

**Central Avenue Lofts
Tax Increment Finance Plan**

March 17, 2006



Prepared by the Development Finance Division
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**Central Avenue Lofts Tax Increment Finance Plan
March 17, 2006**

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Central Avenue Lofts Tax Increment Finance Plan

March 17, 2006

Introduction

Three plan documents have been prepared that are related to a proposed mixed use, mixed income rental and townhome project: Modification No. 6 to the Central Avenue Redevelopment Plan, Modification No. 107 to the Common Development and Redevelopment Plans (Common Project), and this Central Avenue Lofts Tax Increment Finance (“TIF”) Plan (the “Plans”).

Modification No. 6 to the Central Avenue Redevelopment Plan authorizes the creation of a new tax increment finance district as a tool for carrying out the redevelopment activities described therein.

Because the Central Avenue Redevelopment Project Area is geographically located within the boundary of the Common Project, **Modification No. 107 to the Common Project** has been prepared to reflect the authorization to pursue these redevelopment activities within a project that has been incorporated within the Common Project Area. The geographical area of the Central Avenue Redevelopment Project is included within the Common Project; however, the new Central Avenue Lofts TIF district is not being incorporated into the Common Project. Rather, it is intended to be a freestanding TIF district and will not be subject to the existing Common Project obligations and commitments.

This plan document, the **Central Avenue Lofts Tax Increment Finance Plan**, creates a new housing tax increment financing district to finance the anticipated costs of public redevelopment activities, and establishes a preliminary budget for the project.

TAX INCREMENT FINANCE PLAN

I. Tax Increment District Boundary

This plan establishes a new housing TIF district to be designated as the Central Avenue Lofts TIF District. The proposed TIF District is located in the Holland Neighborhood and Northeast Community in Ward 1 of Northeast Minneapolis. The TIF District includes ten (10) tax parcels located at 24th Avenue and Central Avenue NE, within the boundary of the Central Avenue Redevelopment Project Area. Surrounding uses are a mix of commercial, retail and residential primarily two-and three-story buildings along Central Avenue.

The tax parcels included in the Central Avenue Lofts TIF District are:

Property Identification Number

Address

11-029-24-41-0149	2338 Central Ave NE
11-029-24-41-0152	916 24 th Ave NE
11-029-24-41-0153	2324 Central Ave NE
11-029-24-41-0154	2322 Central Ave NE
11-029-24-41-0155	2320 Central Ave NE
11-029-24-41-0157	2316 Central Ave NE
11-029-24-41-0171	910 24 th Ave NE
11-029-24-41-0174	900 24 th Ave NE
11-029-24-41-0177	2328 Central Ave NE
11-029-24-41-0180	2323 Jackson St NE

A map showing the boundary of the proposed Central Avenue Lofts TIF District has been attached as Exhibit #1 to this Plan. The Project Area Report, which documents the eligibility of this site for the creation of a Housing TIF District, is attached as Exhibit #2 to this Plan.

II. Statement of Objectives

The objectives for this project are described in Section I. B. 3. of the Central Avenue Redevelopment Plan and correspond with the Guidelines and Criteria for the Central Avenue Redevelopment Project as approved by the Minneapolis City Council.

III. Development Program

A. Description of Development Program

The purpose of this plan is to authorize the use of tax increment revenue to pay for public redevelopment activity - including new housing construction, administration, and other eligible project costs.

Sherman Associates, Inc. proposes to redevelop the site on the southwest corner of Central Avenue and 24th Avenue N.E. The site consists of an existing two-story building that serves as a US Bank branch office, including a drive-through facility for the bank, and a surface parking lot. The current building is mostly vacant and US Bank desires to physically downsize. The property is zoned commercial and will be rezoned to accommodate the new multi-family residential proposal.

The project will consist of the new construction of a 66-unit rental apartment building, ground floor commercial, underground parking and seven (7) for-sale townhouses. The building will be four floors over underground parking. The apartments will be a combination of one, two and three bedroom units and will be affordable to households at 30%, 50%, and 60% median income as well as market rate units. The ground floor commercial will be approximately 15,118 square feet in size. The existing property owner, US Bank, desires to physically downsize and the redevelopment proposal will accommodate the bank's smaller size in the same location. The bank will lease approximately 4,223 square feet of

the ground floor space for its operations, including a drive-through window. The lease term will be 40 years. The underground parking will have a total of 68 parking spaces and there will be a 42-space surface parking lot. The project will create an attractive new building that will fit in well with other buildings along Central Avenue. The estimated total development cost of the rental project is \$13,557,500.

In addition, seven (7) owner-occupied townhomes will be constructed and all of them will face Jackson Street N.E. Each unit will have three bedrooms and will be approximately 1,700 square feet in size. The anticipated sales price of each unit will be in the \$225,000 to \$250,000 range. The estimated total development cost of the ownership project is \$2 million.

The proposed development will address an underutilized site located directly on a major transit and central commercial corridor. The inclusion of the bank back into the redeveloped project will provide a form of stability for the project and neighborhood. The redevelopment of this site has been a priority for the Holland neighborhood for many years.

The proposal creates higher density along the commercial corridor which fits with both the Central Avenue Redevelopment Plan and The Minneapolis Plan¹. Surrounding uses are a mix of commercial, retail and residential primarily two- and three-story buildings along Central Avenue. In the past five years new immigrant-owned businesses and restaurants have been extremely successful and a major catalyst in revitalizing the business district along Central Avenue.

Anticipated redevelopment activities include demolition of the current bank building to allow for the new construction of a four-story building along Central Avenue and 24th Avenue NE, and up to seven new townhomes along Jackson Street. Redevelopment activities include demolition, new construction, pollution cleanup, administration, and other related activities. These actions are being undertaken to promote community development and neighborhood stabilization through the provision of affordable rental housing units and ownership townhome units.

These redevelopment activities will foster the development and preservation of a mix of quality housing types that are available, affordable, meet current needs, and promote future growth. Tax increment assistance will be in the form of a pay-as-you-go note.

Central Avenue Lofts will have a total of 66 rental units. The unit composition and rent levels for the rental building are shown below.

Unit Compositio	# of Unit	30% of	50% of	60% of	Mkt rat
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¹ Section 4.10 The Minneapolis Plan: Minneapolis will increase its housing that is affordable to low and moderate income households.

n	s	MMI	MMI	MMI	e
One bedroom	15	0	6	9	0
Two bedroom	27	0	0	17	10
Three bedroom	24	8	0	13	3
Total Units	66	8	6	39	13

The rental apartment buildings will have a total of 15 one-bedroom units, 27 two-bedroom units, and 24 three-bedroom units, with the rents and affordability levels shown above. Since there will be 14 units at or below 50% of MMI², this project complies with the City Affordable Housing Policy, which would require at least 13 affordable units (i.e. 20% of 66). In addition, there will be 39 units affordable at or below 60% of area median income for a total of 53 low income (80%) affordable units. Eight units are being targeted for Section 8 residents.

The sales price for each of the seven market rate ownership townhomes is estimated to be in the \$225,000 to \$250,000 range.

B. List of Property That May Be Acquired

The developer, Sherman Associates, Inc., has a Purchase Agreement and executed lease for 4,223 square feet with US Bank, the current owner of the site.

C. Development Activity for which Contracts Have Been Signed

As of the date of the preparation of this plan, the City of Minneapolis has not yet entered into any redevelopment contracts related to these activities. It is anticipated that a development agreement will be executed with Sherman Associates, Inc., and/or Central Avenue Lofts Limited Partnership.

D. Other Development Activity

No other future redevelopment activity has been identified at this time. Any activities or expenditures not identified in this plan, or consistent with the plan objectives and budget included herein, would require a modification of this plan, pursuant to Minnesota Statutes Section 469.175, Subdivision 4.

IV. Description of Financing

The purpose of this plan is to authorize the use of tax increment revenue to pay for public redevelopment activity - including new construction, administration, and other project costs eligible to the needs of the project.

² Metropolitan Median Income

It is anticipated that public redevelopment costs will be financed in part with pay-as-you-go tax increment financing.

The figures, sources and methods of financing identified in this preliminary 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 bonded indebtedness of this project beyond the amounts listed herein, a modification to this plan might be necessary. Such a modification would require the same approval process as the original approval of this TIF Plan.

A. Project Costs

Total up-front project costs for the Central Avenue Lofts TIF District are estimated at \$13,557,500. These costs include new construction, acquisition, demolition, administration and other related project costs. Total estimated tax increment expenditures over time are estimated at \$3,100,000 which include Pay-As-You-Go Note Principal, Pay-As-You-Go Interest and Administration.

Central Avenue Lofts TIF District Budget

Sources	Up Front	Over Time
Developer Funds	\$ 1,250,000	
Tax Increment		\$ 3,100,000
Other		
Total Sources	\$ 1,250,000	\$ 3,100,000
Uses		
New Construction	\$ 1,250,000	
Pay-As-You-Go Note Principal		\$ 1,250,000
Pay-As-You-Go Note Interest		1,540,000
Administration		310,000
Total Uses	\$ 1,250,000	\$ 3,100,000

B. Bonded Indebtedness to be Incurred

It is anticipated that public redevelopment costs will be financed through the City's issuance to the developer of a pay-as-you-go tax increment financing note. It is not anticipated that any tax increment bonded indebtedness will be issued by the City for the Central Avenue Lofts project.

With pay-as-you-go tax increment financing, the developer finances eligible public redevelopment costs under contract with the City, in exchange for a note that pledges repayment of these costs, with interest, out of the tax increment revenue generated by the project. This approach reduces the financing risks for the City, since the developer is only fully reimbursed if sufficient tax increment revenue is actually generated by the new development.

C. Sources of Revenue

Tax increment generated within the TIF District will be one source of public funds used to pay a portion of the public redevelopment costs associated with the Central Avenue Lofts Project. The estimated total development cost of the rental project is \$13,557,500. The estimated sources for the rental portion of the development is \$6.5 million first mortgage from US Bank, \$5.5 million of syndication equity from the sale of the low income housing tax credits, \$400,000 Affordable Housing Trust Fund, funds from MHFA in the amount of \$357,500 and \$140,000 developer's equity from the sale of the townhomes. A portion of the First Mortgage will be financed with a pay-as-you-go TIF note in an amount not to exceed \$1,250,000.

D. Original Net Tax Capacity

The current estimated market value of the tax parcels included in the TIF district is \$1,952,000. This will result in an original net tax capacity of approximately \$26,352, upon property reclassification.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the development, it is anticipated that the estimated market value of taxable property in the District will increase from \$1,952,000 to approximately \$9,300,000. This represents an increase of \$7,348,000 and will result in a total net tax capacity of approximately \$125,550 and an estimated captured net tax capacity of \$99,198.

Based upon a total local tax rate of approximately 125.000%, this will generate an estimated annual gross tax increment payment of \$123,552, excluding the deduction for the State Auditor fee.

F. Duration of District

The Central Avenue Lofts TIF District is a Housing TIF District pursuant to Minnesota Statutes Section 469.174, Subdivision 11 and 469.1761, Subdivision 1 and 2. Tax increment can be paid to the City 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 City of Minneapolis that the entire fiscal disparity contribution required of the City for development occurring within this district be taken from outside the Central Avenue Lofts TIF District. The election provided in Minnesota Statutes Section 469.177, Subdivision 3, Paragraph (a) of the Minnesota Tax Increment Financing Act is elected. Due to the level of required subsidy for this project, choosing election (b) i.e. using a portion of the tax increment generated

from this project to pay fiscal disparities, is not financially viable and would stop the proposed project from developing.

H. Original Tax Capacity Rate

The Original Tax Capacity Rate for this district will be the local tax capacity rate for taxes payable (TP) 2006. For tax increment projection purposes, a total tax rate of 125.000% has been used in the TIF Plan. For project and impact purposes (see Section VI), the tax rate for taxes payable in 2006 has been used.

I. Permit Activity and Prior Planned Improvements

The TIF District does not include any “prior planned improvements” as that term is described in Minnesota Statutes, Section 469.177, Subd. 4.

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 TIF District during the eighteen months immediately preceding approval of this TIF Plan, as mandated by Minnesota Statutes, Section 469.175, Subdivision 3.

V. Type of Tax Increment Financing District

The proposed Central Avenue Lofts TIF District is a “Housing District” as defined in Minnesota Statutes Section 469.174 Subdivision 11 and 469.1761, Subdivision 1 and 2:

Section 469.174 Subdivision 11 "Housing district" means a type of tax increment financing district which consists of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts and that satisfies the requirements of section 469.1761.

Section 469.1761, Subdivision 1 and 2. (a) In order for a tax increment financing district to qualify as a housing district: (1) the income limitations provided in this section must be satisfied; and (2) no more than 20 percent of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses. (b) The requirements imposed by this section apply to property receiving assistance financed with tax increments, including interest reduction, land transfers at less than the authority's cost of acquisition, utility service or connections, roads, parking facilities, or other subsidies. The provisions of this section do not apply to districts located in a targeted area as defined in section 462C.02, subdivision 9, clause (e).

Subdivision 2 states that for owner-occupied housing, 95% of the housing units must be initially purchased and occupied by individuals whose family income is less than or equal to the income requirement for qualified mortgage bond projects under Section 143

(f) of the Internal Revenue Code. Section 143 (f) states that the income requirement for 1-2 person households is 100% of the area median income, and for 3+ person households, is 115% of area median income.

Additional information about the eligibility of the project for inclusion in a housing TIF district can be found in the Project Area Report and Documentation of Eligibility, attached as Exhibit 2 to this Plan.

VI. Estimated Impact on Other Taxing Jurisdictions

It is the position of the City of Minneapolis that the redevelopment of the property included in this TIF District would not occur as proposed without the tax increment financing assistance to be provided.

Nevertheless, if it is assumed for the purpose of analysis that the proposed development described herein would occur without 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:

Taxing Jurisdictions	Tax Capacity Rate Payable 2005	Property Tax Revenues Resulting from \$ 99,198 Captured Tax Capacity
City of Minneapolis	58.433%	\$ 57,964
Hennepin County	36.407	36,115
Special School District #1	25.592	25,387
Other Taxing Jurisdiction	<u>5.130</u>	<u>5,131</u>
Total	125.604%	\$ 124,597

Fiscal calculations contained in this Plan are based upon the current property tax formulas and property values, and an estimate of the likely assessed market value of the proposed new development. This was the best information available at the time that this plan was prepared.

Fiscal and Economic Implications of Proposed TIF District

The estimated amount of total tax increment that would be generated over the life of the district is \$3,100,000.

A description of the probable impact of the district on city-provided services such as police and fire protection, public infrastructure, and borrowing costs attributable to the district is projected to be minor due to the small size of the project.

The estimated amount of tax increment generated over the life of the district that would be attributable to school district levies, assuming the school district's (25.592%) share of

the total local tax rate for all taxing jurisdictions remained the same is approximately \$634,675 (\$25,387/year times 25 years).

The estimated amount of tax increment generated over the life of the district that would be attributable to county levies, assuming the county's share (36.407%) of the total local tax rate for all taxing jurisdictions remained the same is approximately \$902,875 (\$36,115/year times 25 years).

As of the date of this TIF Plan, neither the County or School District have requested any additional information which could assist them in determining additional costs that may accrue due to the development in the TIF district.

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 TIF 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 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.

Affordable rents and the prices of the for-sale units are not sufficient to amortize the entire cost of this development³. The proposed project meets a need for affordable rental housing and homeownership opportunities. The proposed development will address an underutilized site located directly on a major transit and central commercial corridor. There are three onsite recognized environmental conditions including the use of dry cleaning solvents, underground storage tanks for holding Stoddard solvents, fuel oil underground storage tanks within the retail buildings, and a 256-gallon hydraulic fluid AST in the basement of the bank building, which will be removed through the demolition process. The inclusion of the bank back into the redeveloped project will provide a form of stability for the project and neighborhood. Without tax increment financing, the project cannot proceed as a result of a gap due to the affordability of the rental units and the total development cost. Since there will be 14 units at or below 50% of MMI, this project complies with the City Affordable Housing Policy, which would require at least 13 affordable units (i.e. 20% of 66).

The City adopted a Unified Housing Policy which consolidated existing city housing policies into one unified document. The Affordable Housing Policy approved in 1999 and updated in 2001 is included in the Unified City of Minneapolis Housing Policy. This

³ According to *Minneapolis Trends, Third Quarter 2005*, it was reported that although the average construction cost per single-family home decreased in the city the average construction cost per multifamily unit increased by almost 90% in constant dollars. The *Fourth Quarter 2005 Minneapolis Trends Report* states that the average cost of building a house in Minneapolis increased by 26% in the fourth quarter from the previous year. The average cost of constructing a multifamily unit increased from the fourth quarter of 2004. In Minneapolis, the cost per unit increased almost 26% more.

Policy recognizes the serious shortage of affordable housing in Minneapolis and puts forth the goal to “grow the population and to have no net loss of housing across all income levels”. The Unified Housing Policy also states the City will focus on linking incentives to housing opportunities in proximity to jobs and transit. Development of the project will benefit residents by providing more housing choices as the affordable housing component will provide new quality housing to low to moderate income residents at a location with access to employment opportunities, public facilities, and transportation. The site is ideally located near jobs, public transportation and existing services, and is within walking distance of schools, parks, and businesses. The City has a specific goal to increase affordable rental housing production in non-impacted areas. The Central Avenue Lofts site is located in a non-impacted area and will provide housing across income levels, with a mixture of Project Based Section 8 units, as well as units affordable at 50% and 60% of MMI.

As the financial tools to support mixed-income, mixed-use development projects become more limited, the ability to recapture the value of the tax increment to capitalize the development is necessary to make this important project a reality. Without the tax increment financing, the project would be abandoned, as it is not possible to replace the revenue from the tax increment with any other available and attainable resource. Other financial assistance is necessary because this public assistance pays for the costs of development and allows rents to be affordable to low and moderate income families. Without this assistance, the rents would be unaffordable and unrealistic in the market. All of the identified public financing sources are necessary to fill the financing gap for this project as without these sources, the project would not be able to go forward. The project has the support of the neighborhood group and a commitment for long-term support for the project.

A potential tax increment financing district site must also pass a "market value" test in order to make a finding that development could not occur without tax increment assistance. The calculations necessary to pass this test are contained on the following page of this plan. As shown there, the public redevelopment activity, expenditures, and market values associated with the development that is proposed in this plan results in a series of calculations and figures that clearly pass the market value test.

It is the position of the City of Minneapolis that the private redevelopment of the property included in the Central Avenue Lofts TIF District could not occur without public participation and financial assistance within the foreseeable future.

Central Avenue Lofts TIF District

Valuation and Tax Increment Assumptions

	Pay 2008	Pay 2009	Pay 2010
Total Estimated Market Value (EMV)	\$4,650,000	\$9,300,000	\$9,300,000
Less: Original EMV	1,952,000	1,952,000	1,952,000
Captured EMV	\$2,698,000	\$7,348,000	\$7,348,000
Total Net Tax Capacity (NTC)	\$62,775	\$125,550	\$125,550
Less: Original NTC	26,352	26,352	26,352
Captured NTC	\$36,423	\$99,198	\$99,198
Times: Projected Total Tax Rate	125.000%	125.000%	125.000%
Gross Tax Increment	\$45,529	\$123,998	\$123,998
Less: State Auditor's Fee (.36%)	164	446	446
Tax Increment Distributed to City	\$45,365	\$123,552	\$123,552

25 Years of TI Collection

Years of TIF Collection	Payable Year	Tax Increment Distributed To City
---	2006	\$0
---	2007	0
1	2008	45,365
2	2009	123,552
3	2010	123,552
4	2011	123,552
5	2012	123,552
6	2013	123,552
7	2014	123,552
8	2015	123,552
9	2016	123,552
10	2017	123,552
11	2018	123,552
12	2019	123,552
13	2020	123,552
14	2021	123,552
15	2022	123,552
16	2023	123,552
17	2024	123,552
18	2025	123,552
19	2026	123,552
20	2027	123,552
21	2028	123,552
22	2029	123,552
23	2030	123,552
24	2031	123,552
25	2032	123,552
26	2033	0
		\$3,010,613
P.V. @	5.00%	\$1,587,496

Market Value Test

Analysis Required by M.S. Section 469.175, Subd. 3 (2)

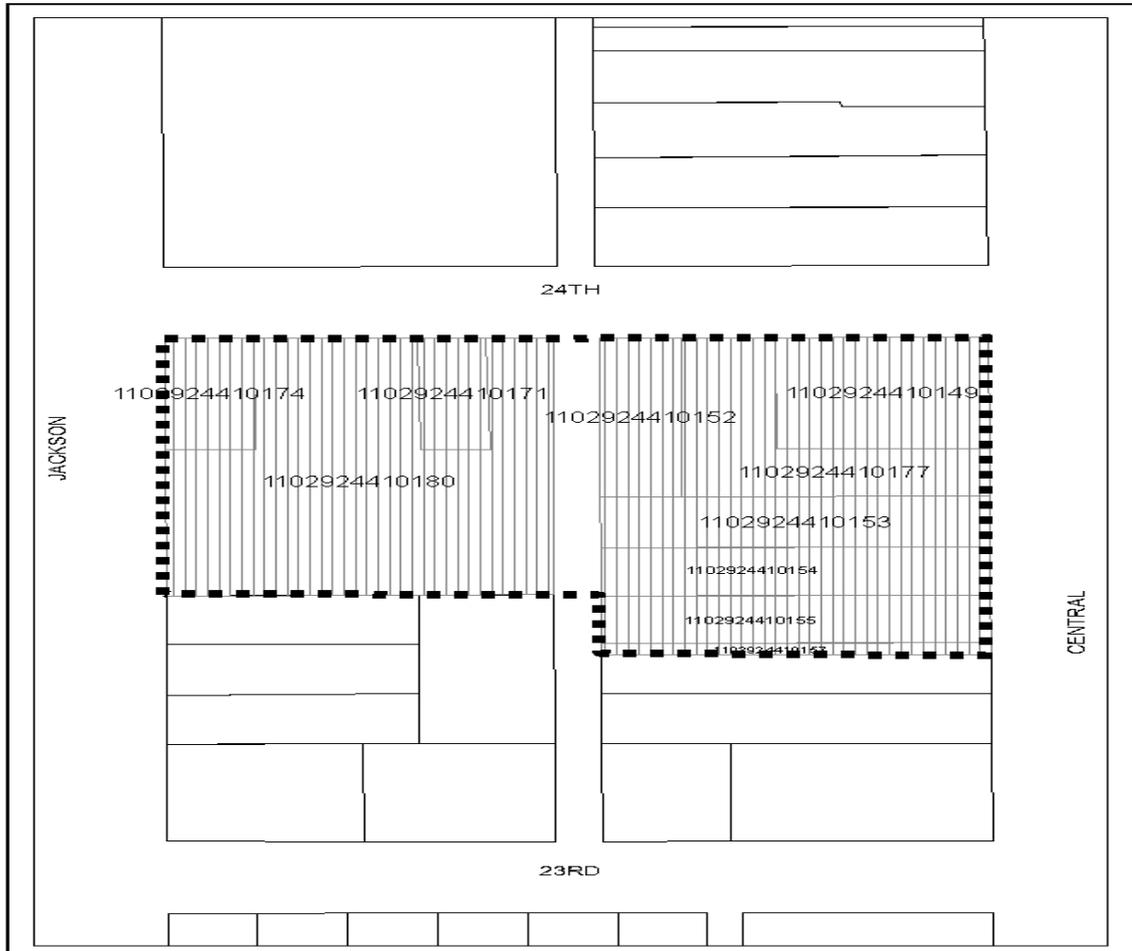
(1) "... the increased market value of the site that could reasonably be expected to occur without the use of tax increment ...":

(a) Projected estimated market value without the use of tax increment	\$1,952,000
(b) Original estimated market value	1,952,000
(c) Increased estimated market value without the use of tax increment = (a) - (b)	\$0

(2) "... 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 the plan.":

(d) Increase in the estimated market value of the completed development.	\$9,300,000
(e) Present value of the projected tax increment for the maximum duration of the district	1,587,496
(f) Difference = (d) - (e)	\$7,712,504

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



**Central Avenue Lofts TIF District
Boundary/Land Use Map**

March 17, 2006

Boundary - - - -

Mixed Use |||||



**PROJECT AREA REPORT
AND DOCUMENTATION OF ELIGIBILITY**

**Central Avenue Lofts Tax Increment Finance Plan, Modification No. 6 to the
Central Avenue Redevelopment Plan and Modification No. 107 to the Common
Plans**

March 17, 2006

The purpose of this Project Area Report and Documentation of Eligibility is to describe the conditions that qualify the project for inclusion in a housing tax increment finance (TIF) district, and to reaffirm the eligibility of the site for inclusion in a redevelopment project area as defined in 469.002, Subd. 11.

The proposed TIF District is located within the Central Avenue Redevelopment Project, approved by the Minneapolis City Council on August 26, 1983, under provisions of Minnesota Statutes Sections 469.001 through 469.047.

Description of the Site The site of the proposed development is located in the Holland Neighborhood and Northeast Community in Ward 1 of Northeast Minneapolis and is approximately 2 ½ acres in size. The site consists of an existing two-story building that serves as a US Bank branch office, including a drive-through facility for the bank, and a surface parking lot. The current building is mostly vacant and US Bank desires to physically downsize.

The TIF District includes ten (10) tax parcels located at 24th Avenue and Central Avenue NE, within the boundary of the Central Avenue Redevelopment Project Area, which is a redevelopment project as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivision 14 and 16). Surrounding uses are a mix of commercial, retail and residential primarily two-and three-story buildings along Central Avenue.

Tax Increment Finance District Eligibility The Central Avenue Lofts TIF District is to be a housing TIF district as defined in the Minnesota Statutes, Section 469.174, Subdivision 11, and 469.1761 which states:

"Housing district" means a type of tax increment financing district which consists of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal

legislation, or the regulations promulgated under any of those acts and that satisfies the requirements of section 469.1761.

In order for a tax increment financing district to qualify as a housing district: (1) the income limitations provided in this section must be satisfied; and (2) no more than 20 percent of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses¹.

There are two specific questions that must be answered in order to confirm the eligibility to establish a Housing TIF District to finance eligible public redevelopment costs of the Central Avenue Lofts Project.

- 1) Does the project comply with the income restrictions for rental housing projects identified in Minnesota Statutes, Section 469.1761, Subdivision 3?
- 2) Does the square footage of the buildings that receive assistance from tax increments consist of no more than 20% of commercial, retail, or other nonresidential uses in the district?

Income Restrictions^{2, 3} Moderate-income housing is defined as housing affordable to families with incomes between 80 percent and 120 percent of the metropolitan median family income. Low-income housing is defined as housing affordable to families with incomes below 80 percent of the metropolitan median (MMI) family income.

The proposed rental project must satisfy the income requirements for a Housing Tax Increment Finance District as stated in the Minnesota Tax Increment Act (Minnesota Statutes, Section 469.1761, Subdivision 3). Subdivision 3 states that rental housing must meet one of the following tests in order to qualify as a Housing Tax Increment District:

1. At least 20 percent (13) of the units must be occupied by individuals whose income is 50 percent or less of the Metropolitan area median gross income (14 of 66 units are available at or below 50%); or
2. At least 40 percent (26) of the units must be occupied by individuals whose income is 60 percent or less of the area median gross income (53 units are available at or below 60%).

The proposed project meets both of the income requirements for a Housing TIF District. Income guidelines will be monitored for the life of the district, as the requirements of this subdivision apply for the duration of the tax increment financing district. The proposed TIF district includes new construction of 66 rental units, 53 of which will be affordable to individuals and families earning at or below 60% MMI. Eight of the 66 rental units will have project-based Section 8 assistance affordable at or below

¹ Minnesota Statutes, 84th Legislative Session (2005-2006)

² The FY2006 Median Family Income Metro Area, State of Minnesota is \$78,500 as estimated by HUD

³ The MMI for Tax Credit Income Limits for 2005 is \$77,000 effective date 2/11/05

30% of MII, 6 units will be affordable to families at or below 50% of MMI, 39 units will be affordable to families at or below 60% of MMI, and 13 units will be market rate units. Since there will be 53 units at or below 60% of MMI, the project complies with the City Unified Housing Policy, which would require at least 13 units (20% of the total) of 66 units.

Square Footage Test In addition to the rental apartments, the project will include about 15,118 sq. ft. of commercial space on the main level. According to Minnesota Statutes, Section 469.174, Subdivision 11, and Section 469.1761, in order to establish a housing TIF district, no more than 20% of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses.

It has been estimated that the gross square footage of the Central Avenue Lofts buildings and the townhome development will be 133,743 total square feet, of which 15,118 square feet will be commercial space. This means that approximately 11.3% of the total square footage of both the rental and townhome development is attributable to the commercial space in the project.

Additionally, the proposed project must satisfy the income requirements for a Housing Tax Increment Finance District as stated in the Minnesota Tax Increment Act (Minnesota Statutes, Section 469.1761, Subdivision 2). Subdivision 2 states that for owner-occupied housing, 95% of the housing units must be initially purchased and occupied by individuals whose family income is less than or equal to the income requirement for qualified mortgage bond projects under Section 143 (f) of the Internal Revenue Code. Section 143 (f) states that the income requirement for 1-2 person households is 100% of the area median income, and for 3+ person households, is 115% of area median income.

Minneapolis Housing Policy In 2002, modifications were made to the City's Comprehensive Plan ("The Minneapolis Plan") that strengthened its commitment to policies of housing growth and to increasing the supply of affordable housing. The principal goals of city housing policy are to improve choices, both for households with constrained choice and for households with many choices. The Zoning Code was also amended to allow developers of affordable housing to construct more housing units than would otherwise be allowed in instances where a proposed development includes affordable housing units. Previously city housing policy was contained in a number of documents which were approved at various times for specific reasons. Council action on June 18, 2004 adopted a Unified City of Minneapolis Housing Policy. This Policy shall be consistent with The Minneapolis Plan, goals 4.9.1 through 4.19.

The Central Avenue Lofts project is consistent with the following policy statements:

- 4.9 Minneapolis will grow by increasing its supply of housing.
- 4.10 Minneapolis will increase its housing that is affordable to low and moderate income households.

- 4.11 Minneapolis will improve the availability of housing options for its residents.
- 4.12 Minneapolis will reasonably accommodate the housing needs of all of its citizens.

The Northeast Community is a primarily stable, residential part of the city with significant areas of industry at its edges. It is enhanced by Central Avenue, its proximity to downtown, the Mississippi River and its parks, and is a community that is becoming increasingly desirable as a place to live. Central Avenue is undergoing major renovation, with elements that include pedestrian lighting, landscaped medians, and safety through improved design of buildings and parking areas. Central Avenue is a “Commercial Corridor” because it has largely commercial zoned property, carries high volumes of automobile traffic, and retains a traditional urban form in the buildings and street orientation of businesses. The Minneapolis Plan supports strengthening its Commercial Corridors by encouraging new development along its corridors, promoting alternative uses such as mixed residential, office, and institutional uses, and by addressing issues of parking, traffic, transit, and circulation.

Eligibility Findings The proposed project qualifies as a Housing Tax Increment Financing District under Minnesota Statutes.

Documentation supporting these findings is on file in the office of the Development Finance Division, Finance Department, Suite 575, Crown Roller Mill, 105 5th Avenue South, Minneapolis, Minnesota.



CENTRAL AVENUE LOFTS

PERSPECTIVE

