.

4. Focus on housing. Recognize housing as a critical city development priority by creating a dedicated Housing Development department. This department should work closely with the MPHA to assist in the development of city owned affordable housing, as this provides an attractive opportunity to serve low income households.

5. Focus on job creation. Recognize job creation as a top priority by creating a Business Development department. This department should focus on both physical (real estate) development and other creative methods to attract large and small businesses into the city. It should also partner with the University to create jobs and sustain our highly educated workforce.

6. Focus on developing people. Develop the city's workforce and increase emphasis on education (both primary and continuing), schools, and youth through a Human Development department. This department would also include public health and advocacy initiatives, which are largely development activities – helping children to stay healthy so they can succeed in school and assisting new arrivals as they are integrated into the workforce.

7. Coordinate development planning with Public Works. Improve coordination with Public Works by moving its planners into NCP and locating its development reviewers within Development Services. We believe an in-depth review of Public Works should be performed to determine whether others of its development related functions should be moved into CPED.

IMPLEMENTING THESE RECOMMENDATIONS

For this proposal to be successful, these recommendations must be implemented as an integrated package – selectively implementing parts of the recommendation (e.g. only changing the organizational structure) will fail to address all of the barriers outlined above.

Implementation of these recommendations must be timely and should minimize the disruption of city services. All process improvements and organizational changes related to jobs and housing, including Planning and Development Services changes, should occur within 12 months, and within 18 months the entire CPED office should be up and running smoothly.