



## Request for City Council Committee Action from the Finance Department

**Date:** July 21, 2009

**To:** Council Member Lisa Goodman, Chair, Community Development Committee  
**Referral to:** Council Member Paul Ostrow, Chair, Ways & Means/Budget Committee

**Subject:** Consolidated Redevelopment Tax Increment Financing (TIF) District and Plan

### Recommendation:

1) Adopt the attached resolution approving the Consolidated Redevelopment Tax Increment Financing District and Plan; 2) Approve the Basic Tax Increment Allocation Methodology described in this report; 3) Authorize the Finance Officer to enter into a Memorandum of Understanding between the City of Minneapolis and Hennepin County pursuant to the basic terms described in this report; 4) Amend the 2009 General Appropriation Resolution by establishing the Community Planning & Economic Development agency Fund 01CON and appropriating \$10,000 to the fund.

**Previous Directives:** 1) On July 11, 2008 the City Council adopted Resolution 2008R-276, which approved special legislation for the City of Minneapolis (Laws of Minnesota 2008, Chapter 366, Article 5, Section 37); 2) On December 11, 2008 the City Council approved the 2009 City Budget. The budget directed Finance Department staff to prepare a tax increment financing plan for the proposed Consolidated Redevelopment TIF District, circulate the plan for public review and comment, and submit the plan to the City Council for consideration no later than July 31, 2009.

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Approved by:	Patrick Born, Finance Officer _____ Steven Bosacker, City Coordinator _____
Presenter in Committee:	Jeff Streder, Director, Development Finance (612-673-5130) Mark Winkelhake, Manager, Development Finance

### Financial Impact

No financial impact to the 2009 City Budget. Establishment of the Consolidated Redevelopment TIF District would provide funding for Target Center debt service and neighborhood revitalization activities beginning in 2011.

### Community Impact

- Neighborhood Notification – On June 5, 2009 all neighborhood organizations in the City were notified via e-mail of the time and place of the public hearing on this matter, and were invited to review and comment on the TIF Plan for the proposed Consolidated Redevelopment TIF District, which was posted on the City's public website.
- City Goals – 1) A Safe Place to Call Home – better quality of life, access to housing and services, healthy environment and lifestyles; 2) One Minneapolis – access to housing, health care, education, employment, living wage jobs, entrepreneurial opportunities, and transparent decision-making.
- Comprehensive Plan – On June 22, 2009 the City Planning Commission found that the TIF Plan for the Consolidated Redevelopment TIF District is consistent with the City's Comprehensive Plan.

## **Special Legislation**

In 2008, the Minnesota Legislature passed special legislation authorizing the City of Minneapolis (the "City") to establish a non-contiguous redevelopment tax increment financing district (TIF) comprised of all, or portions of, the property currently located within the City's 15 existing pre-1979 TIF districts. These TIF districts (the "Pre-1979 Districts") were established prior to August 1, 1979 and will terminate on August 1, 2009. Laws of Minnesota 2008, Chapter 366, Article 5, Section 37 (the "Special Legislation") (see Exhibit 1 in the attached TIF plan) provides that the new district may be certified after January 1, 2010 and must terminate no later than December 31, 2020. This new TIF district will be named the Consolidated Redevelopment Tax Increment Financing District (the "Consolidated TIF District").

The Special Legislation provides a means of meeting the City's debt service obligations related to the Target Center as well as a source of funding for neighborhood revitalization activities. Pursuant to the Special Legislation, tax increment from the Consolidated TIF District may be expended only 1) to pay principal and interest on bond obligations issued by the City or the Minneapolis Community Development Agency for Target Center; and 2) for neighborhood revitalization purposes. The City must also return to Hennepin County (the "County") its portion of the tax increment collected. The City and County must enter into a written agreement specifying the terms and conditions under which the City will return tax increment to the County.

On July 11, 2008, the Minneapolis City Council approved the Special Legislation, in compliance with the local approval requirement for special laws. Approval of the Special Legislation by the Hennepin County Board of Commissioners and the Minneapolis Board of Education was not required. In the months thereafter the City Council established financial parameters for the use of the tax increment revenue generated by the district and, on December 11, 2008, directed Finance Department staff to prepare a proposed TIF plan for establishment of the district.

## **Description of the TIF District**

The attached Tax Increment Financing Plan (the "TIF Plan") provides a detailed description of the Consolidated TIF District as required by state statutes. The proposed district is comprised of all 8,560 parcels that are currently located within the 15 Pre-1979 Districts. This includes both taxable and tax-exempt parcels. Exhibit 2 to the TIF plan includes maps of the entire Consolidated TIF District, as well as other more detailed maps of portions of the district. Although these maps are believed to be accurate, the definitive list of parcels that are included in the Consolidated TIF District appears in Exhibit 5 to the TIF Plan. In the future, individual parcels may be removed from the district by City Council action.

Since the district may not be certified before January 1, 2010, the first year of tax increment collection will be 2011. The last possible year of tax increment collection is 2020, resulting in a maximum of 10 years of tax increment collection. All commercial/industrial property located within the Consolidated TIF District will annually make their appropriate contribution to the fiscal disparity pool.

Exhibits 3 and 4 to the TIF Plan show the projected amount of annual and total tax increment generated by the district over its maximum 10-year life. These totals are summarized in a tax increment budget that is described later in this report. The Consolidated TIF District is a special TIF district that exists outside the boundaries of any project area. Tax increment revenue generated by the district may be spent anywhere within the City of Minneapolis, but only for the eligible uses specified in the Special Legislation and shown in the tax increment budget.

## **Basic Tax Increment Allocation Methodology**

During the 2009 budget process, the City Council discussed how tax increment from the Consolidated TIF District should be allocated among the various eligible uses. The 2009 City Budget directed Finance Department staff to prepare a tax increment financing plan for the proposed Consolidated TIF District, circulate the plan for public review and comment, and submit the plan to the City Council for consideration no later than July 31, 2009.

This directive also included a methodology for allocating tax increment generated by the district. This methodology is shown below. As described in Note 2, it is currently the City Council's intention to reduce the size of the Consolidated TIF District when all Target Center debt has been retired. The City Council may change this allocation methodology without formal modification of the TIF Plan.

In upcoming months, the City's Neighborhood and Community Relations (NCR) Department will be bringing forward specific recommendations to the City Council on how Net Tax Increment allocated to the various neighborhood revitalization categories listed below should be programmed and spent.

### Basic Tax Increment Allocation Methodology

Tax increment that is received each year from the Consolidated TIF District shall first be used to 1) make the necessary reimbursement payments to Hennepin County (as required by the Special Legislation); and 2) pay for the City and County costs of administering the TIF district. The remaining "Net Tax Increment" shall then be allocated as follows:

- I. First \$10.0M for Target Center debt service (see Note 2 below)
- II. Next \$14.0M as follows (see Note 1 below):
  - A. \$2.0M, if needed, for Target Center debt service (see Note 2 below)
  - B. \$8.5M for neighborhood revitalization purposes – general category
  - C. \$3.5M for neighborhood revitalization purposes – commercial community category
- III. If annual Net Tax Increment exceeds \$24M, then the City Council shall annually determine whether such funds should be allocated to Target Center debt service, the Neighborhood Investment Fund (to be established by future action(s) of the City Council), or returned to the applicable taxing jurisdictions.

Note 1: If there is less than \$14M available, then funding for each of the three categories (A, B and C) shall first be reduced proportionally. The proportionate amount allocated to Item B shall further be sub-allocated as follows:

1. First \$3.0M for Basic Citizen Participation Services (to be defined in future action(s) of the Neighborhood Community Engagement Commission and City Council).
2. Any remaining amount shall be allocated proportionally among other identified uses within the general category of neighborhood revitalization purposes.

Note 2: When Target Center debt has been fully retired, parcels comprising up to 50% of the captured net tax capacity of the TIF district shall be removed from the TIF district and their captured net tax capacity shall be returned to the general tax base.

## Tax Increment Budget

Tax increment generated by the Consolidated TIF District in 2011-2020 will be distributed by the County to the City three times per year. From each distribution the City will reimburse the County its portion of the tax increment, and then pay various City and County fees associated with administering the TIF district. The remaining amount is referred to as Net Tax Increment, and will be allocated by the City pursuant to the Basic Tax Increment Allocation Methodology previously described.

The amount of Net Tax Increment generated by the Consolidated TIF District will be highly dependent on property valuations, property tax rates, and other factors which may change significantly in upcoming years. Based on the tax increment projections shown in Exhibit 4 to the TIF Plan, a 10-year tax increment budget was developed. This budget is included in the TIF Plan, and is shown below.

### Tax Increment Budget (over 10 Years)

<u>Category</u>	<u>Amount</u>
Target Center Debt Service <sup>(a)</sup>	\$120,000,000
Neighborhood Revitalization Purposes <sup>(b)</sup>	120,000,000
Annually Allocated <sup>(c)</sup>	36,950,000
Reimbursement Payments to Hennepin County	125,650,000
TIF District Administration <sup>(d)</sup>	<u>1,710,000</u>
Total	\$404,310,000

<sup>(a)</sup> Includes \$97,000,000 in principal and \$23,000,000 in interest.

<sup>(b)</sup> Includes all reasonable administrative costs associated with neighborhood revitalization purposes and/or activities.

<sup>(c)</sup> This amount may be annually allocated to Target Center debt service, the Neighborhood Investment Fund, or returned to the applicable taxing jurisdictions.

<sup>(d)</sup> Includes the City and County costs/fees associated with administering the TIF district.

Pursuant to the TIF Act, the City may not spend more than \$404,310,000 in tax increment over the life of the district without a formal modification of the TIF plan. The five line-item amounts listed above are estimates only based on the current tax increment projections and the Basic Tax Increment Allocation Methodology previously described. The City may spend more or less in each individual category without a formal modification of the TIF plan.

## Target Center Debt Service

Pursuant to the Special Legislation, tax increment from the Consolidated TIF District may be used to pay principal and interest (debt service) on bond or loan obligations issued by the City or the Minneapolis Community Development Agency (MCDA) for Target Center. The City and MCDA issued bonds in 1995 and 1996 for the purchase and refinancing of the Target Center. As of August 1, 2009 there will be \$59,850,000 in outstanding principal on the three Target Center bond issues. It is currently anticipated that some or all of these bonds will be refinanced (refunded) in the second half of 2009 in order to restructure principal and lower interest rates.

The City has no plans to issue new-money bonds for capital improvements to the Target Center in 2009. However, the City is reserving the right to issue up to a combined total of \$97,000,000 in refunding and new-money bonds during the life of the district. This total would include refunding bonds of approximately \$60,000,000, and new money bonds of approximately \$37,000,000. As noted in footnote (a) of the Tax Increment Budget,

\$120,000,000 in tax increment could potentially be used pay up to \$97,000,000 in bond principal and approximately \$23,000,000 in bond interest.

### **Neighborhood Revitalization Purposes**

The Basic Tax Increment Allocation Methodology previously described in this report allocates tax increment to a number of specific purposes (i.e. Target Center debt service, County reimbursement payments, and TIF administrative fees), but it also allocates tax increment to several subcategories of "neighborhood revitalization purposes". In upcoming months, the City's Neighborhood and Community Relations (NCR) Department will be bringing forward specific recommendations to the City Council on how tax increment allocated to the various neighborhood revitalization categories should be programmed and spent.

### **Annually Allocated Amounts**

The Basic Tax Increment Allocation Methodology determines how the first \$24,000,000 in annual Net Tax Increment from the district is allocated. Any collected tax increment above this threshold will be annually allocated by the City Council for Target Center debt service, the Neighborhood Investment Fund, or returned to the applicable taxing jurisdictions.

### **Reimbursement Payments to Hennepin County**

Pursuant to the Special Legislation, the City must return to the County its portion of the tax increment collected from the Consolidated TIF District. The City and County must enter into a written agreement specifying the terms and conditions under which these reimbursement payments will be made. It is anticipated that this agreement will take the form of a Memorandum of Understanding (MOU), which will contain the following basic terms:

- The original net tax capacity (ONTC) of the Consolidated TIF District will be certified no sooner than January 1, 2010 and in the amount of \$2,731,854.
- The County will distribute tax increment to the City through its normal process and in the frequency that is customary for other City TIF districts.
- The City and County will agree on the mathematical methodology used to calculate the County's portion of the tax increment. This portion may include the portion for County affiliated entities, such as the Hennepin County Regional Railroad Authority and the Hennepin County Housing and Redevelopment Authority.
- The County will determine and deduct the appropriate state auditor fees.
- The County will distribute tax increment to the City and also provide a written calculation showing the required reimbursement payment. The City will have 60 days to send the reimbursement payment to the County.
- The City and County agree that the so-called four-year knock down rule, under Minnesota Statutes, Section 469.176, subd. 6, does not apply to the TIF district.
- The County will annually bill the City for administrative costs associated with the Consolidated TIF District, as is customary for all City TIF districts.

Subsequent to City Council approval, County staff will bring the terms of the MOU to the Hennepin County Board of Commissioners for their approval.

### **Fund Establishment and Appropriation**

CPED Fund 01CON is being established to pay for various costs associated with setting up and administering the TIF district in the second half of 2009. These costs are projected to be no more than \$10,000. The fund will be reimbursed with tax increment collected in 2011.

**RESOLUTION  
OF THE  
CITY OF MINNEAPOLIS**

**By Goodman and Ostrow**

**Approving the Consolidated Tax Increment Financing District Tax Increment Financing Plan.**

Resolved by the City Council of the City of Minneapolis:

Section 1. Recitals

1.1. Pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, the City of Minneapolis (the "City"), acting by and through its department of Community Planning and Economic Development, has been granted the authority to propose and implement city development districts, housing and redevelopment projects and tax increment financing ("TIF") districts, all pursuant to Minnesota Statutes, Sections 469.001 through 469.134, and 469.174 through 469.179, as amended, and other laws enumerated therein (collectively, the "Project Laws").

1.2. The Minnesota Legislature adopted Laws of Minnesota 2008, Chapter 366, Article 5, Section 37 (the "Special Legislation"). The City approved the Special Legislation on July 11, 2008 by Resolution 2008R-276, in accordance with Minnesota Statutes, Section 645.021, Subd. 3.

1.3. The Special Legislation authorized the City to create a new redevelopment TIF district comprised of all or part of the property located within 15 pre-1979 TIF districts that will terminate on August 1, 2009. The district, to be called the Consolidated Redevelopment Tax Increment Financing District (the "District"), may be certified after January 1, 2010 and must terminate no later than December 31, 2020.

1.4. Prior to certification, the City must enter into an agreement with Hennepin County to pay the County annually out of the increment from the District an amount equal to the tax that would have been paid to the County on the captured tax capacity of the District had the District not been created.

1.5. Tax increment from the District may only be expended to pay principal and interest on bonds issued by the City or the Minneapolis Community Development Agency for Target Center, including bonds issued to repay bonds or loans, and for neighborhood revitalization purposes, which the Council intends to further define in future ordinance(s) or resolution(s).

1.6. The City has prepared, and this Council has investigated the facts with respect to, the Consolidated TIF District TIF Plan (the "Plan"). The Plan creates a new redevelopment TIF district that exists outside the boundaries of any project area, designates property to be included within the District and identifies a budget for expenditures, all pursuant to and in accordance with the Project Laws and/or the Special Legislation.

1.7. The City has performed all actions required by law to be performed prior to approval of the Plan, including, but not limited to, transmitting the proposed Plan to the Hennepin County Board of Commissioners, the School Board of Special School District No 1, neighborhood groups and the City Planning Commission for review and comment; providing the City's estimate of the fiscal and economic implications of the proposed district to the County Auditor and the Clerk of the School Board; and holding a public hearing upon published notice as required by law.

1.8. The Council believes that it is necessary and in the best interests of the City at this time to approve the Plan.

## Section 2. Findings for the Adoption of the Plan

2.1. The Council hereby finds, determines and declares that the objectives and actions authorized by the Plan are all pursuant to and in accordance with the Project Laws and/or the Special Legislation.

2.2. The Council further finds, determines and declares that the Plan conforms to the general plan for the development or redevelopment of the city as a whole.

2.3. The Council further finds, determines and declares that the District is a redevelopment district pursuant to the Special Legislation.

2.4. The Council further finds, determines and declares that the reasons and facts supporting the findings in this resolution are described in the Plan.

2.5. The Council elects the method of computation provided in Minnesota Statutes, Section 469.177, Subd. 3, Paragraph (b). The Council acknowledges that, by making this election, the entire fiscal disparity contribution required of the City for development occurring within the District will be taken from the District.

## Section 3. Approval of the Plan

3.1. Based upon the findings set forth in Section 2 hereof, the Plan presented to the Council on this date is hereby approved and shall be placed on file in the office of the City Clerk.

## Section 4. Implementation of the Plan

4.1. After passage and publication of this Resolution and upon satisfaction of the Special Legislation requirement for an agreement with Hennepin County, the officers and staff of the City and the City's consultants and counsel are authorized and directed to proceed with the implementation of the Plan beginning January 1, 2010, and for this purpose to negotiate, draft, prepare and present to this Council for its consideration, as appropriate, all further modifications, plans, resolutions, documents and contracts necessary for this purpose.

4.2. As provided under Minnesota Statutes, Section 469.1781, Subdivision 7, this Council hereby authorizes the advance of revenues from other available development revenues of the City in the principal amount needed to offset any negative fund balances incurred with respect to this District as a result of expenditures incurred prior to or in excess of the collection of tax increment revenue. The interest rate paid on such advances shall be equal to the rate of interest those revenues would have generated in their fund. The term of this advance shall end upon the termination of the District, although as revenues are available in the fund for the District, the advance shall be offset by such amounts.