



Community Development Committee

Business Item

Item: 2008-246

Meeting date: September 15, 2008

ADVISORY INFORMATION

Date:	September 10, 2008
Subject:	City of Minneapolis Request to Amend the TBRA Redevelopment End Project for 2 nd and Plymouth (SG007-138)
District(s), Member(s):	District 7, Annette Meeks
Policy/Legal Reference:	MN Statutes Sec. 473.25 Livable Communities Act
Staff Prepared/Presented:	Guy Peterson, Community Development 651-602-1418 Paul Burns, Manager, Livable Communities Program 651-602-1106 Marcus Martin, Senior Planner, 651-602-1054
Division/Department:	Community Development/Livable Communities

Proposed Action

That the Community Development Committee direct staff to amend the project description shown as Attachment A of Tax Base Revitalization Account (TBRA) grant SG007-138 to incorporate changes to the project and authorize the execution of a TBRA grant award of \$11,400 to the City of Minneapolis for the NWIP III 2nd and Plymouth redevelopment for cleanup of the city-owned parcels that comprised the original project site in 2007 (1300 2nd Street North, 1316 2nd Street North and 109 14th Avenue North).

Background

The Council received a letter from the City of Minneapolis dated September 10, 2008 indicating a change in the end use to the NWIP 2nd and Plymouth project since it was awarded TBRA funding in the recent grant cycle in the fall of 2007 and prior grants cycles in 1999 and 2002. The proposed change is from a multi-tenant office/industrial building to a single-tenant office/warehouse building. No additional funds are requested.

On September 26, 2007 the Metropolitan Council approved grant administration procedures to address requests for revisions to end projects (not LCA-funded elements) originally proposed as the development or redevelopment outcome in proposals assisted by the Livable Communities grant awards. The procedures establish a three-step process to be used by the Community Development Committee to determine whether to approve such requests.

Rationale

As prescribed by the procedures, CDC Chair Natalie Steffen appointed a Review Panel consisting of Chair Steffen, Council Member Sherry Broecker and Council Member Brian McDaniel to meet on Monday, September 15, 2008 to consider the city's request. The proposed project as revised meets the TBRA eligibility requirements and would have received a score sufficient to warrant a recommendation for funding in the fall 2007 funding cycle. The determination of the Review Panel will be made to the Community Development Committee on September 15, 2008 as well.

Funding

The 2007 grant amount was \$11,400. There is no change in the grant award.

Known Support / Opposition

The City and the developer support the proposal. There is no known opposition.

ATTACHMENT 1



Internal Memorandum

DATE: September 10, 2008
TO: Community Development Committee Review Panel
FROM: Guy Peterson, Community Development 651-602-1418
Paul Burns, Manager, Livable Communities Program 651-602-1106
Marcus Martin, Senior Planner, 651-602-1054
SUBJECT: City of Minneapolis Request to Amend the Redevelopment End Project for NWIP III 2nd & Plymouth (SG007-138)

Summary

The Council received a letter from the City of Minneapolis dated September 10, 2008 indicating a change in the end use to the NWIP 2nd and Plymouth project since it was awarded TBRA funding in the recent grant cycle in the fall of 2007 and prior grants cycles in 1999 and 2002 (Attachment A). The proposed change is from a multi-tenant office/industrial building to a single-tenant office/warehouse building. A map of the project area is provided (Attachment B). No additional funds are requested.

Background

On September 26, 2007 the Metropolitan Council approved grant administration procedures to address requests for revisions to end projects originally proposed as the development or redevelopment outcome in proposals assisted by the Livable Communities grant awards (Attachment C). The procedures establish a three-step process to be used by the Community Development Committee to determine whether to approve such requests. This memo applies those procedures to the Minneapolis request.

Funding History

The North Washington Industrial Park (NWIP) redevelopment site located at the northeast corner of 2nd Street North and Plymouth Avenue North in Minneapolis has received three previous LCA Grants totaling \$98,821:

Table with 4 columns: Year, LCA Fund Account, Project Name, Amount Awarded. Row 1: 1999, Tax Base Revitalization Account (TBRA), North Washington Industrial Park (Block 49) -I, \$32,000. Below table is a text block describing TBRA funds usage and site history.

2002	Tax Base Revitalization Account (TBRA)	North Washington Industrial Park - II	\$55,421
<p>TBRA funds will be used as a match for a DTED (now DEED) grant of \$263,683 to clean this former auto junkyard. The site was in commercial and residential use between 1870 and 1912 when it was converted to stores with some dwelling units on upper floors. Stores and a junkyard occupied the site from 1912 to 1949. More recent uses include a bar, liquor store, tool sales and repair, auto parts storage and auto engine rebuilding. Contamination identified on the site includes diesel range organics, cadmium, chromium, mercury and lead. Highly contaminated soils would have to be removed and remaining soils stabilized. Heavy metals analysis on soils at the base of the excavation would determine the need for any additional excavation. Redevelopment for light industrial uses is anticipated.</p>			
2007	Tax Base Revitalization Account (TBRA)	NWIP III 2nd and Plymouth	\$11,400
<p>The applicant is requesting \$11,429 in matching TBRA funds to a \$131,874 request from DEED and \$11,429 from Hennepin County for soil remediation of a 1.7-acre site most recently used as an automotive scrap yard but also used for metal recycling, lumber milling, wood working, metal manufacturing, paint manufacturing, coal storage, and creosote storage. (Funding previously awarded includes \$32,000 in the spring of 1999 and \$55,541 in the fall of 2002 from TBRA and \$263,683 from DEED in the fall of 2002.) The contamination identified includes BaP equivalents. The expected benefits include the development of a 47,400 sq. ft. multi-tenant office/industrial building with a projected increase of \$94,875 in net tax capacity and \$4.8M of private investment. Funds are to be used for additional environmental investigation, soil remediation, and soil vapor mitigation. (Note, environmental investigation costs incurred prior to May 1, 2007 are not eligible for grant funding. In addition, geotechnical costs are not eligible for funding.)</p>			

The status of the TBRA grants from 1999 and 2002 are closed and the grant status from 2007 is awarded. While there were some differences in the project -- most notably a somewhat smaller development on a larger project area due to acquisition of an adjacent parcel -- between the cleanup as requested in earlier period from 1999/2002 and 2007, each grant was scored based on the description provided in the application. The development proposals consistently indicate a light industrial use compatible with the surrounding uses in the area. The revised redevelopment project submitted by Lupe Development proposes to build a 31,755 sq. ft. single-tenant office/warehouse building with a footprint similar to the prior development proposals accepted by the city. The Minneapolis City Council has directed staff to finalize the terms of a redevelopment contract with the new owner, Standard Heating and Air-Conditioning project and is expected to close on the sale of the city-owned parcels of the project by September 30, 2008. Standard Heating also has a signed purchase agreement in place to purchase the adjacent Midwest Steel property.

The revised redevelopment proposal would result in positive increase in the projected annual net tax capacity albeit somewhat less of a gain than the previous proposal and a modest reduction jobs and private investment are also expected. The total cleanup cost remaining to be completed is estimated to be \$176,125 in order to develop the site. Despite Hennepin County's willingness to allocate \$100,131 in two grants there is still a shortfall of \$75,994 in environmental costs required to complete the project.

Most Recent Redevelopment Proposals in 2007	Revised Redevelopment Proposal in 2008	Change
1.7 acre project area	1.9 acres project area	0.2 additional acres
47,400 sq. ft. multi-tenant office/industrial building	31,755 sq. ft. single-tenant office/warehouse building	15,645 decrease in sq. ft. commercial/industrial space
95 full-time equivalent jobs	77 full-time equivalent jobs	18 fewer FTE jobs (19% decrease)
\$94,875 increase in annual net tax capacity by 2008	\$54,000 increase in annual net tax capacity by 2011	\$40,875 decrease in the projected annual net tax capacity upon project completion (43% reduction)
\$4.8M in Private Investment	\$4.6M Private Investment	\$0.2M decrease in Private Investment

In compliance with grant administration procedures that require requests to amend LCA grant agreements be submitted in writing, the City of Minneapolis sent a letter dated September 10, 2008 (Attachment A) requesting approval of modifications to the end project described in the active LCA grant awarded on January 9, 2008. The grant has not been executed due to expected changes to the end use.

Application of Amendment Procedures

The Council’s process for amending LCA grants to change end development/redevelopment projects (Attachment C) involves three steps, as follows:

Step One – Determine whether the requested amendment is a significant change.

For the Tax Base Revitalization Account, the changes are significant because:

- 1) The revised development plan will result in a reduction of 20 percent or more (in this case a 43% reduction) of the total net tax capacity expected to be generated by the redevelopment as originally proposed.

The determination that the proposed changes are significant moves the consideration of the grant to Step Two.

Step Two – Evaluate the proposed amendment

The amendment procedures require staff to prepare a memorandum assessing the proposed amendment’s eligibility and compliance with additional account-specific criteria and reporting the results of the rescoring as amended.

The procedures state that the CDC may authorize an amendment to the project description included in the grant agreement provided that the end project, as revised, will produce the intended results described in the Livable Communities Act (in italics, Appendix B below) and meets additional account-specific conditions. An assessment was made of the grant for which the amendment was requested.

A review of the proposed revision to the end development/redevelopment project indicates that the revised project:

- 1) will still meet the requirements of the Livable Communities Act because it will provide the highest return in public benefits for public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality, and
- 2) will meet TBRA eligibility criteria, and

- 3) Although previous funds were awarded, DEED does not have an active grant for this site. Recent grants awarded by Hennepin County ERF totaling \$100,131 will be executed soon; and
- 4) The project as originally described in the grant awarded in 2007 received 78 points. As revised, the project would have received 69 points in 2007. Rescoring the project using the revised project description would still place the project among the projects recommended for funding in the fall 2007 funding cycle where a project with 42 points was the lowest funded project.

Step Three – Convene the CDC Review Panel

As required by the amendment procedures, a Community Development Committee (CDC) Review Panel has been appointed to consider the request to revise the NWIP 2nd and Plymouth project. The panel will take into account the information provided by the representatives of the City of Minneapolis and the staff assessment included in this memorandum to prepare a recommendation for action by the CDC during its September 15 meeting.

The committee's action will occur within 45 days of receipt of the City of Minneapolis letter requesting the amendments.

Recommendation:

Staff recommends the Review Panel approve the revised end use and authorizes the amendment of the project description shown as Attachment A of Tax Base Revitalization Account (TBRA) grant SG007-138 and the execution of a TBRA grant award of \$11,400 to the City of Minneapolis for the NWIP III 2nd and Plymouth redevelopment for cleanup of the city-owned parcels that comprised the original project site in 2007 (1300 2nd Street North, 1316 2nd Street North and 109 14th Avenue North).

Attachment A



Minneapolis
City of Lakes

**Community Planning &
Economic Development**

105 5th Avenue South – Suite 200
Minneapolis MN 55401-2534

Office 612 673-5095
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September 10, 2008

Mr. Marcus Martin
Metropolitan Council
Livable Communities
390 Robert Street North
Saint Paul, Minnesota 55101-1805

Re: **Standard Heating and Air Conditioning
Metropolitan Council TBRA Grant – Fall 2007**

Dear Marcus,

As you know, you and I have had recent discussions regarding the TBRA grant in the amount of \$11,400 that was awarded to the City of Minneapolis in the fall 2007 grant round. The grant in question was awarded in connection with a project proposed by Master Development for a site located at the northeast corner of Plymouth Avenue N. and 2nd Street N. Master's right or ability to proceed with the project in question ended in late December of 2007.

The City is now working with Lupe Development and Standard Heating & Air Conditioning regarding the creation of a new corporate headquarters for Standard Heating on the site in question. I am hereby requesting, on the City's behalf, that the Metropolitan Council allow the previously-awarded \$11,400 TBRA grant to be used for [qualified/eligible] environmental remediation expenses related to the Standard Heating project.

This email will be accompanied by a copy of a letter dated September 10, 2008 from Jeff Ellerd of Lupe Development regarding the Standard Heating & Air Conditioning project. His letter provides relevant background information in support of the request referred to in the preceding paragraph.

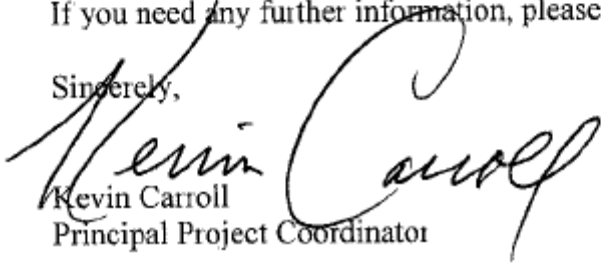


The site of the proposed Standard Heating headquarters includes three City-owned parcels of land, plus an adjacent parcel that is currently owned by a company known as Midwest Steel. The Minneapolis City Council has taken formal action to approve the terms of the proposed sale of the three City-owned parcels to Standard Heating. City staff members are currently working with Standard Heating to finalize the terms of a Redevelopment Contract. We anticipate that it will be completed and signed soon, in part because the City Council has established September 30, 2008 as the deadline for closing on the sale of the City-owned parcels. Standard Heating also has a signed purchase agreement in place with regard to the Midwest Steel property.

You have inquired about the financial assistance that Standard Heating requested from the City's MILES [Minneapolis Industrial Land and Employment Study] program. The City Council did recently approve \$250,000 in MILES funding assistance for the project; however, at this time it is anticipated that the MILES assistance will be used for various costs that were not included in the original TBRA application for the Plymouth & Second site. These "non-TBRA" costs are likely to include the demolition of the adjacent Midwest Steel building, environmental clean-up costs related to the Midwest Steel site, and the improvement of 14th Avenue N. (which is located on the north side of the redevelopment site). Accordingly, and as indicated in Mr. Ellerd's letter, there is still a gap with regard to the funding for the environmental cleanup of the "non-Midwest Steel" portion of the Standard Heating redevelopment site. That gap can be narrowed if the Metropolitan Council allows the prior \$11,400 ERF grant to be used for the Standard Heating project.

If you need any further information, please let me know. Thanks!

Sincerely,


Kevin Carroll
Principal Project Coordinator



Lupe
Development
Partners, LLC

September 10, 2008

Mr. Kevin Carroll
Principal Project Coordinator
Community Planning and Economic Development
Crown Roller Mill Bldg.
105 Fifth Ave. South - Suite 200
Minneapolis, MN 55401-2534

In Re: Standard Heating and Air Conditioning
Metropolitan Council TBRA Grant – Fall 2007

Dear Mr. Carroll,

In fall 2007, the City of Minneapolis, on behalf of Master Development, applied for and received an environmental remediation grant in the amount of \$11,400 from the Metropolitan Council Tax Base Revitalization Account (TBRA) grant fund for the parcel located at intersection of 2nd Street North and Plymouth Avenue. At that time, Master was proposing two speculative commercial buildings totaling approximately 50,000 square feet as part of the development. Ultimately, Master's right to develop the project expired in December 2007 due to the parties' inability to finalize the terms of a mutually-acceptable Redevelopment Contract by a Council-imposed deadline, and a new project (the corporate headquarters for Standard Heating and Air Conditioning) has been advanced through the City process.

As the project has changed, there have been discussions between Standard Heating, the City of Minneapolis, and the Metropolitan Council on the applicability of this grant award to the new project. The new project requested additional grant funds from Metropolitan Council in the spring 2008 grant round, which were not awarded. The grant applications that were made for the two projects were based on the same Response Action Plan. Standard Heating and Air Conditioning retained the same environmental consultant, Peer Engineering, to evaluate the new project and how it related to the Master project. Once the review was complete, it became apparent that the only slight modifications were necessary to make the previously prepared Response Action Plan applicable to the new project. As such, an Addendum to the RAP was prepared and submitted to the Minnesota Pollution Control Agency. This addendum basically changed the names of the responsible parties and depicted the new building construction and location. Otherwise, the RAP was unchanged in terms of response actions and areas of remediation. The addendum was subsequently approved by the MPCA.

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Master's application for grant funds, via the City of Minneapolis, requested the majority of their funding from the Department of Employment and Economic Development, with Hennepin County ERF and Metropolitan Council TBRA grant funds representing the unrestricted match portion (12%) of the request. DEED denied the project funding leaving only the Hennepin County and Metropolitan Council funds as awarded. These funds were awarded to conduct response actions on the property, which are primarily soil cleanup actions to accommodate the new construction. Standard's subsequent grant application included costs for similar response actions, along with additional investigation and cleanup costs associated with an adjoining parcel, Midwest Steel.

A comparison of the two projects outlines their similarities. Master's project included two speculative buildings encompassing 47,400 square feet. They estimated between 71 and 95 new jobs. Standard's proposed building consists of 31,755 square foot office/warehouse building to serve as the new corporate headquarters for Standard Heating and Air Conditioning. Standard is currently located on Lake Street, in a facility that inhibits their ability to grow and function efficiently. They currently employ more than 60 people all with salaries in excess of \$13.50 per hour. Most employees make \$40,000 or more as described within the grant application. Additionally, by moving to this new facility, Standard projects that they will add 16 new jobs in the same pay ranges in the next 5 years, for a grand total of 77 new or retained jobs, all of which are anticipated to be full-time.

It was not apparent in Master's application what the future tax capacity of their project was expected to be once the project was complete. Using the City of Minneapolis Tax Assessment Worksheet, Standard estimated their future tax capacity to be \$59,250 using an assessed project value of \$3,000,000.

The Standard project also includes the Midwest Steel parcel, which was not included in the Master project. This dilapidated structure will be removed as part of the Standard redevelopment. The removal of this building and improvement of the adjoining street will serve to improve the area and further induce additional redevelopment. Petroleum contamination has been identified in the shallow soil beneath some areas of the Midwest Steel building floor slab. In addition, PCBs have been detected within the concrete slab itself. Both of these concerns will add to the costs associated with remediating this site.

As shown in the project budget included within Standard's grant application, environmental investigation and remediation costs are anticipated to total \$192,625. Of this, the cleanup costs are \$176,125. Hennepin County has indicated its willingness to allow their previously awarded funds of \$11,429 be applied to this new project. Even with these funds, there is still an environmental shortfall of \$75,994 (\$176,125 - \$88,702 - \$11,429), which should justify the need for the funds in question on this project.

The City of Minneapolis, on behalf of Standard, has also indicated a willingness to pursue the previously awarded Metropolitan Council funds totaling \$11,400. Again, this will reduce, but not eliminate the environmental shortfall on the project. As such, we formally request the City of Minneapolis pursue with all vigor the previously awarded grant funds for this project from the Metropolitan Council.

Thank you in advance for your assistance on this matter. Do not hesitate to contact us with any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Ellerd". The signature is written in a cursive, flowing style.

Jeff Ellerd
Project Manager

Attachment B
NWIP 2nd & Plymouth Project Area (shown in yellow)



GRANT ADMINISTRATION PROCEDURES

Process for Amending Livable Communities Grant Awards in Response to Requests for Changes to the End Development/Redevelopment Project

Grantees will be informed that **all requests to amend the end development project or redevelopment project as described in an LCA grant agreement must be made in writing**. Information provided must include:

- the proposed amendment(s)
- an explanation as to why the proposed change is necessary

Decisions regarding disposition of requests to amend end projects will be made through a three-step process summarized as follows and further defined below:

1. Determine whether the requested amendment to the end project is a significant change.
2. If the change is deemed to be significant, Livable Communities staff will A) review the request and prepare a report stating whether the project, as amended, meets specific conditions that would suggest that the Community Development Committee should approve the amendment and B) invite the grantee to present the proposed amendment to the Community Development Committee Review Panel.
3. Convene a three-member CDC Review Panel to consider the grantee's request and recommend action to the full Community Development Committee.

STEP ONE — DETERMINE WHETHER THE REQUESTED AMENDMENT IS A SIGNIFICANT CHANGE

Decisions as to whether or not proposed changes to end projects are **significant** will be based on consideration of the account-specific legislative outcomes and on the factors considered when the application for funding was scored. For example, some end project proposals do not include jobs...others do not include housing units. **Only the factors applicable to the end project as originally proposed will be evaluated.**

For the **Tax Base Revitalization Account**, a proposed change will be considered **significant** if the change:

- proposes to replace the end project as originally proposed with a completely different end project, or
- will result in a reduction of 20 percent or more of the total net tax capacity expected to be generated by the redevelopment as originally proposed, or
- proposes to reduce by 15 percent or more, or by 50 jobs, (whichever is higher) the total number of new or retained jobs, or
- proposes to reduce by 10 percent or more, or by 50 units, (whichever is higher) the total number of housing units, or
- proposes to reduce the total number of affordable housing units by 20 percent or more from the project as originally proposed.

For the **Livable Communities Demonstration Account**, a proposed change will be considered **significant** if the change:

- proposes to replace the end project as originally proposed with a completely different end project, or
- proposes to substantially change the mix and type of land uses originally proposed in a way inconsistent with program objectives, or substantially change the nature of the project originally proposed, or
- will reduce the overall project density below the density guidelines for developments in the project location, or 20 percent below the density originally proposed (whichever is higher), or
- proposes to reduce by 10 percent or more, or by 50 units, (whichever is higher) the total number of housing units, or

- proposes to reduce the total number of affordable housing units by 20 percent or more from the project as originally proposed.

For the **Local Housing Incentives Account**, a proposed change will be considered **significant** if the change:

- proposes to replace the end project as originally proposed with a completely different end project, or
- proposes to reduce by 20 percent or more the total number of affordable housing units, or
- no longer meets Minnesota Housing funding requirements resulting in the withdrawal of Minnesota Housing funds from the project.

STEP TWO — EVALUATE THE PROPOSED AMENDMENT

If the purpose for which the funds were awarded remains the same, but the requested amendment proposes **significant changes to the end development or redevelopment project** as described in the grant as awarded by the Council’s governing body (e.g. changing an LCDA or TBRA end project in its entirety from residential development to retail uses or— for LHIA grants—changing the end project from rental apartments to owner-occupied single-family homes), the Community Development Committee may authorize an amendment to the project description included in the grant agreement provided that the end project, as revised, will produce the intended results described in the Livable Communities Act (in italics) and meets additional account-specific conditions as follows:

Tax Base Revitalization Account—

- *provide the highest return in public benefits for the public costs incurred, encourage development that will lead to the preservation or growth of living-wage jobs or the production of affordable housing, and enhance the tax base of the recipient municipality, and,*
- meets the account eligibility criteria, and
- if the revised end project is acceptable to the Council’s polluted site cleanup funding partners that have also granted funds to the project, and
- if the revised end development or development project would score similarly to the original end project (i.e., rank within the list of projects recommended for funding) in the jobs/housing and tax base increase categories;

Livable Communities Demonstration Account—

- *interrelate development or redevelopment and transit; interrelate affordable housing and employment growth areas; intensify land use that leads to more compact development or redevelopment; involve development or redevelopment that mixes incomes of residents in housing, including introducing or reintroducing higher value housing in lower income area to achieve a mix of housing opportunities; or encourage public infrastructure investments which connect urban neighborhoods and suburban communities, attract private sector redevelopment investment in commercial and residential properties adjacent to the public improvement, and provide project area residents with expanded opportunities for private sector employment, and*
- meets the account eligibility criteria, and
- if an examination of the record of review for the grant award indicates that the end development/redevelopment project, as amended, would still include the demonstration and innovation elements that contributed to the Livable Communities Advisory Committee’s selection of the project for funding, and, in addition,
- (for projects awarded funds in 2006 or later) if the revised end development/redevelopment project would score similarly (i.e. would score at least 20 points [the threshold level] in the Step One evaluation) to the original end project in the staff technical evaluation.

Local Housing Incentives Account—

- *create incentives for developing communities to include a full range of housing opportunities; create incentives to preserve and rehabilitate affordable housing in the fully developed area,*
- meets the account eligibility criteria, and

- if the revised end development/redevelopment project is acceptable to the Council's Metropolitan Housing Implementation Group funding partners that have also granted funds to the project.

STEP THREE — CONVENE THE CDC REVIEW PANEL

Community Development Committee decisions regarding compliance with the above conditions will be made in the following manner:

- A Review Panel subcommittee of the Community Development Committee consisting of three committee members appointed by the committee chair will convene to consider requests for significant changes to end projects.
- Representatives of the grant award recipients will be asked to present to the Review Panel their requests for a change to the original end project and will be available to answer panel members' questions.
- Staff will provide the Review Panel with a memorandum assessing the proposed amendments' eligibility and compliance with additional account-specific criteria and reporting the results of the rescoring of end projects as amended.
- The Review Panel will consider the information provided and make recommendations to the Community Development Committee for a final decision regarding disposition of the requests for amendments.
- The Community Development Committee will endeavor to inform grantees of the committee's decision regarding requested amendments in writing within 45 days of receipt of the grantees' written requests, subject to the committee's meeting schedule.

Implementation of the Livable Communities Act Program will continue to focus on partnering with communities to achieve local plans and objectives consistent with the Council's *2030 Regional Development Framework*. LCA staff will continue to hold grantees accountable for funded projects, monitoring progress and contacting communities to help resolve issues for funded projects on which progress is delayed.