

Request for City Council Action

Date: May 20, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Beverly A. Wilson, Planner III, Phone 612-673-5030

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: East River/Unocal Site Redevelopment Plan, and the East River/Unocal Site Tax Increment Finance Plan

Previous Directives: Not Applicable.

Ward: 2

Neighborhood Group Notification: Prospect Park/E. River Road Improvement Association

Consistency with *Building a City That Works*: Not Applicable.

Comprehensive Plan Compliance: Not Applicable.

Zoning Code Compliance: Not Applicable.

Impact on MCDA Budget: (Check those that apply) Not Applicable.

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):

Living Wage / Business Subsidy: Not Applicable.

Job Linkage: Not Applicable.

Affirmative Action Compliance: Not Applicable.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council Community Development Committee schedule a public hearing to be held on June 10, 2002 for the East River/Unocal Site Redevelopment Plan, and the East River/Unocal Site Tax Increment Finance Plan; and it is recommended that the Ways and Means/Budget Committee review the proposed Plans and submits its comments at the Community Development Committee public hearing scheduled for Monday, June 10, 2002.

Background/Supporting Information

The East River/Unocal Site Redevelopment Plan establishes a new redevelopment project area, establishes objectives for the redevelopment of the project area, identifies land uses for the redevelopment of the project area, designates parcels for acquisition, and authorizes the creation of a new tax increment finance district as a tool for carrying out the redevelopment activities described therein. The TIF plan establishes a new redevelopment TIF district: the "East River/Unocal Site TIF District" and authorizes public redevelopment activities and a budget for expenditures of the project. Tax increment will be used to pay a portion of the public redevelopment costs including land acquisition, pollution cleanup, removal of soil in areas of known contamination and disposed of at an appropriate landfill, site preparation and affordable housing costs associated with the project, in addition to MCDA administration costs.

The Minneapolis Community Development Agency has prepared the proposed Plan documents and transmitted them to interested parties for review and comment on May 9, 2002. Comments have been requested and are due at the Agency by June 10, 2002.

It is requested that the Community Development Committee schedule a public hearing on the proposed Plans, to be held by the Community Development Committee on Monday, June 10, 2002, at 1:30 p.m. Final Council and MCDA Board Action will be held on Friday, June 21, 2002.

It is requested that the Ways and Means/Budget Committee review the proposed Plans and submit its comments at the public hearing to be held by the Community Development Committee on Monday, June 10, 2002.

MINNEAPOLIS COMMUNITY
DEVELOPMENT AGENCY

**East River/Unocal Site
Redevelopment Plan**

May 10, 2002

Prepared by Project Planning and Finance Department, MCDA
105 5th Avenue South, Minneapolis, Minnesota 55401

**East River/Unocal Site
Redevelopment Plan
May 10, 2002**

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East River/Unocal Site Redevelopment Plan May 10, 2002

Introduction

Two plan documents have been prepared to assist the proposed East River/Unocal Site Redevelopment Project. The East River/Unocal Site Redevelopment Plan establishes a new redevelopment project area, establishes objectives for the redevelopment of the project area, identifies land uses for the redevelopment of the project area, and authorizes the creation of new tax increment finance district as a tool for carrying out portions of the redevelopment activities described therein.

Background

The Unocal site is located in the Prospect Park neighborhood and has had a long and controversial history. The site is a 4.6-acre triangular block that is bounded by Thornton Street on the west, East Franklin Avenue on the south, and Interstate 94 on the east. The site has been the location for the processing and storage of petroleum products since 1910 when the W. H. Barber Company began its operations. Company records indicate that at one time as many as 170 storage tanks were in use, and several spills were reported on the site after the Minnesota Pollution Control Agency (PCA) became involved in the mid-70's. The W. H. Barber Company (which became a subsidiary of Union Oil of California in 1955) sold the site to the Gopher Oil Company in 1980, and Gopher continued to use the site for similar purposes until it ceased operations in 1984.

For many years, the Prospect Park/East River Road Improvement Association (PPERRIA) has placed the Thornton-Unocal site high on its list of priorities and has tried to encourage its various owners to clean up the site. PPERRIA in fact has referred to the Thornton/Unocal site in its Neighborhood Revitalization Plan (NRP) as one of the neighborhood's longest running battles, with numerous documented conflicts between the neighborhood and the owners regarding zoning issues, building permits, proposed truck routes, and various operational complaints. PPERRIA outlined a strategy in its NRP Plan to convert the Thornton site to a housing use and also dedicated funds for this purpose.

During the 1980's, PPERRIA established a Gopher Oil Task Force to urge greater PCA involvement in the situation. In 1990, the PCA issued a Request for Response Action to both Unocal and Gopher Oil asking them to submit a plan for further investigation and cleanup. Gopher Oil, which still owned the site, did not proceed with an investigation because it was in litigation with Unocal over responsibility for the site. The PCA also decided to place the site in the Superfund Program because it was not viewed as a high priority project since Gopher's operations had ceased.

This approach gave the PCA the option of using Superfund money to do the cleanup if the responsible parties did not cooperate. However, later that year, a federal court ruled that Unocal was the sole responsible party, and Unocal decided to re-purchase the site, demolish and remove all of the buildings and structures, and to cooperate with the PCA on a cleanup program.

REDEVELOPMENT PLAN

I. Project Description

On August 15, 2001, Brighton Development Corporation signed a Real Estate Option Agreement with Unocal to purchase the Thornton site, with the additional consideration of assuming full responsibility for all environmental contamination on or about the property and providing indemnification and hold harmless guarantees. Brighton has now submitted a proposal to develop 53 units of new ownership housing. Thirty-eight (38) units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million. A copy of Brighton's proposed site plan is attached as Exhibit #7, and a letter from PPERRIA indicating its support for the Brighton proposal is attached to Exhibit #3.

According to the City Affordable Housing Policy, 20% of the proposed units (11) must be affordable to households with incomes at or below 50% of metropolitan median. However, the Policy gives developers the option of providing these units either in the proposed project or off-site through a contribution to the Affordable Housing Fund.

It is currently anticipated that five (5) of the units will be affordable on-site. The remaining six (6) units will be off-site, and will be funded over time with annual contributions to the Affordable Housing Fund from a portion of the tax increment collected each year.

As part of its development proposal, Brighton submitted a new Response Action Plan (RAP) to the MPCA requesting the acceptance of the site in the VIC Program. This change has been approved by the MPCA and should aid in accelerating the cleanup process and in attaining a level of cleanup that will permit "unlimited land use", i.e. a residential reuse. Brighton estimates that the cleanup cost will be approximately \$2 million.

A. Boundary of Redevelopment Project

Under the authority of the Housing and Redevelopment Authorities Act, approval of this Plan establishes a new Redevelopment Project as defined in

Minnesota Statutes Section 469.002, Subdivision 14. The Project Area Report and Documentation of Blight is attached as Exhibit # 6 to this Plan.

The East River/Unocal Site is located in the Prospect Park neighborhood and has had a long and controversial history. The project boundary includes a 4.6-acre triangular block that is bounded by the center right-of-way line of Thornton Street on the west, the center right-of-way line of East Franklin Avenue on the south, and Interstate 94 on the east.

B. Project Boundary Map

The Project Boundary Map is included in this Redevelopment Plan as Exhibit # 1.

C. Objectives of the Redevelopment Plan

The City of Minneapolis, together with the Minneapolis Community Development Agency, seeks to achieve the following objectives through the East River/Unocal Site Redevelopment Plan.

The primary project objective will be to perform cleanup activities in order to carry out residential redevelopment of the property. Toward this end, the following goals have been identified:

1. Accelerate cleanup of the site with the goal of achieving a residential reuse standard;
2. Eliminate blight, incompatible uses, and blighting influences;
3. Removal of underground Petroleum storage tanks;
4. Soil contamination cleanup;
5. Develop for-sale townhouses and condominiums;
6. Develop affordable housing units, to individuals and families, by making a contribution to the Affordability Fund for residential rental housing.

D. Types of Redevelopment Activities

The objectives of the redevelopment plan will be accomplished through the following actions: Brownfield cleanup, removal of soil in areas of known contamination and disposed of at an appropriate landfill, site preparation, provision of affordable homeownership units, project and public improvements suitable to the needs of the project, administration, and other related activities.

II. Land Use Plan

A. Land Use Map

The Land Use Map is included in this Redevelopment Plan as Exhibit # 2. The Land Use Map reflects the general pattern of recommendations for future land use. The land use indicated is residential. The parcel is currently zoned R-3, which is appropriate for the proposed use.

B. Land Use Provisions and Requirements

1. Permitted Uses

a. Residential

Residential uses shall conform to the Minneapolis Zoning Ordinance and generally limited to those areas specified as residential on the Land Use Map.

III. Project Proposals

The developer of the project, Brighton Development Corporation, is proposing new construction of 53 units of new for-sale townhouses and condominiums on a site that has been a long term Brownfield site. Thirty-eight units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million.

According to the City Affordable Housing Policy, 20% of the proposed units (11) must be affordable to households with incomes at or below 50% of metropolitan median. However, the Policy gives developers the option of providing these units either in the proposed project or off-site through a contribution to the Affordable Housing Fund.

It is currently anticipated that five (5) of the units will be affordable on-site. The remaining six (6) units will be off-site, and will be funded over time with annual contributions to the Affordable Housing Fund from a portion of the tax increment collected each year.

As part of its development proposal, Brighton submitted a new Response Action Plan (RAP) to the MPCA requesting the acceptance of the site in the VIC Program. This change has been approved by the MPCA and should aid in accelerating the cleanup process and in attaining a level of cleanup that will permit "unlimited land use", i.e. a residential reuse. Brighton estimates that the cleanup cost will be approximately \$2 million.

A. Land Acquisition

By including in this Redevelopment Plan a list of property that may be acquired, the Agency is signifying that it may assist with the acquisition and related costs of the property listed, subject to limitations imposed

by availability of funds, developer interest, staging requirements, soil contamination and other financial and environmental considerations. Inclusion on this list does not indicate an absolute commitment on the part of the Agency to acquire a property.

<u>Address</u>	<u>PIN number</u>	<u>Owner</u>
825 Thornton Street SE	30-029-23-34-0001	Union Oil Co of California

B. Rehabilitation ~ Not applicable.

C. Redevelopers' Obligations

The general requirements to be imposed upon the redevelopers, their successors or assigns, will be established in the development agreements. Terms and conditions of a redevelopment contracts with the developer, Brighton Development Corporation, will be executed.

IV. Relocation ~ None

V. Official Action to Carry Out the Redevelopment Plan

Minnesota law requires that the Minneapolis City Planning Commission review this Redevelopment Plan and that its written opinion, if any, accompany the Redevelopment Plan when it is officially submitted to the City Council for approval (Minnesota Statutes, Section 469.027). In approving the Redevelopment Plan, the City Council is responsible for carrying out those elements of the Redevelopment Plan requiring official action by the City government.

VI. Procedure for Changes in Approved Redevelopment Plan

This Redevelopment Plan may be modified as provided in Minnesota Statutes, Section 469.029, Subdivision 6, as follows:

"A redevelopment plan may be modified at any time. The modification must be adopted by the authority and the governing body of the political subdivision in which the project is located, upon the notice and after the public hearing required for the original adoption of the redevelopment plan. If the authority determines the necessity of changes in an approved redevelopment plan or approved modification thereof, which changes do not alter or affect the exterior boundaries, and do not substantially alter or affect the general land uses established in the plan, the changes shall not constitute a modification of the redevelopment plan nor require approval by the governing body of the political subdivision in which the project is located."

CITIZEN PARTICIPATION REPORT

East River/Unocal Site Redevelopment Plan

May 10, 2002

825 Thornton Street (the Unocal site) is located in the Prospect Park neighborhood and has had a long and controversial history. The site is a 4.6-acre triangular block that is bounded by Thornton Street on the west, East Franklin Avenue on the south, and Interstate 94 on the east. The site has been the location for the processing and storage of petroleum products since 1910 when the W. H. Barber Company began its operations. Company records indicate that at one time as many as 170 storage tanks were in use, and several spills were reported on the site after the Minnesota Pollution Control Agency (PCA) became involved in the mid-70's. The W. H. Barber Company (which became a subsidiary of Union Oil of California in 1955) sold the site to the Gopher Oil Company in 1980, and Gopher continued to use the site for similar purposes until it ceased operations in 1984.

For many years, the Prospect Park/East River Road Improvement Association (PPERRIA) has placed the Thornton-Unocal site high on its list of priorities and has tried to encourage its various owners to clean up the site. PPERRIA in fact has referred to the Thornton/Unocal site in its Neighborhood Revitalization Plan (NRP) as one of the neighborhood's longest running battles, with numerous documented conflicts between the neighborhood and the owners regarding zoning issues, building permits, proposed truck routes, and various operational complaints. PPERRIA outlined a strategy in its NRP Plan to convert the Thornton site to a housing use and also dedicated funds for this purpose.

This group will be given the opportunity to review and comment on the Unocal Site Redevelopment Plan prior to consideration of the Plan by the City Council and the Minneapolis Community Development Agency Board of Commissioners.

The Minneapolis Community Development Agency will continue to work with this group throughout the implementation of the Redevelopment Plan.

**MINNEAPOLIS COMMUNITY DEVELOPMENT AGENCY
AFFIRMATIVE ACTION POLICY
East River/Unocal Site Redevelopment Plan**

May 10, 2002

It is the policy of the Minneapolis Community Development Agency to provide equal employment opportunities without regard to race, color, national origin, religion, sex, age, disability, affectional preference, or status with regard to public assistance to all applicants for employment and all employees. This pledge applies to all areas of employment including recruitment, employment, job assignment, training, promotion, transfers, rate of pay, and all other forms of compensation and benefits.

The employment policies and practices of the Minneapolis Community Development Agency will ensure that all employees and applicants for employment are treated equally and that no distinction is made in its employment practices, except on the basis of merit, because of race, color, national origin, religion, sex, age, disability, affectional preference, or status with regard to public assistance.

Developers and construction contractors who participate in redevelopment activities will be required to practice affirmative action and fulfill the Minneapolis Community Development Agency Affirmative Action checklist goals, and to develop and implement women and minority interest in business enterprise plans.

**ENVIRONMENTAL REVIEW
East River/Unocal Site Redevelopment Plan**

May 10, 2002

The Minneapolis Community Development Agency will comply with all applicable local, state and federal regulations and procedures regarding the assessment of potential environmental impacts resulting from project activities.

See Exhibit #9, MPCA Fact Sheet, Dated February 18, 2002

PROJECT AREA REPORT AND DOCUMENTATION OF BLIGHT

East River/Unocal Site Redevelopment and Tax Increment Finance Plan May 10, 2002

The East River/Unocal Site Redevelopment Project (the "Redevelopment Project") will be a redevelopment project as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivision 14 and 16). According to Subdivision 14, Paragraph 1, redevelopment projects are established "for the purpose of removing, preventing, or reducing blight, blighting factors, or the causes of blight." The redevelopment project area therefore must be found to be a blighted area, which is defined in Section 469.002, Subd. 11 of the Act as:

"... any area with buildings or improvements which, by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light, and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, are detrimental to the safety, health, morals, or welfare of the community."

Background

The East River/Unocal Site Project is located at 825 Thornton Street Southeast, Minneapolis, in the Prospect Park neighborhood and has had a long and controversial history. The site is a 4.6 acre triangular block that is bounded by Thornton Street on the west, East Franklin Avenue on the south, and Interstate 94 on the east. The site has been the location for the processing and storage of petroleum products since 1910 when the W. H. Barber Company began its operations. Company records indicate that at one time as many as 170 storage tanks were in use, and several spills were reported on the site after the Minnesota Pollution Control Agency (PCA) became involved in the mid-70's. The W. H. Barber Company (which became a subsidiary of Union Oil of California in 1955) sold the site to the Gopher Oil Company in 1980, and Gopher continued to use the site for similar purposes until it ceased operations in 1984.

For many years, the Prospect Park/East River Road Improvement Association (PPERRIA) has placed the Thornton-Unocal site high on its list of priorities and has tried to encourage its various owners to clean up the site. PPERRIA in fact has referred to the Thornton/Unocal site in its Neighborhood Revitalization Plan (NRP) as one of the neighborhood's longest running battles, with numerous documented conflicts between the neighborhood and the owners regarding zoning issues, building permits, proposed truck routes, and various operational complaints. PPERRIA outlined a strategy in its NRP Plan to convert the Thornton site to a housing use and also dedicated funds for this purpose.

During the 1980's, PPERRIA established a Gopher Oil Task Force to urge greater PCA involvement in the situation. In 1990, the PCA issued a Request for Response Action to both Unocal and Gopher Oil asking them to submit a plan for further investigation and cleanup. Gopher Oil, which still owned the site, did not proceed with an investigation because it was in litigation with Unocal over responsibility for the site. The PCA also decided to place the site in the Superfund Program because it was not viewed as a high priority project since Gopher's operations had ceased. This approach gave the PCA the option of using Superfund money to do the cleanup if the responsible parties did not cooperate. However, later that year, a federal court ruled that Unocal was the sole responsible party, and Unocal decided to re-purchase the site, demolish and remove all of the buildings and structures, and to cooperate with the PCA on a cleanup program.

Currently, the Unocal site is designated as a Superfund site and is undergoing cleanup under a long-term plan approved by the PCA in the mid-1990's. The cleanup process under the Superfund Program is generally considered more cumbersome and costly than under the Voluntary Investigation and Cleanup (VIC) Program because of additional controls and reporting requirements. For this reason, Unocal considered an attempt to have the site transferred to the more flexible VIC Program, but ultimately decided not to not apply for this change.

In 1996, PPERRIA began discussions with Unocal to purchase the site with NRP funds for the eventual development of new housing, but was never able to reach an agreement on a right of first refusal. In late 1998, Brighton Development Corporation was invited by the MCDA and PPERRIA to participate in discussions with Unocal as a potential developer interested in purchasing the site. From these discussions, it was apparent that Unocal preferred dealing with a developer that had the capacity to assume the legal and practical responsibility for the cleanup. During the past three years, Brighton has had periodic discussions regarding a possible purchase option with Unocal representatives, who seemed to be willing to sell for a reasonable price if the appropriate environmental insurance and legal indemnification could be provided. However, by mid-2001, the timing of sale was apparently right for Unocal and terms were reached on a purchase option with Brighton.

MPCA Actions

A fact sheet dated February 18, 2002, summarizing the Minnesota Pollution Control Agency's (MPCA) actions at the Gopher Oil Thornton Site in the State Superfund Program, and the proposed cleanup plan for the proposed residential redevelopment of the property under the oversight of the MPCA Voluntary Investigation and Cleanup Program (VIC Program) states:

"From at least 1906 to 1980 the property was used by the W. H. Barber Company for petroleum and solvent storage, and a petroleum and chemical blending and packaging facility. In 1955 the W. H. Barber Company became a subsidiary of the Union Oil Company of California (Unocal). In 1980 Gopher Oil Company purchased

the property and continued to use the facility until 1983. The facility contained at least 69 above ground storage tanks with a total capacity of at least 1,767,000 gallons.

The facility was decommissioned in 1983, at which time the above ground storage tanks were removed. At the request of the MPCA, Gopher Oil Company began investigating the soil and ground water at the property for contamination.

The MPCA Citizen's Board issued a formal Request For Response Action (RFRA) to Gopher Oil Company and Unocal in 1990. In a federal court case, it was decided that Unocal would assume responsibility for the cleanup at the property. Unocal completed the investigation of the property.

The investigation found that soils underneath the property were contaminated, in places, from surface to bedrock with volatile organic compounds (VOCs), semi-volatiles (SVOCs) and petroleum hydrocarbons. Low concentrations of dioxins, furans, pesticides, herbicides and metals were also found in the soil.

The investigation also showed that the perched ground water in the soil on top of the bedrock was contaminated with VOCs, SVOCs pesticides, herbicides, and metals. Free petroleum product was found floating on the perched ground water near the former storage tank area. The bedrock aquifer in the Platteville Limestone had low concentrations of the same contaminants as the perched aquifer.

In 1992 the existing buildings, except for a garage, were demolished. In 1995 a bioventing system, and a product and ground water recovery trench system were installed and operated at the property. In 1997 contaminated soil was removed from the property and a soil vapor extraction system was installed. In October 2001 the MPCA approved a plan to turn off the soil vapor extraction system and monitor the soil vapor to determine whether the soil cleanup has been completed. A ground water pumpout system continues to operate at the property."

The report states further that "because residential use criteria are stricter, a cleanup allowing residential use of the property would involve more cleanup actions and a significantly higher cleanup cost.....On March 13, 2001, Brighton Development Corporation voluntarily entered the property in the VIC Program. In a cleanup plan submitted to the VIC Program, Brighton proposes a cleanup that goes beyond the required cleanup by the State Superfund Program. Cleanup of the property under the cleanup plan would allow the property to be redeveloped for residential purposes."

Additional Cleanup Actions Proposed

The proposed cleanup consists of the removal of soil in areas of known contamination. Approximately 50,000 cubic yards of soil would be removed and disposed of at an appropriate landfill. Prior to the soil removal, existing structures such as pavement, retaining walls and remediation equipment would be removed

and materials that can not be reused or recycled would be disposed of at a demolition landfill.

Any product or contaminated ground water that accumulates in the excavation would be pumped from the pit. A licensed waste hauler would dispose of product. Contaminated ground water would be directed to the sanitary sewer under a permit from the Metropolitan Council.

Appropriate off-site safety precautions would be taken, such as dust suppression if needed and organic vapor monitoring. It is expected that the soil removal would take approximately 2 months to complete and would take place in spring 2002.¹

Description of Brighton Housing Proposal

On August 15, 2001, Brighton signed a Real Estate Option Agreement with Unocal to purchase the Thornton site, with the additional consideration of assuming full responsibility for all environmental contamination on or about the property and providing indemnification and hold harmless guarantees. Brighton has now submitted a proposal to develop 53 units of new ownership housing. Thirty-eight (38) units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million.

The East River/Unocal Site TIF District is to be a redevelopment TIF District as defined in the Minnesota Statutes, Section 469.174, Subdivision 10 (a) (3).

“Subd. 10. Redevelopment district. (a) "Redevelopment district" means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one or more of the following conditions, reasonably distributed throughout the district, exists:

- (3) tank facilities, or property whose immediately previous use was for tank facilities, as defined in section 115C.02, subdivision 15, if the tank facilities:
 - (i) have or had a capacity of more than 1,000,000 gallons
 - (ii) are located adjacent to rail facilities; and
 - (iii) have been removed or are unused, underused, inappropriately used, or infrequently used.”.

The TIF District is located within the East River/Unocal Site Redevelopment Project, under provisions of Minnesota Statutes Sections 469.001 through 469.047.

Conclusion: The subject property is a former tank facility that had a capacity of more than 1,000,000 gallons; the tanks have been removed; and the site contains soils underneath the property that are contaminated in places, from surface to bedrock

¹ Source: MPCA

with volatile organic compounds, semivolatiles and petroleum hydrocarbons. Low concentrations of dioxins, furans, pesticides, herbicides and metals are also found in the soil. Perched ground water in the soil on top of the bedrock is also contaminated with volatile organic compounds, semivolatiles, pesticides, herbicides, and metals. Free petroleum product can be found floating on the perched ground water near the former storage tank area. While some clean-up actions have been taken, the developer proposes a cleanup that goes beyond the required clean-up by the State Superfund Program, in order to allow the property to be redeveloped for residential purposes.

The blighting influences of the subject property is characterized above and the property is found blighted in accordance with the Minnesota Statutes.

Documentation supporting these findings is on file in the office of the Minneapolis Community Development Agency, 105 5th Avenue South, Project Planning & Finance Department, Suite 600, Minneapolis, Minnesota.

Exhibit # 8

Preliminary Budget and Method of Financing
East River/Unocal Site Redevelopment Plan
May 10, 2002

Description of Housing Development

On August 15, 2001, Brighton Development Corporation signed a Real Estate Option Agreement with Unocal to purchase the Thornton site, with the additional consideration of assuming full responsibility for all environmental contamination on or about the property and providing indemnification and hold harmless guarantees. Brighton has now submitted a proposal to develop 53 units of new market-rate ownership housing. Thirty eight (38) units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million.

Financing Overview

The purpose of this plan is to authorize public redevelopment activities and expenditures to assist with the Brighton housing project. Anticipated public redevelopment activities may include land acquisition and related costs, pollution cleanup, petroleum storage tank removal, environmental costs, affordable housing costs, administration, and other related activities.

Sources of funds may include tax increment financing, DTED and Metropolitan Council funds, and other sources not yet identified.

The figures, sources and methods of financing identified in this finance plan are based on the best estimates available at the time of writing. Slight changes in these figures can be expected. However, in the event that significant changes affect the structure or feasibility of this TIF Plan, or result in an increase in the project costs or indebtedness of this project beyond the amounts listed herein, a modification to the plan might be necessary. Such a modification would require the same approval process as the original approval of this TIF plan. The actual public commitment to pay public redevelopment costs for this project is established by the redevelopment contract, not the TIF plan, which establishes a permissive rather than proscriptive ceiling on public expenditures.

A. Project Costs

TIF District Budget

Sources	Up-Front	Over Time
Par Amount of Notes	\$ 1,600,000	---
Tax Increment	---	\$ 4,600,000
Capitalized Interest	---	310,000
<u>Total Sources</u>	\$ 1,600,000	\$ 4,910,000
<u>Uses</u>		
Land Acquisition	\$ 500,000	---
Environmental	519,000	---
Site improvements	147,000	---
Capitalized Interest	310,000	---
Note Discount/Placement	64,000	---
Fees		
Note costs of Issuance	60,000	
Note Principal	---	\$ 1,600,000
Note Interest	---	
<i>Affordable Housing</i>	---	1,700,000
<i>MCDA Administration</i>	---	460,000
<i>Total Uses</i>	\$ 1,600,000	\$ 4,910,000

B. Bonded Indebtedness to be Incurred

It is currently anticipated that the MCDA will issue taxable tax increment revenue notes to fund eligible public redevelopment costs of the project. The par amount of such notes shall not exceed \$1,600,000.

Upon satisfaction of various provisions contained in the redevelopment contract between the MCDA and Brighton Development Corp., these taxable notes may be refinanced by the Agency with tax-exempt tax increment revenue notes. Such refinancing could occur in 2-4 years.

**MINNEAPOLIS COMMUNITY
DEVELOPMENT AGENCY**

**East River/Unocal Site
Tax Increment Finance Plan**

May 10, 2002

Prepared by the Project Planning and Finance Department
Minneapolis Community Development Agency, 105 5th Avenue South,
Minneapolis, Minnesota 55401

**East River/Unocal Site
Tax Increment Finance Plan
May 10, 2002**

- I. Tax Increment District Boundary
- II. Statement of Objectives
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 - B. Property That May Be Acquired
 - C. Development Activity For Which Contracts Have Been Signed
 - D. Other Development Activity
- IV. Description of Financing
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 - C. Sources of Revenue
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 - F. Duration of District
 - G. Fiscal Disparities Election
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 - J. Affordable Housing and Expenditures Outside TIF District
- V. Type of Tax Increment Financing District
- VI. Estimated Impact on Other Taxing Jurisdictions
- VII. Basis for Finding that Development Would Not Occur Without Tax Increment Financing Assistance
- VIII. Modifications to Tax Increment Financing Plans
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 - 1) Boundary/Acquisition Map
 - 2) Project Area Report and Documentation of Blight
 - 3) Site Plan

East River/Unocal Site Tax Increment Finance Plan

May 10, 2002

Introduction

Two plan documents have been prepared that are related to the proposed East River/Unocal Site Project, including this Tax Increment Finance (“TIF”) Plan, and the East River/Unocal Site Redevelopment Plan (collectively, the “Plans”). The Redevelopment Plan authorizes the creation of a new tax increment finance district as a tool for carrying out the redevelopment activities described therein.

This TIF plan establishes a new redevelopment TIF district: the “East River/Unocal Site TIF District”. The TIF Plan authorizes public redevelopment activities and expenditures, establishes a new redevelopment tax increment financing district, and a budget for expenditures of the project. Tax increment will be used to pay a portion of the public redevelopment costs including land acquisition, pollution cleanup, removal of soil in areas of known contamination and disposed of at an appropriate landfill, site preparation and affordable housing costs associated with the project, in addition to MCDA administration costs.

Background

The East River/Unocal Site Project is located at 825 Thornton Street Southeast, Minneapolis, in the Prospect Park neighborhood and has had a long and controversial history. The site is a 4.6 acre triangular block that is bounded by Thornton Street on the west, East Franklin Avenue on the south, and Interstate 94 on the east. The site has been the location for the processing and storage of petroleum products since 1910 when the W. H. Barber Company began its operations. Company records indicate that at one time as many as 170 storage tanks were in use, and several spills were reported on the site after the Minnesota Pollution Control Agency (PCA) became involved in the mid-70's. The W. H. Barber Company (which became a subsidiary of Union Oil of California in 1955) sold the site to the Gopher Oil Company in 1980, and Gopher continued to use the site for similar purposes until it ceased operations in 1984.

For many years, the Prospect Park/East River Road Improvement Association (PPERRIA) has placed the Thornton-Unocal site high on its list of priorities and has tried to encourage its various owners to clean up the site. PPERRIA in fact has referred to the Thornton/Unocal site in its Neighborhood Revitalization Plan (NRP) as one of the neighborhood's longest running battles, with numerous documented conflicts between the neighborhood and the owners regarding zoning issues, building permits, proposed truck routes, and various operational complaints. PPERRIA outlined a strategy in its NRP Plan to convert the site to a housing use and also dedicated funds for this purpose.

During the 1980's, PPERRIA established a Gopher Oil Task Force to urge greater PCA involvement in the situation. In 1990, the PCA issued a Request for Response Action to both Unocal and Gopher Oil asking them to submit a plan for further investigation and cleanup. Gopher Oil, which still owned the site, did not proceed with an investigation because it was in litigation with Unocal over responsibility for the site. The PCA also decided to place the site in the Superfund Program because it was not viewed as a high priority project since Gopher's operations had ceased. This approach gave the PCA the option of using Superfund money to do the cleanup if the responsible parties did not cooperate. However, later that year, a federal court ruled that Unocal was the sole responsible party, and Unocal decided to re-purchase the site, demolish and remove all of the buildings and structures, and to cooperate with the PCA on a cleanup program.

Currently, the Unocal site is designated as a Superfund site and is undergoing cleanup under a long-term plan approved by the PCA in the mid-1990's. The cleanup process under the Superfund Program is generally considered more cumbersome and costly than under the Voluntary Investigation and Cleanup (VIC) Program because of additional controls and reporting requirements. For this reason, Unocal considered an attempt to have the site transferred to the more flexible VIC Program, but ultimately decided not to apply for this change.

In 1996, PPERRIA began discussions with Unocal to purchase the site with NRP funds for the eventual development of new housing, but was never able to reach an agreement on a right of first refusal. In late 1998, Brighton Development Corporation was invited by the MCDA and PPERRIA to participate in discussions with Unocal as a potential developer interested in purchasing the site. From these discussions, it was apparent that Unocal preferred dealing with a developer that had the capacity to assume the legal and practical responsibility for the cleanup. During the past three years, Brighton has had periodic discussions regarding a possible purchase option with Unocal representatives, who seemed to be willing to sell for a reasonable price if the appropriate environmental insurance and legal indemnification could be provided. However, by mid-2001, the timing of sale was apparently right for Unocal and terms were reached on a purchase option with Brighton.

Description of Brighton Housing Proposal

On August 15, 2001, Brighton signed a Real Estate Option Agreement with Unocal to purchase the Thornton site, with the additional consideration of assuming full responsibility for all environmental contamination on or about the property and providing indemnification and hold harmless guarantees. Brighton has now submitted a proposal to develop 53 units of new ownership housing. Thirty-eight (38) units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million.

According to the City Affordable Housing Policy, 20% of the proposed units (11) must be affordable to households with incomes at or below 50% of metropolitan median. However, the Policy gives developers the option of providing these units either in the proposed project or off-site through a contribution to the Affordable Housing Fund.

It is currently anticipated that five (5) of the units will be affordable on-site. The remaining six (6) units will be off-site, and will be funded over time with annual contributions to the Affordable Housing Fund from a portion of the tax increment collected each year.

As part of its development proposal, Brighton submitted a new Response Action Plan (RAP) to the MPCA requesting the acceptance of the site in the VIC Program. This change has been approved by the MPCA and should aid in accelerating the cleanup process and in attaining a level of cleanup that will permit “unlimited land use”, i.e. a residential reuse. Brighton estimates that the cleanup cost will be approximately \$2 million.

TAX INCREMENT FINANCE PLAN

I. Tax Increment District Boundary

The East River/Unocal Site TIF District is being established within and under the authority of the East River/Unocal Site Redevelopment Plan. The property to be included in the proposed district includes one tax parcel as well as portions of adjacent street rights-of-way. The tax parcel is:

<u>Address</u>	<u>PIN number</u>	<u>Owner</u>
825 Thornton Street SE	30-029-23-34-0001	Union Oil Co of California

(See Boundary Map, Exhibit # 1)

The Project Area Report, which provides a more detailed description of the existing property conditions, and documents the eligibility of this site for the establishment of a Redevelopment TIF District, is appended as Exhibit # 2 to this plan.

II. Statement of Objectives

The objectives for this project are described in the East River/Unocal Site Redevelopment Plan in Section B. 3. and are restated below.

The primary project objective will be to perform cleanup activities in order to carry out residential redevelopment of the property. Toward this end, the following goals have been identified:

7. Accelerate cleanup of the site with the goal of achieving a residential reuse standard;
8. Eliminate blight, incompatible uses, and blighting influences;
9. Removal of underground Petroleum storage tanks;
10. Soil contamination cleanup;
11. Develop for-sale townhouses and condominiums;
12. Develop affordable housing units, to individuals and families, by making a contribution to the Affordability Fund for residential rental housing.

This Plan authorizes public redevelopment activity intended to assist with the implementation of the Brighton Housing proposal project, including land acquisition, pollution cleanup, site preparation, environmental costs, affordable housing costs, administration, and other related activities.

III. Development Program

A. Description of Development Program

On August 15, 2001, Brighton signed a Real Estate Option Agreement with Unocal to purchase the Thornton site, with the additional consideration of assuming full responsibility for all environmental contamination on or about the property and providing indemnification and hold harmless guarantees. Brighton has now submitted a proposal to develop 53 units of new ownership housing. Thirty-eight (38) units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million. A copy of Brighton's proposed site plan is attached as Exhibit # 3.

According to the City Affordable Housing Policy, 20% of the proposed units (11) must be affordable to households with incomes at or below 50% of metropolitan median. However, the Policy gives developers the option of providing these units either in the proposed project or off-site through a contribution to the Affordable Housing Fund.

It is currently anticipated that five (5) of the units will be affordable on-site. The remaining six (6) units will be off-site, and will be funded over time with annual contributions to the Affordable Housing Fund from a portion of the tax increment collected each year.

As part of its development proposal, Brighton submitted a new Response Action Plan (RAP) to the MPCA requesting the acceptance of the site in the VIC Program. This change has been approved by the MPCA and should aid

in accelerating the cleanup process and in attaining a level of cleanup that will permit “unlimited land use”, i.e. a residential reuse. Brighton estimates that the cleanup cost will be approximately \$2 million.

Tax increment revenue and other public funds will be necessary to pay a portion of the public redevelopment activities associated with this project.

B. Property That May Be Acquired

By including in this Redevelopment Plan a list of property that may be acquired, the Agency is signifying that it may assist with the acquisition and related costs of the property listed, subject to limitations imposed by availability of funds, developer interest, staging requirements, soil contamination and other financial and environmental considerations. Inclusion on this list does not indicate an absolute commitment on the part of the Agency to acquire a property.

<u>Address</u>	<u>PIN number</u>	<u>Owner</u>
825 Thornton Street SE	30-029-23-34-0001	Union Oil Co of California

C. Development Activity for Which Contracts Have Been Signed and Other Specific Development Expected to Occur

The MCDA is currently negotiating a development agreement with Brighton Development Corporation.

D. Other Development Activity

No other development activity is anticipated in this tax increment finance district.

IV. Description of Financing

The purpose of this plan is to authorize public redevelopment activities and expenditures to assist with the Brighton housing project. Anticipated public redevelopment activities may include land acquisition and related costs, pollution cleanup, petroleum storage tank removal, environmental costs, affordable housing costs, administration, and other related activities.

Sources of funds may include tax increment financing, DTED and Metropolitan Council funds, and other sources not yet identified.

The figures, sources and methods of financing identified in this finance plan are based on the best estimates available at the time of writing. Slight changes in these figures can be expected. However, in the event that significant changes

affect the structure or feasibility of this TIF Plan, or result in an increase in the project costs or indebtedness of this project beyond the amounts listed herein, a modification to the plan might be necessary. Such a modification would require the same approval process as the original approval of this TIF plan. The actual public commitment to pay public redevelopment costs for this project is established by the redevelopment contract, not the TIF plan, which establishes a permissive rather than proscriptive ceiling on public expenditures.

A. Project Costs

<u>TIF District Budget</u>		
Sources	Up-Front	Over Time
Par Amount of Notes	\$ 1,600,000	---
Tax Increment	---	\$ 4,600,000
Capitalized Interest	---	310,000
<u>Total Sources</u>	\$ 1,600,000	\$ 4,910,000
<u>Uses</u>		
Land Acquisition	\$ 500,000	---
Environmental	519,000	---
Site improvements	147,000	---
Capitalized Interest	310,000	---
Note Discount/Placement Fees	64,000	---
Note costs of Issuance	60,000	
Note Principal	---	\$ 1,600,000
Note Interest	---	
Affordable Housing	---	1,700,000
MCDA Administration	---	460,000
<i>Total Uses</i>	\$ 1,600,000	\$ 4,910,000

B. Bonded Indebtedness to be Incurred

It is currently anticipated that the MCDA will issue taxable tax increment revenue notes to fund eligible public redevelopment costs of the project. The par amount of such notes shall not exceed \$1,600,000.

Upon satisfaction of various provisions contained in the redevelopment contract between the MCDA and Brighton Development Corp., these taxable notes may be refinanced by the Agency with tax-exempt tax increment revenue notes. Such refinancing could occur in 2-4 years.

C. Sources of Revenue

Tax increment generated within the TIF District will be a source of public funds used to pay a portion of public redevelopment costs associated with the Brighton housing project. Other sources of funds to pay public redevelopment costs may include State and regional grants, Metropolitan Council funds, DTED funds, and other funds not yet identified.

D. Original Net Tax Capacity

The 2001 estimated market value of the tax parcel included in the TIF District is \$61,600. This will result in an original net tax capacity of approximately \$616 upon project completion and property reclassification.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the redevelopment it is anticipated that the estimated market value of taxable property in the District will increase from \$61,600 to approximately \$15,758,168. This represents an increase of \$15,696,568 and will generate a total net tax capacity of approximately \$157,582, and an estimated captured net tax capacity of \$156,966.

Based upon a total local tax rate of approximately 147.663%, this will generate an estimated annual gross tax increment payment of \$231,781 (excluding deduction for State Auditor Fee).

F. Duration of District

The East River/Unocal Site TIF District is a Redevelopment TIF District. Tax increment can be paid to the MCDA for up to twenty-six years of increment collection, or such period as is authorized by law and is necessary to complete financing of the eligible project costs.

G. Fiscal Disparities Election

It is the intent of the MCDA and the City of Minneapolis that the entire fiscal disparity contribution required of the City for development occurring within this district be taken from outside the TIF District. The option provided in Minnesota Statutes Section 469.177, Subdivision 3, Paragraph (a) of the Minnesota Tax Increment Financing Act is elected.

H. Original Tax Capacity Rate

The Original Tax Capacity Rate for this district will be 147.663%. See Section VI for a breakdown of this rate by taxing jurisdiction.

I. Permit Activity and Prior Planned Improvements

The project does not include any prior planned improvements that would have been constructed without the approval of this project, and the tax increment and other public financial assistance to be received.

The letter requesting certification by Hennepin County of the TIF District will be accompanied by a list of all of the building permits issued for the property included in this district during the eighteen months immediately preceding approval of this tax increment financing plan, as mandated by Minnesota Statutes, Section 469.175, Subdivision 3.

J. Affordable Housing and Expenditures Outside TIF District

Pursuant to M.S. Section 469.176, Subd. 4k, tax increment may be spent to assist affordable housing meeting the requirements of M.S. Section 469.173, Subd. 2, paragraph (d), which states that such expenditures must:

- (1) be used exclusively to assist housing that meets the requirements for a qualified low income building (as defined in Section 42 of the IRC);
- (2) not exceed the qualified basis of the housing (as defined in Section 42c of the IRC) less the amount of any credit allowed under Section 42; and
- (3) be used to:
 - (i) acquire and prepare the site of the housing;
 - (ii) acquire, construct, or rehabilitate the housing; or
 - (iii) make public improvements directly relating to the housing.

Tax increment expenditures for the qualifying affordable housing costs listed above are not restricted to the TIF district or project area, but may be spent anywhere in the city. However, the amount of tax increment used for such purposes is restricted.

Pursuant to M.S. Section 469.1763, Subd. 2, up to 25% of the tax increment from a redevelopment TIF district may be spent on activities located outside the boundaries of the TIF district. An authority may elect in the TIF plan to increase this amount by up to 10% (maximum total of 35%), provided that these additional expenditures meet the affordable housing requirement listed above. Administrative expenses are considered expenditures outside of the district.

Pursuant to the provisions, requirements and restrictions noted above, the Agency elects to increase by 10% the amount of tax increment that may be expended outside the boundaries of the TIF district. It currently anticipates that up to 10% of the increment collected from the district (over its lifetime) may be used for administrative purposes, and up to 25% of the increment

collected from the district (over its lifetime) will be used for affordable housing purposes.

V. Type of Tax Increment Financing District

The proposed TIF District is a Redevelopment District pursuant to Minnesota Statutes Section 469.174 Subdivision 10(a) (3). Additional information about the physical conditions in the proposed district and the eligibility of this area for inclusion within a Redevelopment TIF district can be found in the Project Area Report and Documentation of Blight, which is appended as Exhibit # 2 to this Plan.

VI. Estimated Impact on Other Taxing Jurisdictions

It is the position of the Minneapolis Community Development Agency and the City of Minneapolis that the redevelopment of the property would not occur as proposed without the tax increment financing assistance to be provided.

Nevertheless, if it is assumed for purposes of analysis that the proposed development would occur without the tax increment financing assistance and that the estimated captured tax capacity generated by the development would under those circumstances be immediately available to the taxing jurisdictions, then the estimated annual impact on the taxing jurisdictions would be as follows:

<i>Taxing Jurisdictions</i>	Tax Capacity Rate Payable 2002	Property Tax Revenues Resulting from \$156,966 Captured Tax Capacity
City of Minneapolis	59.054	\$ 92,695
Hennepin County	44.748	70,239
Special School District #1	32.961	51,738
Other Taxing Jurisdictions	10.90	17,109
Total	147.663%	\$ 231,781

VII. Basis for Finding that Development Would Not Occur Without Tax Increment Financing Assistance

Minnesota Statutes, Section 469.175, Subdivision 3, provides that prior to the approval of a tax increment financing plan, the City Council must find that the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and therefore the use of tax increment financing is deemed necessary.

It is the position of the Minneapolis Community Development Agency and the City of Minneapolis that the private redevelopment of the property included in the TIF District could not occur without public participation and financial assistance. This conclusion is based upon the following factors:

The project will redevelop a parcel of land that is contaminated and has a long history of pollution from petroleum products. The property is a former tank facility that had a capacity of more than 1,000,000 gallons; the tanks have been removed; and the site contains soils that are contaminated in places, from surface to bedrock with volatile organic compounds, semivolatiles and petroleum hydrocarbons. (See Project Area Report and Documentation of Blight, Exhibit # 2.)

As part of its development proposal, Brighton submitted a new Response Action Plan (RAP) to the PCA requesting the acceptance of the site in the VIC Program. This change has been approved by the MPCA and should aid in accelerating the cleanup process and in attaining a level of cleanup that will permit a residential reuse. Brighton estimates that the cleanup cost will be approximately \$2 million. The high cost of cleaning up the pollution on the site makes redevelopment prohibitively expensive without the use of tax increment assistance. The land has been vacant since 1992 when structures on the property were demolished.

This project has already received financial commitments from the State Department of Trade and Economic Development, the Metropolitan Council, and from Hennepin County to fund part of the cost of pollution cleanup. However, these State, regional, and local contributions will not cover the entire cost of pollution cleanup and site preparation, and tax increment financing is the only alternative source to fund the remainder of these costs.

Therefore, it is the opinion of the City of Minneapolis that the proposed redevelopment project to be financed, in part, by this TIF District would not occur solely through private investment within the foreseeable future.

The TIF Act requires that a potential TIF district must also pass a market value test in order to make a finding that the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by this TIF Plan.

Because it is the opinion of the City of Minneapolis that the proposed redevelopment project to be financed, in part, by this TIF District would not occur solely through private investment at this time, the City projects that the estimated market value of the site without the use of tax increment would remain at its present level. The calculations necessary to pass this test are contained on the next page of this plan. As shown on the next page, the public redevelopment activity, expenditures, and market values associated with the redevelopment that is proposed in this plan results in a series of calculations and figures that clearly pass the market value test.

VIII. Modifications to Tax Increment Finance Plans

This Tax Increment Finance Plan may be modified, provided that the Agency and City Council shall adopt such modifications under the provisions of the Tax Increment Financing Act, Minnesota Statutes, Section 469.175, Subdivision 4.

This plan reflects the establishment of the East River/Unocal Site Tax Increment Financing District.

East River/Unocal Site TIF District

Valuation and Tax Increment Assumptions			
	Pay 2004	Pay 2005	Pay 2006
Total Estimated Market Value (EMV)	\$78,791	\$10,415,706	\$15,758,616
Less: Original EMV	61,600	61,600	61,600
Captured EMV	\$17,191	\$10,354,106	\$15,696,616
Total Net Tax Capacity (NTC)	\$788	\$104,157	\$157,128
Less: Original NTC	616	616	616
Captured NTC	\$172	\$103,541	\$156,512
Times: Projected Total Tax Rate	147.663%	147.663%	147.663%
Gross Tax Increment	\$254	\$152,892	\$231,128
Less: State Auditor's Fee (.5%)	1	764	1,528
Tax Increment Distributed to MCDA	\$253	\$152,128	\$229,600

25 Years of TI Collection		
	Tax Increment	
Years of TIF Collection	Payable Year	Distributed To MCDA
---	2002	\$0

Market Value
<p><u>Analysis Required by M.S. Section 3 (2)</u></p> <p>(1) "... the increased market value (reasonably</p>

---	2003	0
1	2004	253
2	2005	152,128
3	2006	230,622
4	2007	230,622
5	2008	230,622
6	2009	230,622
7	2010	230,622
8	2011	230,622
9	2012	230,622
10	2013	230,622
11	2014	230,622
12	2015	230,622
13	2016	230,622
14	2017	230,622
15	2018	230,622
16	2019	230,622
17	2020	230,622
18	2021	230,622
19	2022	230,622
20	2023	230,622
21	2024	230,622
22	2025	230,622
23	2026	230,622
24	2027	230,622
25	2028	230,622
26	2029	230,622
		\$5,687,309
	P.V. @ 5.00%	\$2,880,608

be expected to occur without the

(a) Projected estimated market value without the use of tax increment

(b) Original estimated market value

(c) Increased estimated market value with the use of tax increment = (a) - (b)

(2) "... increase in the market value of the property to result from the proposed development subtracting the present value of the projected increments for the maximum duration of the permitted by the plan.":

(d) Increase in the estimated market value of the completed development

(e) Present value of the projected increments for the maximum duration of

(f) Difference = (d) - (e)

(3) Since (c) is less than (f), the proposed development or redevelopment passes the test.

PROJECT AREA REPORT AND DOCUMENTATION OF BLIGHT

East River/Unocal Site Redevelopment and Tax Increment Finance Plan May 10, 2002

The East River/Unocal Site Redevelopment Project (the "Redevelopment Project") will be a redevelopment project as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivision 14 and 16). According to Subdivision 14, Paragraph 1, redevelopment projects are established "for the purpose of removing, preventing, or reducing blight, blighting factors, or the causes of blight." The redevelopment project area therefore must be found to be a blighted area, which is defined in Section 469.002, Subd. 11 of the Act as:

"... any area with buildings or improvements which, by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light, and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, are detrimental to the safety, health, morals, or welfare of the community."

Background

The East River/Unocal Site Project is located at 825 Thornton Street Southeast, Minneapolis, in the Prospect Park neighborhood and has had a long and controversial history. The site is a 4.6 acre triangular block that is bounded by Thornton Street on the west, East Franklin Avenue on the south, and Interstate 94 on the east. The site has been the location for the processing and storage of petroleum products since 1910 when the W. H. Barber Company began its operations. Company records indicate that at one time as many as 170 storage tanks were in use, and several spills were reported on the site after the Minnesota Pollution Control Agency (PCA) became involved in the mid-70's. The W. H. Barber Company (which became a subsidiary of Union Oil of California in 1955) sold the site to the Gopher Oil Company in 1980, and Gopher continued to use the site for similar purposes until it ceased operations in 1984.

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MPCA Actions

A fact sheet dated February 18, 2002, summarizing the Minnesota Pollution Control Agency's (MPCA) actions at the Gopher Oil Thornton Site in the State Superfund Program, and the proposed cleanup plan for the proposed residential redevelopment of the property under the oversight of the MPCA Voluntary Investigation and Cleanup Program (VIC Program) states:

"From at least 1906 to 1980 the property was used by the W. H. Barber Company for petroleum and solvent storage, and a petroleum and chemical blending and packaging facility. In 1955 the W. H. Barber Company became a subsidiary of the

Union Oil Company of California (Unocal). In 1980 Gopher Oil Company purchased the property and continued to use the facility until 1983. The facility contained at least 69 above ground storage tanks with a total capacity of at least 1,767,000 gallons.

The facility was decommissioned in 1983, at which time the above ground storage tanks were removed. At the request of the MPCA, Gopher Oil Company began investigating the soil and ground water at the property for contamination.

The MPCA Citizen's Board issued a formal Request For Response Action (RFRA) to Gopher Oil Company and Unocal in 1990. In a federal court case, it was decided that Unocal would assume responsibility for the cleanup at the property. Unocal completed the investigation of the property.

The investigation found that soils underneath the property were contaminated, in places, from surface to bedrock with volatile organic compounds (VOCs), semi-volatiles (SVOCs) and petroleum hydrocarbons. Low concentrations of dioxins, furans, pesticides, herbicides and metals were also found in the soil.

The investigation also showed that the perched ground water in the soil on top of the bedrock was contaminated with VOCs, SVOCs pesticides, herbicides, and metals. Free petroleum product was found floating on the perched ground water near the former storage tank area. The bedrock aquifer in the Platteville Limestone had low concentrations of the same contaminants as the perched aquifer.

In 1992 the existing buildings, except for a garage, were demolished. In 1995 a bioventing system, and a product and ground water recovery trench system were installed and operated at the property. In 1997 contaminated soil was removed from the property and a soil vapor extraction system was installed. In October 2001 the MPCA approved a plan to turn off the soil vapor extraction system and monitor the soil vapor to determine whether the soil cleanup has been completed. A ground water pumpout system continues to operate at the property."

The report states further that "because residential use criteria are stricter, a cleanup allowing residential use of the property would involve more cleanup actions and a significantly higher cleanup cost.....On March 13, 2001, Brighton Development Corporation voluntarily entered the property in the VIC Program. In a cleanup plan submitted to the VIC Program, Brighton proposes a cleanup that goes beyond the required cleanup by the State Superfund Program. Cleanup of the property under the cleanup plan would allow the property to be redeveloped for residential purposes."

Additional Cleanup Actions Proposed

The proposed cleanup consists of the removal of soil in areas of known contamination. Approximately 50,000 cubic yards of soil would be removed and

disposed of at an appropriate landfill. Prior to the soil removal, existing structures such as pavement, retaining walls and remediation equipment would be removed and materials that can not be reused or recycled would be disposed of at a demolition landfill.

Any product or contaminated ground water that accumulates in the excavation would be pumped from the pit. A licensed waste hauler would dispose of product. Contaminated ground water would be directed to the sanitary sewer under a permit from the Metropolitan Council.

Appropriate off-site safety precautions would be taken, such as dust suppression if needed and organic vapor monitoring. It is expected that the soil removal would take approximately 2 months to complete and would take place in spring 2002.²

Description of Brighton Housing Proposal

On August 15, 2001, Brighton signed a Real Estate Option Agreement with Unocal to purchase the Thornton site, with the additional consideration of assuming full responsibility for all environmental contamination on or about the property and providing indemnification and hold harmless guarantees. Brighton has now submitted a proposal to develop 53 units of new ownership housing. Thirty-eight (38) units will be townhouses and 15 units will be condominiums. Prices are expected to range from \$185,000 to \$400,000. The total market value of this development is estimated at \$15.8 million.

The East River/Unocal Site TIF District is to be a redevelopment TIF District as defined in the Minnesota Statutes, Section 469.174, Subdivision 10 (a) (3).

“Subd. 10. Redevelopment district. (a) "Redevelopment district" means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one or more of the following conditions, reasonably distributed throughout the district, exists:

- (3) tank facilities, or property whose immediately previous use was for tank facilities, as defined in section 115C.02, subdivision 15, if the tank facilities:
 - (i) have or had a capacity of more than 1,000,000 gallons
 - (ii) are located adjacent to rail facilities; and
 - (iii) have been removed or are unused, underused, inappropriately used, or infrequently used.”.

The TIF District is located within the East River/Unocal Site Redevelopment Project, under provisions of Minnesota Statutes Sections 469.001 through 469.047.

² Source: MPCA

Conclusion: The subject property is a former tank facility that had a capacity of more than 1,000,000 gallons; the tanks have been removed; and the site contains soils underneath the property that are contaminated in places, from surface to bedrock with volatile organic compounds, semivolatiles and petroleum hydrocarbons. Low concentrations of dioxins, furans, pesticides, herbicides and metals are also found in the soil. Perched ground water in the soil on top of the bedrock is also contaminated with volatile organic compounds, semivolatiles, pesticides, herbicides, and metals. Free petroleum product can be found floating on the perched ground water near the former storage tank area. While some clean-up actions have been taken, the developer proposes a cleanup that goes beyond the required clean-up by the State Superfund Program, in order to allow the property to be redeveloped for residential purposes.

The blighting influences of the subject property is characterized above and the property is found blighted in accordance with the Minnesota Statutes.

Documentation supporting these findings is on file in the office of the Minneapolis Community Development Agency, 105 5th Avenue South, Project Planning & Finance Department, Suite 600, Minneapolis, Minnesota.