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Minneapolis Community Development Agency

Request for City Council Action

Date: September 30, 2002

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

Prepared by Jack Kryst, Phone 612-673-5130

Approved by Chuck Lutz, MCDA Interim Executive Director CL

Subject: Implementation of Development Funding Cycles

Previous Directives: Mayor R.T. Rybak and McKinsey & Company have recommended that the City Council consider requests for public financial assistance within development funding cycles to facilitate the comparison of proposals and the selection of projects that best fit City priorities.

Ward: Citywide.

Neighborhood Group Notification: On June 11, 2002, neighborhood groups were notified of the MCDA's intent to implement development funding cycles (at that time, as part of a proposed amendment to the Minneapolis Tax Increment Policy that has subsequently been removed from consideration).

Consistency with *Building a City That Works:* Goal 6, Manage existing financial resources effectively and identify new sources of revenue to carry out our mission.

Comprehensive Plan Compliance: Not applicable.

Zoning Code Compliance: Not applicable.

Impact on MCDA Budget: (Check those that apply)

- _X_ 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: Approve the staff recommendation for implementing development funding cycles.

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Equal Housing and Employment Opportunities

Background/Supporting Information

Mayor R.T. Rybak and McKinsey & Company have recommended that the City Council consider requests for public financial assistance within development funding cycles to facilitate the comparison of proposals and the selection of projects that best fit City priorities. This report describes how various development funding approval actions, including tax increment financing (TIF) approvals, could be accommodated within funding cycles.

Although the report demonstrates how TIF approvals could be accommodated on a cyclic basis if that is the Council's wish, staff does not recommend including TIF in this process. Staff concerns are more fully explained in Attachment B and include the concern that the development process in Minneapolis not be perceived as overly complicated and unnecessarily bound in "red tape". This concern echoes another key McKinsey recommendation that "the city should aggressively make improvements to development processes in order to make it easier for neighborhoods, developers and businesses to work with the city."

However, staff will provide the same comparative information for tax increment proposals that is required of all proposals presented within a funding cycle.

Actions Subject to Development Funding Cycles

City Council and MCDA Board actions that represent approval of requests for the types of public financial assistance listed below will be subject to development funding cycles. In most cases, only the initial funding approvals will be subject to cycle timing requirements. Subsequent routine actions that do not include new sources or amounts of financing may be considered outside of development funding cycles. Efforts will be made to reduce the number of times that a project comes before the City Council and the MCDA Board by grouping requests for action whenever possible.

Actions subject to development funding cycles include:

- Tax abatement approvals
- Leveraged Investment Fund approvals
- Other gap funding approvals
- Commercial Corridor Fund approvals
- Neighborhood Economic Development Fund (NEDF) approvals
- Community Commercial Economic Development Fund (CEDF) approvals
- Minneapolis Industrial Land and Employment Strategy (MILES) approvals
- Developer selection following a Request for Proposals (RFP) process

  Note: The Multifamily Rental and Cooperative Program RFP and the Low Income Housing Tax Credit processes are special cases. Selection of multifamily housing

proposals may coincide with a development funding cycle, but the timing of proposal selection is tied primarily to the Minnesota Housing Finance Agency's RFP process and the release of federal funds. The timing of Low Income Housing Tax Credit proposal selection is also highly dependent on the timing of the MHFA RFP process and on tax credit placed-in-service dates.

When compelling reasons exist, initial funding approvals may be considered on other than the predetermined cycle dates. In such cases, the rationale for considering a proposal out-of-cycle will be presented to the City Council, which may or may not elect to act on the proposal out-of-cycle.

Actions That Could be Subject to Development Funding Cycles (Not Recommended)

Although staff does not recommend including tax increment financing approvals in development funding cycles, these actions will be included if the City Council so directs:

- Tax increment financing approvals, including establishment of a tax increment financing district and modification of a tax increment financing plan (if the budget is changed)

Actions Subject to Annual Budget Process

Certain funding decisions will continue to occur within the context of the annual budget process. These actions include:

- Establishment of the Chapter 595 levy amount
- Annual allocations to small business loan programs
- Annual allocations to CDBG programs, including residential finance programs
- Annual allocations to MILES
- Annual allocations to the Commercial Corridor Fund and NEDF/CEDF

Other Development-Related Actions

The following City Council and/or MCDA Board actions will occur as appropriate throughout the year rather than be subject to development funding cycles, either because they do not involve funding decisions or because approval schedules are dictated by outside requirements:

- Establishment or modification of a redevelopment project
- Approval of Development Objectives
- Approval of Program Guidelines
- Appropriation increases
- Establishment of Preliminary Planning Fund projects

- Authorization to apply for and accept grants
- Project Analysis Authorization (PAA)
- Revenue bond approvals
- Neighborhood Revitalization Program (NRP) approvals
- Empowerment Zone approvals

The table presented on the following page provides an overview of the applicability of development funding cycles and the annual budget process to various development decisions.

Development Funding Cycle/Approval Summary

Action	Process	Comments
Tax Abatement Approvals	Development Funding Cycle	
Leveraged Investment Fund Loans	Development Funding Cycle	
Other Gap Funding	Development Funding Cycle	
Commercial Corridor Funding Approvals	Development Funding Cycle	
NEDF/CEDF Funding Approvals	Development Funding Cycle	
MILES Funding Approvals	Development Funding Cycle	
Developer Selection Following RFP	Development Funding Cycle	
Multifamily RFP Process Approvals	Special case	Timing may coincide with development funding cycles.
Low Income Housing Tax Credits	Special case	Timing may coincide with development funding cycles.
Creation of TIF District	As required, unless subject to Development Funding Cycle	Staff does not recommend including in development funding cycles.
Modification of TIF District (changing budget)	As required, unless subject to Development Funding Cycle	Staff does not recommend including in development funding cycles.
Creation or Modification of Redevelopment Project	As required	Creates legal framework for future development activity. Unlike TIF district, has no budgetary implications.
Approval of Development Objectives	As required	Creates guidelines under which specific develop may occur.
Approval of Program Guidelines	As required	Creates guidelines under which a program will operate.
Appropriation Increases	As required	
Preliminary Planning Fund Projects	As required	
Authorization to Apply For & Accept Grants	As required	Subject to grantors' schedules.
Project Analysis Authorization (PAA)	As required	Authorization needed to conduct preliminary analysis in order to recommend to the Board if the project appears feasible enough to continue staff work.
Revenue Bond Approvals	As required	
NRP and Empowerment Zone Approvals	As required	
Approval of Annual Allocations		
- Chapter 595 Levy	Annual budget process	Establishes total funding and allocation for these programs.
- Small Business Loan Programs	Annual budget process	Establishes annual funding level for these programs.
- CDBG Programs	Annual budget process	Establishes total funding and allocation for these programs.
- MILES	Annual budget process	Establishes annual funding level for these programs.
- Neighborhood Investment Program	Annual budget process	Establishes annual funding level for these programs.

Timing of Development Funding Cycles

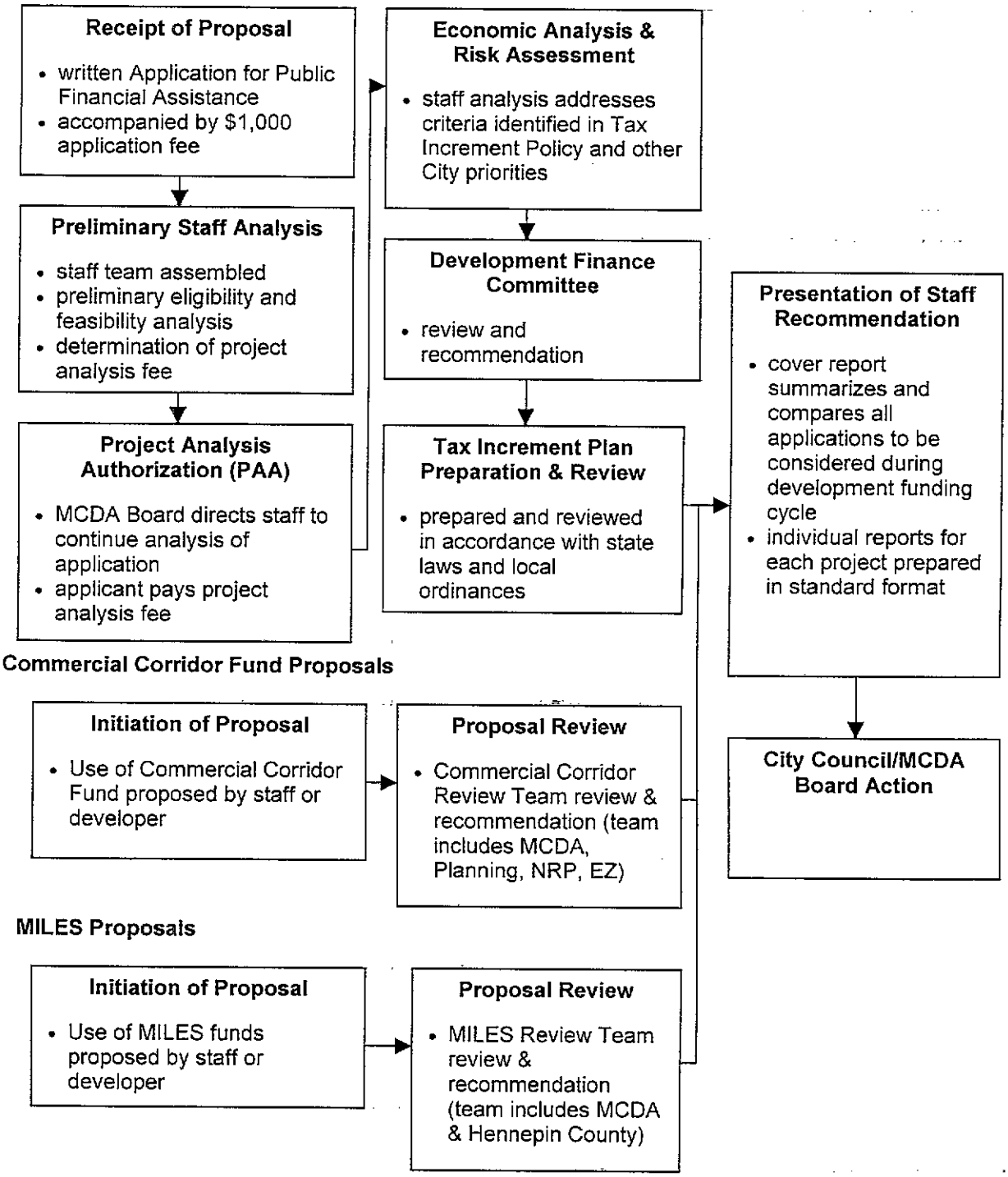
Actions subject to development funding cycles will be presented for City Council and/or MCDA Board consideration during the first Council meeting cycles of March, June, September and December.

Process Steps

The process for forming funding recommendations varies according to funding source. The most complex case is the use of tax increment financing, due to statutory requirements regarding process steps and timing. Examples of more simple cases are approvals of the use of MILES or Commercial Corridor funds within the limits of the annual allocations to those funds.

The graphic on the following page illustrates the basic steps involved in the receipt, analysis and presentation of recommendations regarding requests for tax increment financing (if included in development funding cycles), MILES and Commercial Corridor funds. It is expected that the process steps would remain essentially the same regardless of the future organizational structure of the City's development functions.

Tax Increment Financing Proposals (if subject to development funding cycles)



Recommendations to the City Council regarding actions subject to development funding cycles will be presented in two formats – as individual reports on each proposed action, and in a summary report comparing all proposals under consideration during a particular funding cycle.

Individual reports will follow a standard format in order to facilitate comparisons among proposals. Reports will clearly identify the following features of the proposals:

- estimates of all public costs associated with the proposal, including site assembly, pollution remediation, public improvements, property management, and administrative costs
- the requested and recommended forms and amounts of public financial assistance
- the form and amount of private investment
- the ratio of public investment to private investment
- the total development cost
- the property taxes to be generated by the development
- for commercial, industrial and mixed-use developments, the square feet of development and number of jobs retained and produced
- for housing developments, the number and size of units constructed and rehabilitated, the anticipated rents and sales prices, and the number of affordable units
- any elements of the proposed project that are not in conformance with City policies and priorities

If included in development funding cycles, reports regarding tax increment financing approvals will also describe district type and duration, tax increment generated, recapture provisions and fiscal disparities elections.

In addition to the individual reports, a summary report will be prepared for each development funding cycle. The summary report will contain a matrix listing the features, benefits and costs of each proposal. A sample summary report using recent development funding decisions is presented in Attachment A to this report.

Comparison of proposals and development funding decisions will be further enhanced if reports from the MCDA, the NRP and the Empowerment Zone address similar evaluation criteria. The MCDA will initiate a staff effort to coordinate report formats.

Implementation Date

It is anticipated that the December 13, 2002 City Council cycle will be the first development funding cycle.

If the City Council directs staff to include tax increment financing approvals in development funding cycles, proposals requiring the establishment of a tax increment

district or modification of a tax increment financing plan received by September 13 will be considered for City Council action on December 13. Tax increment proposals received after September 13 will be considered for City Council action during the first cycle in March 2003.

Proposals regarding funding sources other than tax increment financing and not requiring approval or modification of a redevelopment plan that are received by November 1 will be considered during the December 2002 funding cycle.

ATTACHMENT A (Revised)

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Minneapolis Community Development Agency

Request for City Council Action (Sample Report)

Date: November 25, 2002

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

Prepared by Jack Kryst, Phone 612-673-5130

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: Development Funding Cycle – December 2002

Previous Directives: On October 25, 2002, the City Council approved a staff recommendation for implementing development funding cycles.

Ward: See individual proposals.

Neighborhood Group Notification: See individual proposals.

Consistency with *Building a City That Works:* See individual proposals.

Comprehensive Plan Compliance: See individual proposals.

Zoning Code Compliance: See individual proposals.

Impact on MCDA Budget: (Check those that apply) (See individual proposals.)

___ 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: See individual proposals.

Job Linkage: See individual proposals.

Affirmative Action Compliance: See individual proposals.

RECOMMENDATION: Receive and file.

Background/Supporting Information

Nine development funding recommendations are hereby submitted for City Council approval within the December 2002 development funding cycle. The proposed projects are summarized below. The features and points of comparison for each proposal are presented in the matrices that follow the summaries.

Tax Increment Financing Proposals

Minneapolis Stone Arch Apartments

Developer: Minneapolis Stone Arch Partners, LLC (Wall Companies and Lupe Development Partners
Location: Main Street Southeast between 6th and 8th Avenues Southeast
Description: 221-unit apartment building; four floors above two-level underground parking

Ivy Tower

Developer: Ivy Tower Minneapolis LLC (Jeffrey Laux and Gary Benson)
Location: 1101, 1103 ½ and 1115 2nd Avenue South
Description: Historic restoration of Ivy Tower Building coupled with development of approximately 235,000 square feet of new office space on two adjoining properties; limited on-site parking, supportive retail and specialty convention-oriented uses with skyway connections

East River/Unocal Site

Developer: Brighton Development Corporation
Location: 825 Thornton Street Southeast
Description: East River Mews housing project, including 53 new ownership units (38 townhouses and 15 condominium units

The Boulevard

Developer: Lyndale West Partners, LLC
Location: 5320 Lyndale Avenue South
Description: Four-story building with one level underground parking, first floor commercial space, 19 apartments and 5 townhomes, all affordable housing units

Grant Park

Developer: Apex Asset Management Corporation and Opus Northwest, LLC
Location: Southeast corner of 10th Street South and I-35W exit ramp
Description: 328 ownership housing units in three buildings and 513-stall above-grade parking ramp

Commercial Corridor Fund Proposals

Village at St. Anthony Falls Parking

Developer: Hunt Gregory
Location: Block 1 of St. Anthony East Bank Village
Description: Provides additional 40 spaces to parking facility being developed by Hunt Gregory; 20 spaces to be used by West Photo and 20 spaces to be used by area businesses and property owners

Coliseum Building

Developer: Fred Lehmann
Location: 2700 East Lake Street
Description: $250,000 supplemental loan from Commercial Corridor Fund to complete build-out of third floor space

MILES Proposals

Seward Industrial Place Waste Removal

Location: Seward Industrial Place
Appropriation Amount: $450,000
Use of Funds: Removal of dirt pile resulting from excavation of nearby site

Stremel Manufacturing

Location: 14th & Washington Ave N (Block 49, NWIP)
Appropriation Amount: $251,168
Use of Funds: Public infrastructure improvements, environmental cleanup to support 35,000-square foot manufacturing facility

Staff Recommendations

All of the proposals meet eligibility and feasibility requirements and address City goals and priorities. Staff recommends approval of each of the nine requests for public financial assistance. More detailed recommendations regarding particular City Council actions are presented in the individual reports for each proposal.

Development Funding Cycle – December 2002

Tax Increment Financing Proposals

	Stone Arch Apartments	Ivy Tower	East River/ Unocal Site	Boulevard	Grant Park
Features:					
Total Development Cost	$32,500,000	$52,000,000	$18,500,000	$6,078,280	$106,000,000
Public Investment	$3,200,000	$13,221,000	$2,914,271	$2,173,870	$7,600,000
Private Investment	$29,300,000	$41,900,000	$15,585,729	$3,904,410	$96,000,000
Public/Private Ratio	1:9	1:6	1:5	1:2	1:13
Sources & Amounts of Public Assistance	TIF - $3,200,000 HRB - $3,600,000 Contam-$750,000	TIF - $9,500,000 HTC - $1,400,000 TEA21- 1,600,000 Met Co - $721,000	TIF - $1,600,000 DTED-$1,103,734 Met Co - $210,537	TIF - $425,000 Henn Co-350,000 MHFA-$900,000 MCDA-$497,790	TIF - $7,300,000 NRP - $300,000
TI District Type	Housing	Redevelopment	Redevelopment	Redevelopment	Redevelopment
TI District Length	26 years	26 years	26 years	26 years	26 years
TI Generated	$11,278,394	$26,000,000	$4,900,000	$1,460,765	$35,000,000
Recapture Provisions		50% excess return		to be negotiated	50% surplus profit
Fiscal Disparities Election	outside district	outside district	outside district	outside district	outside district
Benefits:					
Sq Ft of Development	227,307	251,000		47,326	
Jobs Retained	--	--	--	--	--
Jobs Created	--	Unknown	--	25	--
% Living Wage Jobs	--	Unknown	--	56%	--
Annual Property Taxes	$374,627	$881,261	$231,781	$72,000	$1,343,892
Total Housing Units	221	--	53	24	328
Ownership Units	--	--	53	--	328
# Affordable	--	--	5 (off-site)	--	--
Rental Units	221	--	--	24	--
# Affordable	91	--	--	10	--
New Construction Units	221	--	53	24	
Rehabilitated Units	--	--	--	--	
Parking	two levels	40 spaces	123 spaces	35 spaces	513 spaces
Historic Preservation?	No	Yes	No	No	No
Environmental Cleanup?	Yes	Yes	Yes	No	Yes
Transit Oriented?	No	No	No	Yes	No
Blight Remediation?	No	Yes	Yes	Yes	Yes
Costs:					
Public Infrastructure					
Local Contributions					
Other Costs					
Other:					
Neighborhood Support	No	Yes	Yes	Yes	Yes
City Priorities Addressed	Affordable Housing, Environmental Cleanup	Historic Preservation, Blight Remediation, Jobs	Affordable Housing, Environmental Cleanup	Affordable Housing, Blight Remediation	Preserve/expand middle- & upper-income housing
Exceptions to City Policies					
Recommendation	Approve	Approve	Approve	Approve	Approve

(Note: Projects listed in this table are provided as examples only. More complete data will be provided in actual reports.)

Commercial Corridor Fund Proposals

	Village at St. Anthony Falls Parking (note: data for parking portion of project only)	**Coliseum**
Features:		
Total Development Cost	$400,000	$5,100,000
Public Investment	$100,000	$1,308,000
Private Investment	$300,000	$3,792,000
Public/Private Ratio	1:3	1:2.9
Sources & Amounts of Public Assistance	Commercial Corridor Fund forgivable loan up to $100,000	Commercial Corridor loan - $625,000 Supplemental Com Corr loan - 250,000 Longfellow NRP - $325,000 Empowerment Zone - $300,000 Pay-go TIF Note - $920,000
Benefits:		
Sq Ft of Development		77,000
Jobs Retained	--	--
Jobs Created	--	80
% Living Wage Jobs	--	
Annual Property Taxes		
Total Housing Units	--	--
Ownership Units	--	--
# Affordable	--	--
Rental Units	--	--
# Affordable	--	--
New Construction Units	--	--
Rehabilitated Units	--	--
Parking	Approximately 45 spaces	50 spaces
Historic Preservation?	No	No
Environmental Cleanup?	No	Yes
Transit Oriented?	Yes	Yes
Blight Remediation?	No	Yes
Costs:		
Public Infrastructure		
Other Costs		
Other:		
Neighborhood Support	Yes	Yes
City Priorities Addressed	Commercial Corridors	Commercial Corridors, Blight Remediation
Exceptions to City Policies	No	No
Current Commercial Corridor Fund Balance	$x,xxx,xxx	$x,xxx,xxx
Commercial Corridor Fund Balance if Approved	$x,xxx,xxx	$x,xxx,xxx
Recommendation	Approve	Approve

(Note: Projects listed in this table are provided as examples only. More complete data will be provided in actual reports.)

MILES Proposals

	Seward Industrial Place Waste Removal	Stremel Manufacturing
Features:		
MILES Allocation	$450,000	$251,168
Purpose	Removal of soil from previous excavation	Public infrastructure, environmental cleanup
Total Development Cost	$450,000	$3,158,976
Public Investment	$450,000	$1,158,976
Private Investment	--	$2,000,000
Public/Private Ratio	--	1:1.7
Sources & Amounts of Public Assistance	MILES - $450,000	MILES - $147,488 MILES - $103,680 Redevelopment Grant - $147,488 DTED Pollution Grant - $648,000 Met Council Polltn. Grant - $112,320
Benefits:		
Sq Ft of Development	--	35,000
Jobs Retained	--	71
Jobs Created	--	25
% Living Wage Jobs	--	100%
Annual Property Taxes	--	$84,819
Parking	--	
Historic Preservation?	No	No
Environmental Cleanup?	Yes	Yes
Transit Oriented?	No	No
Blight Remediation?	Yes	Yes
Costs:		
Public Infrastructure		Sewer Relocation - $294,976
Other Costs		Pollution Remediation - $864,000
Other:		
Neighborhood Support	Yes	Yes
City Priorities Addressed	Provide sites for industrial development	Living Wage Jobs, Pollution Cleanup
Exceptions to City Policies	No	No
Current MILES Fund Balance	$x,xxx,xxx	$ 2,280,000
MILES Fund Balance if Approved	$x,xxx,xxx	$2,028,832
Recommendation	Approve	Approve

(Note: Projects listed in this table are provided as examples only. More complete data will be provided in actual reports.)

Attachment B

June 14, 2002

Staff Comments on Proposed Quarterly Approval Cycle For Requests For Tax Increment Financing Assistance

1. Tax increment financing is a development tool made available to municipalities by the State of Minnesota. For qualifying projects, the tool provides a source of funding that is generated by the project itself via property taxes. No funds are provided by the state, county, city or any other governmental entity.

2. For new TIF districts (established since 1990), state statutes require that most of the increment generated by a project must be spent within the TIF district. Only a small portion is allowed for administrative purposes and qualifying affordable housing. This means that there is no sharing of increment among TIF districts/projects, and therefore no need to "allocate" this resource since projects are not competing against each other.

3. The development process is very "time critical". Developers have to deal with property owners, neighborhood groups, lenders, equity providers, architects, construction contractors, state and local officials, and a host of other parties and issues in order to bring a development to completion. Time schedules are always tight, and a delay in any one of the critical steps of the process can result in a failed project.

4. If the Agency and a developer are simply not ready to approach the Council on one of the proposed quarterly cycle dates, then a delay of up to three months would be necessary. This delay will prove unworkable for many developers, and will be viewed as unnecessary bureaucracy by the development community.

5. Many developers already avoid the City of Minneapolis because of the actual or perceived "red-tape" involved. If a quarterly TIF cycle is implemented, developers that now work in the City and request TIF assistance will likely: 1) request a waiver of the policy so that their project can be heard in a timely manner; and/or 2) consider taking their business elsewhere. A quarterly TIF cycle will certainly not help attract new developers to the City.

6. One of the stated benefits of the proposed quarterly TIF cycle is that projects can be "compared" to each other. Comparison is certainly a worthy endeavor if it leads to a quantifiable benefit. If a project is only being compared to the relatively small number of projects before the Council on that quarterly cycle, it is extremely unlikely there will be any truly comparable projects. If a comparison is being made to all similar projects over some past time period, then such a comparison can be made at any time and does not need to be forced into a quarterly cycle.

7. There are many pros and cons in attempting to compare development projects; however, the reality of the situation is that virtually all projects are unique. Projects will have far more differences than similarities, even among projects of the same type (i.e. rental housing, light industrial, home ownership, etc.). The location of the property, the condition of the site, the developer, design and construction considerations, the state of the economy and building industry, the availability of private financing and equity, the willingness of other governmental entities to participate, and a myriad of other items will make each project significantly different from any that have come before it.

8. In considering a request for TIF assistance, the City should be seeking answers to at least the following questions: 1) What are the benefits and costs of this project to the City and its residents?; 2) Does the project meet the "but for" test (i.e. can it be demonstrated that this project will not go forward without TIF assistance)?; and 3) If the City is willing to provide public assistance, then what is the appropriate amount of such assistance? Comparison will not answer these questions. Discussion, study and analysis of the project under consideration will. If past projects were assisted inappropriately, then comparison will only hinder any efforts to objectively answer these critical questions.

9. Another major concern associated with the implementation of a quarterly TIF cycle is workload and the quality of work. At present, staff attempts to shift projects to different City Council cycles whenever possible, so that there is adequate time to provide quality work in the areas of planning and coordination, financial analysis, negotiation, and legal advice and document preparation. The quality of work will undoubtedly diminish if staff must simultaneously deal with multiple projects that are "rushing" to meet the next quarterly cycle. More errors and mistakes will be made by staff under these conditions and an increase in staff attrition is possible.

10. Projects will become more political in nature. By necessity, developers will attempt to have staff prioritize their projects as high as possible in order to ensure that they can meet the next quarterly TIF cycle. An increase in lobbying efforts at the Council level is also a possibility, especially if there is a perception that projects would somehow be competing against each other.