



**Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED**

Date: April 17, 2007

To: Council Member Lisa Goodman, Chair Community Development Committee

Referral to: Council Member Paul Ostrow, Chair Ways & Means/Budget Committee

**Subject:** Public Hearing on Wellstone Tax Increment Finance Plan and Modification No. 1 to the Franklin-Portland Gateway Redevelopment Plan

**Recommendation:** Approve the attached City Council Resolution adopting the modification to the Franklin-Portland Gateway Redevelopment Plan and the Wellstone Tax Increment Finance Plan

**Previous Directives:** On January 28, 2005 the City Council approved a loan of \$900,000 from the Affordable Housing Trust Fund (AHTF); on September 2, 2005 the City Council approved Project Analysis Authorization and on November 1, 2005 the City Council approved a loan of \$275,000 from the Affordable Housing Trust Fund for The Wellstone.

Prepared by: Dollie Crowther, Principal Coordinator, 612-673-5263	_____
Approved by: Elizabeth Ryan, Director Housing Policy & Development	_____
Charles T. Lutz, Deputy Director, Executive Administration	_____
Presenters in Committee: Dollie Crowther	

**Reviews**

Permanent Review Committee (PRC): Approval n/a Date \_\_\_\_\_

Policy Review Group (PRG): Approval \_\_\_ Date \_\_\_\_\_

**Financial Impact**

No financial impact

\_\_\_\_\_ Action requires an appropriation increase to the Capital Budget \_\_\_\_\_ or Operating Budget \_\_\_\_\_

\_\_\_\_\_ Action provides increased revenue for appropriation increase

\_\_\_\_\_ Action requires use of contingency or reserves

\_\_\_\_\_ Action is within the Business Plan

\_\_\_\_\_ Action requires a change to the Business Plan

\_\_\_\_\_ Other financial impact

\_\_\_\_\_ Request provided to the Finance Department when provided to the Committee Coordinator

**Community Impact** Ward 6 - Ventura Village

Neighborhood Notification: The Ventura Village Neighborhood previously approved The Franklin Gateway Proposal.

City Goals: Foster the development and preservation of a mix of quality of housing types that are available, affordable, meets current needs and promotes future growth.

Comprehensive Plan:

4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods.

4.9 Minneapolis will grow by increasing its supply of housing.

4.12 Minneapolis will reasonably accommodate the housing needs of all its citizens.

Minneapolis will carefully identify project sites where housing development and/or housing revitalization are appropriate responses to neighborhood conditions and market demand.

Zoning Code: In compliance.

Living Wage/Business Subsidy Agreement                      Yes \_\_\_\_\_ No  X

Job Linkage    Yes \_\_\_\_\_ No  X

Other: N/A

**Background/Supporting Information**

Franklin-Portland Gateway Phase III - The Wellstone, located at 1931 Portland Avenue South and 612, 616, 620, 621 East Franklin Avenue South (Ward 6) is a collaborative effort by and between the Central Community Housing Trust (CCHT) and Hope Community to develop the northeast corner of Franklin and Portland Avenues. In order to make the Gateway collaborative a reality will require a phased financing and development schedule.

The Wellstone located in the Phillips neighborhood will provide a creative, commercial and residential development in the Phillips neighborhood. Ideas for the phased project were taken from residents and workers in the neighborhood and enhanced by engaging professionals in architecture, urban planning and real estate development. The technical expertise of CCHT and Hope represents a unique collaborative arrangement.

**Proposed Development**

The Wellstone will feature forty nine (49) units of mixed-income rental housing, ranging from studios to 3 bedroom townhome style family units. Of the 49 units, four will be long term homeless units, twelve will be market rate and the remaining units will be at 50% and 60% of area median income. All residential parking is provided via a below grade parking garage, thus preserving much of the site for shared green space, playground and landscaping. Additionally, approximately 4,400 square feet of restaurant space is

planned for The Wellstone. And 2,671 square feet will house Hope Community property management offices

### **Financial Summary**

The total project development costs for The Wellstone is \$13.1 million. The project sources and uses are outlined on the attached Project Data Worksheet.

The City of Minneapolis has committed \$1,175,000 for the project and \$30,000 of Non Profit Development Assistance Funds. Funds have also been committed from Hennepin County, the Empowerment Zone, and the Metropolitan Council. The Minnesota Housing Finance Agency has approved an allocation of 9% Low Income Housing Tax Credits which is expected to generate approximately \$6.3M in equity investment. The MHFA has also committed funds to the project. An MMA First Mortgage application has been approved and the developers have received final application approval. The developers, Hope Community and CCHT have requested that the City issue a "pay-as-you-go" TIF Note in an amount not to exceed \$705,800. The project is expected to close in the Fall 2007.

The proposed project qualifies as a Housing Tax Increment Financing District under State Statutes, which means a type of tax increment financing district which consists of a project, or a portion of the project intended for occupancy in part by persons or families of low and moderate income.

The TIF Plan will allow the use of tax increment revenue to pay for public redevelopment activity, which includes new construction, administration and other eligible costs.

According to projections from City Finance staff, The Wellstone Project will generate annual tax increment revenue of approximately \$76,200. The developer has requested that the City issue a "pay-as-you-go" TIF note in an amount not to exceed \$705,800. The note will be issued by the City and have a stated interest rate. The TIF note will assist with a portion of the MMA First Mortgage on the project along with project income. The term of the TIF district will be the maximum statutory term of 26 years.

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

### **Proposed Redevelopment Contract-Terms**

The proposed redevelopment contract terms for The Wellstone Project is as follows:

- The developer will construct 49 units of low income and market rate housing for families and 7,112 square feet of commercial space on the ground floor level. The location of the proposed development is 1931 Portland, 612, 16, 20, 21 East Franklin Avenue South (the northeast corner). Of the 49 units, (4 units) will be affordable at 30% of AMI; (21 units) will be affordable at 50% of AMI; (12 units) will be at 60% AMI and (12 units) will be market rate units with no income or rent restrictions for families.
- The developers will provide housing units ranging in styles from single room occupancy (SRO) units and town home style studios and market rate studios.
- The City has committed \$1,175,000 of Affordable Housing Trust Funds to the project. The source of these funds will be CDBG and HOME funds and both sources will be in the form of a deferred loan at 1% for a term of 30 years. Non-Profit Admin Assistance grant funds of \$30,000 have also been approved through the City for the project.
- The City will provide Tax Increment Finance Assistance (TIF) in the form of a "pay-as-you-go" note in an amount not to exceed \$705,800. The TIF Note will support the MMA First Mortgage on the project. The present value amount assumes an annual tax increment of \$76,200 at a discount rate of 6% for a 26 year term of the TIF district.

### **Development Finance Committee Report.**

On April 12, 2007, the Development Finance Committee reviewed the proposed Modification to the Franklin-Portland Gateway Redevelopment Plan and The Wellstone TIF Plan. Comments were forwarded to the Community Development Committee.

### **Projected Timetable**

- City Council approval of TIF and Redevelopment Plans April, 2007
- Final HUD approval of MMA First Mortgage June, 2007
- Project Closing September, 2007
- Construction Start October, 2007

## Proposed Resolution

Adopting the Wellstone Tax Increment Finance Plan and Modification No 1 to the Franklin-Portland Gateway Redevelopment 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 By Resolution No 2004R-597 duly adopted on December 23, 2004, the City approved the Franklin-Portland Gateway Redevelopment Plan and the Jourdain TIF Plan, which plans established a redevelopment project area and housing TIF district, and identified a budget for expenditures, all pursuant to and in accordance with the Project Laws.

1.3 The City has caused to be prepared, and this Council has investigated the facts with respect to, the proposed Wellstone Tax Increment Finance Plan and Modification No 1 to the Franklin-Portland Gateway Redevelopment Plan, (collectively, the "Plans"). The Plans create a new housing TIF district and modify the existing Franklin-Portland Gateway Redevelopment Plan to expand the project boundary, and accommodate the activities and financing related to the proposed project. The Plans designate property to be included within the TIF district, indicate land uses, and identify a budget for expenditures, all pursuant to and in accordance with the Project Laws.

1.4 The City has performed all actions required by law to be performed prior to the adoption of the Plans, including, but not limited to, a review of the proposed Plans by the affected neighborhood group and the Planning Commission, transmittal of the proposed Plans to the Hennepin County Board of Commissioners and the School Board of Special School District No 1 for their review and comment, and the holding of a public hearing upon published and mailed notice as required by law.

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

2.1 The Council reaffirms the findings made in the Resolution cited in Section 1.2 hereof.

2.2 The Council further finds, determines, and declares that the Plans conform to the general plan for the development or redevelopment of the City as a whole. Written comments of the Planning Commission with respect to the Plans were issued and are incorporated herein by reference, and are on file in the office of the City Clerk.

2.3 The Council further finds, determines and declares that the objectives and actions authorized by the Plans are all pursuant to and in accordance with the Project Laws.

2.4 The Council further finds, determines and declares that the expanded Project Area consists of unused, underused or inappropriately used vacant land and is inadequate/inappropriate for existing land use. These vacant and underutilized lots are in an area of high traffic with high visibility and may be determined to be blighted due to unusual and difficult physical characteristics of the ground, faulty planning characterized by lots laid out in disregard of contours or of irregular form and shape or of inadequate size with no access or other conditions which have prevented normal development of the land.

2.5 The Council hereby finds, determines and declares that the Plans will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the redevelopment of the Project Area and TIF District by private enterprise, as the proposed development makes possible rental opportunities for low and moderate income households<sup>1</sup>, and is necessary in order to finance a portion of the public redevelopment activities essential to implement the project in order to relieve the current shortage of decent, safe, and sanitary housing for persons of moderate or low income and their families in Minneapolis; enhance the city's tax base; serve as an impetus for the provision of needed community redevelopment; and further, tax increment assistance is being utilized to subsidize the extraordinary cost of providing affordable rental housing at this site. Affordable rents are not sufficient to amortize the entire cost of this development. The proposed development will address an underutilized site located directly on a major transit and commercial corridor. Without the financial assistance, the rents would be unaffordable and unrealistic in the market. Without the financing sources to fill the financing gap the project would not be able to go forward. Underground parking, spacious units that accommodate larger families and the focus on high-quality, sustainable design measures up to a slightly higher than typical construction cost.

2.6 The Council further finds, determines and declares that the Wellstone TIF District is a housing district pursuant to Minnesota Statutes, Section 469.174, Subdivision 11, and 469.1761, Subdivisions 1 and 3. The proposed district is located within the Franklin-

---

<sup>1</sup> Information provided by GVA Marquette Advisors' 2006 fourth quarter review of rental properties indicated that average apartment rent increased to \$871 with an annual rate increase of 2.4% in the Twin Cities metro area.

Portland Gateway Redevelopment Project, in accordance with the provisions of Minnesota Statutes Sections 469.001 through 469.047.

2.7 The Council further finds, determines and declares that the proposed rental project satisfies the income requirements for a Housing TIF district as defined in section 142(d) of the Internal Revenue Code as stated in Minnesota Statutes, Section 469.1761, Subdivision 3.

2.8 The Council hereby finds, determines and declares that the City adopted a Unified Housing Policy which recognizes the serious shortage of affordable housing in Minneapolis and puts forth the goal, consistent with The Minneapolis Plan, 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 project will provide new quality housing to low and moderate income residents located directly on a major transit and commercial corridor. Since there will be 25 units at or below 50% of MMI<sup>2</sup> (4 units are available at or below 30% of MMI), this project complies with the City Affordable Housing Policy, which would require at least 10 affordable units (i.e. 20% of 49). In addition, there will be 12 units affordable at or below 60% of area median income for a total of 37 low income (75%) affordable units. It is therefore found that the establishment of the Wellstone TIF District is fully justified to facilitate public development activities and expenditures to lessen the current shortage of decent, safe, and affordable housing for low and moderate income households in Minneapolis.

2.9 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 projected that the gross square footage of the Wellstone development will be 94,925 total square feet of which up to 7,112 square feet may be commercial space (including the restaurant space and the auxiliary tenant space). This means that approximately 7.49% of the total square footage of the complete development may be attributable to the commercial space in the project. It is therefore found that less than 20% (7.49%) of the square footage of buildings that receive assistance from tax increment will consist of commercial, retail, or other nonresidential uses.

2.10 The Council further finds, determines and declares that the use of tax increment financing is deemed necessary as the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and 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 increment for the maximum duration of the district permitted by the TIF plan. Because it is the opinion of the City that the proposed Project to be financed, in part, by this TIF District would not occur solely through private investment

---

<sup>2</sup> Metropolitan Median Income

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 public redevelopment activity, expenditures, and market values associated with the proposed development results in a series of calculations and figures that clearly pass the market value test. City staff completed an analysis<sup>3</sup> of the development pro forma based on proposed development costs provided by the developer and concluded that the estimate of the amount by which the market value of the entire district will increase without the use of tax increment financing is \$0, and if all development which is proposed to be assisted with tax increment were to occur in the district, the total increase in market value would be up to \$4,970,000, and the present value of tax increments from the district for the maximum duration of the district permitted by the TIF Plan is estimated to be \$919,168, and even if some development other than the proposed development were to occur, the Council finds that without tax increment assistance no alternative development would occur that would produce a market value increase greater than \$4,050,832. It is therefore the opinion of the City that the proposed development in this TIF District and Project Area could not occur solely through private investment within the foreseeable future. The Council therefore finds, determines and declares that the land in the Project Area and TIF District would not be made available for development without the financial aid to be sought.

2.11 The Council further finds, determines and declares that the entire fiscal disparity contribution required of the City for development occurring within this district be taken from outside the Wellstone TIF District. Due to the level of required subsidy for this project, 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. The election provided in the Minnesota Statutes Section 469.177, Subdivision 3, paragraph (a) is elected.

2.12 The Council further finds additional public benefits will include provision of affordable housing units, tax base enhancement, elimination of blighting influences, and increased neighborhood livability. The creation of this TIF district is in the public interest because it will facilitate the development of a mixed-income mixed-use rental housing project that includes ground floor commercial space, and will provide needed housing for moderate and low income persons and families.

2.13 The Council further finds, determines and declares that it is necessary and in the best interest of the City to approve the Plans.

### Section 3. Approval of the Plans

---

<sup>3</sup> The calculations necessary to pass this test are contained in the TIF Plan.

3.1 Based upon the findings set forth in Section 2 hereof, the Plans 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 Plans

4.1 After passage and publication of this Resolution, 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 Plans, 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, subd. 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.