



**Nokomis Senior Assisted Living
Tax Increment Financing Plan**

Draft as of February 13, 2009

Nokomis Senior Assisted Living Tax Increment Financing Plan

Table of Contents

I. Introduction	1
II. Tax Increment Financing (TIF) District Boundary	1
III. Type of TIF District.....	1
IV. Maximum Duration of the TIF District.....	2
V. Statement of Objectives	2
VI. Development Program	2
A. Description of Development Program.....	2
B. List of Property That May Be Acquired	3
C. Development Activity for Which Contracts Have Been Signed	3
D. Other Development Activity	3
VII. Description of Financing.....	3
A. Project Costs to be Paid With Tax Increment.....	3
B. Bonded Indebtedness to be Incurred.....	4
C. Other Sources of Funding	4
D. Permit Activity and Prior Planned Improvements	4
E. Original Net Tax Capacity	5
F. Original Tax Capacity Rate	5
G. Fiscal Disparities Election	5
H. Projected Captured Net Tax Capacity and Tax Increment	5
VIII. Estimated Impact on Other Taxing Jurisdictions.....	6
IX. Basis for Finding That Development Would Not Occur Without TIF Assistance.....	7

Exhibits

1. TIF District Boundary Map
2. Documentation of Eligibility
3. Assumptions Schedule
4. Projected Tax Increment Schedule
5. Market Value Test Schedule

Nokomis Senior Assisted Living Tax Increment Financing Plan

I. Introduction

Two plan documents have been prepared to facilitate the development of a senior assisted living project in the Standish neighborhood of south Minneapolis:

- The Nokomis Senior Assisted Living Redevelopment Plan establishes a new redevelopment project area and identifies its boundaries, redevelopment objectives, and land use provisions.
- This Nokomis Senior Assisted Living Tax Increment Financing Plan establishes a new housing tax increment financing district within the redevelopment project area to help finance various public project costs and to establish a tax increment financing budget.

II. Tax Increment Financing (TIF) District Boundary

The Nokomis Senior Assisted Living TIF District consists of one tax parcel identified below. The parcel is located within the Standish neighborhood of south Minneapolis.

<u>Property Identification Number</u>	<u>Property Address</u>
01-028-24-34-0176	3733 23 rd Avenue South

The Tax Increment Financing District Boundary Map (Exhibit 1) shows the boundary of the Nokomis Senior Assisted Living TIF District and the larger Nokomis Senior Assisted Living Redevelopment Project Area, within which the TIF district is located.

III. Type of TIF District

The Nokomis Senior Assisted Living TIF District is a “housing district” as defined in M.S. Section 469.174, Subd. 11 and Section 469.1761, Subd. 1 and 3.

M.S. Section 469.174, Subd. 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. Housing project means a project, or a portion of a project, that meets all of the qualifications of a housing district under this subdivision, whether or not actually established as a housing district.

M.S. Section 469.1761, Subd. 1. (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

Nokomis Senior Assisted Living Tax Increment Financing Plan

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 M.S. Section 462C.02, Subd. 9, clause (e).

M.S. Section 469.1761, Subd. 3. For residential rental property, the property must satisfy the income requirements for a qualified residential rental project as defined in section 142(d) of the Internal Revenue Code. The requirements of this subdivision apply for the duration of the tax increment financing district.

Additional information about the district's eligibility as a housing TIF district is provided in the Documentation of Eligibility (Exhibit 2).

IV. Maximum Duration of the TIF District

The maximum duration of the Nokomis Senior Assisted Living TIF District is that which is prescribed by the Tax Increment Financing Act (the "TIF Act", M.S. Sections 469.174-469.1799) for a housing district. At the time this document was prepared, the TIF Act allowed for a maximum of 26 years of tax increment collection.

V. Statement of Objectives

The City of Minneapolis seeks to achieve the following objectives through this TIF plan:

- Eliminate blighting influences by facilitating the redevelopment of underutilized land.
- Increase the number of housing units and choices within the city.
- Increase housing density.
- Remedy the shortage of housing for low and moderate income residents.
- Support strong and diverse neighborhoods where people choose to live.
- Create jobs.

VI. Development Program

A. Description of Development Program

Covenire Care LLC has proposed the development of the Nokomis Senior Assisted Living Housing Project at 3717 and 3733 23rd Avenue South in the Standish neighborhood of south Minneapolis. The approximately 1.8-acre site located at the northeast corner of the intersection of 23rd Avenue South and East 38th Street is across 23rd Avenue South from the Providence Place Skilled Nursing Facility, and is currently owned and used as a parking lot by Providence Place. The proposed 77-unit residential development is designed to complement the existing skilled nursing facility, creating a senior housing campus offering residents a "continuum of care" that will include a nursing home, transitional care, memory support units and other specialty care units. The new development will include 63 assisted living units, seven memory support units, and seven care suites. A minimum of 16 units (20

Nokomis Senior Assisted Living Tax Increment Financing Plan

percent of the total) will be for persons with incomes at or below 50 percent of the metropolitan median income (MMI).

The four-story building will include approximately 50 parking spaces in one level of underground heated parking and 41 surface parking spaces. Amenities will include a dining room, a parlor, a café, an activity room, a beauty parlor, a screened porch, an outdoor patio/courtyard, secure entries, and professionally designed and maintained landscaping and walking paths.

B. List of Property That May Be Acquired

The City of Minneapolis does not currently intend to acquire any property within the TIF district.

C. Development Activity for Which Contracts Have Been Signed

As of the date this plan was prepared, the City of Minneapolis had not yet entered into any development contracts related to the proposed development activity. It is anticipated that a development agreement will be executed between the City and Covenire Care LLC, a joint venture consisting of principals of Shelter Corporation and Tealwood Care Centers Inc., for the development of the Nokomis Senior Assisted Living Project.

D. Other Development Activity

No additional development activity is anticipated within the TIF district.

VII. Description of Financing

The figures, sources, and methods of financing identified in this TIF plan are based on the best estimates and projections available at the time this plan was prepared. Slight changes can be expected. However, if significant changes occur that affect the structure or financial feasibility of the project, or increase the project costs to be paid with tax increment or bonded indebtedness to be incurred beyond the amounts listed in this plan, then a formal modification to this plan may become necessary. Such a modification would require the same review and approval process as the original approval of this TIF plan.

A. Project Costs to be Paid With Tax Increment

The total cost of the project is currently estimated to be approximately \$16.2 million. The maximum amount of project costs that can be paid utilizing tax increment financing is shown below. Tax increment will only be used to reimburse project costs associated with the affordable housing portion of the project. Although the maximum duration of the TIF District is currently 26 years of tax increment collection

Nokomis Senior Assisted Living Tax Increment Financing Plan

(see Section IV), the following figures were derived based on 20 years of tax increment collection (see Section VII H).

The City reserves the right to administratively adjust the amount of any of the line items listed, or to incorporate additional eligible line items, provided that the total use figures listed below are not exceeded.

<u>Sources</u>	<u>Up-Front</u>	<u>Over Time</u>
Developer Funds	\$728,200	---
Tax Increment	---	<u>\$1,912,000</u>
Total Sources	\$728,200	\$1,912,000
 <u>Uses</u>		
Affordable Housing Construction	\$728,200	---
Pay-As-You-Go Note Principal	---	\$728,200
Pay-As-You-Go Note Interest	---	992,600
City Administration Costs	---	<u>\$191,200</u>
Total Uses	\$728,200	\$1,912,000

B. Bonded Indebtedness to be Incurred

It is not anticipated that the City will issue any tax increment bonds for the Nokomis Senior Assisted Living Project. It is anticipated that the City will issue to the developer a pay-as-you-go TIF note in an amount not to exceed \$728,200. The City will semi-annually distribute net tax increment to the developer under the terms of the TIF note which will be used, along with operating revenue generated by the housing project itself, to pay semi-annual debt service on one or more series of housing revenue bonds that the City will issue to help construct the project.

C. Other Sources of Funding

In addition to the housing revenue bonds described in Section VII B, other sources of funding to construct the project will include developer equity, a loan from the City's Affordable Housing Trust Fund, and investment earnings on bond proceeds.

D. Permit Activity and Prior Planned Improvements

A permit was issued to Covenire Care, LLC on September 14, 2007 in response to a Master Land Use Application requesting rezoning, a conditional use permit, variances, and site plan review to facilitate development of the Nokomis Senior Assisted Living facility. This action will not affect the original net tax capacity of the TIF district.

E. Original Net Tax Capacity

The property in the TIF district is currently owned by Shelter Care Foundation, Inc. and is classified tax-exempt. Therefore, upon certification of the TIF district by Hennepin County the original net tax capacity (ONTC) of the TIF District will initially be zero. However, at the time the property is sold to Covenaire Care, LLC for development of the project, the Minneapolis City Assessor's Office will determine an estimated market value (EMV) of the property (estimated to be \$733,558). Upon project completion and reclassification of the property to class 4a property (rental housing), it is anticipated that the ONTC of the TIF district will be adjusted upward to approximately \$9,169.

F. Original Tax Capacity Rate

The original tax capacity rate for the TIF district will be the total local tax capacity rate for all applicable taxing jurisdictions for taxes payable in 2009. At the time this TIF plan was drafted this rate was not yet available. For the purpose of calculating the hypothetical impact on other taxing jurisdictions (see Section VIII), the total tax capacity rate for taxes payable in 2008 was used (119.788 percent). For tax increment projection purposes, a total tax capacity rate of 120 percent was assumed (see Section VII H).

G. Fiscal Disparities Election

For the purpose of calculating tax increment, the City of Minneapolis elects that the fiscal disparity contribution required for all commercial/industrial property located within the TIF district will be made from "outside" the TIF district (M.S. Section 469.177, Subd. 3, Paragraph (a)).

H. Projected Captured Net Tax Capacity and Tax Increment

Upon project completion it is projected that the total EMV of the property in the TIF district will be \$6,900,000, and the total net tax capacity (NTC) will be \$86,250. The captured net tax capacity of the TIF district at completion is therefore projected to be \$77,081 (for taxes payable in 2013).

The Assumptions Schedule (Exhibit 3) shows the various assumptions used in projecting net tax increment from the TIF district.

The Projected Tax Increment Schedule (Exhibit 4) shows how tax increment was projected over a 20-year period (2011 to 2030).

VIII. Estimated Impact on Other Taxing Jurisdictions

It is the position of the City of Minneapolis that the development of the property included in this TIF district would not occur as proposed without tax increment financing assistance.

Nevertheless, if it is assumed for the purpose of analysis that the proposed development would occur without tax increment financing assistance, and that the estimated captured net tax capacity at project completion would be immediately available, then the estimated annual impact to the applicable taxing jurisdictions would be as follows:

Taxing Jurisdiction	Pay 2008 Tax <u>Capacity Rate</u>	Property Taxes Resulting From \$77,081 in Captured Net <u>Tax Capacity</u>
City of Minneapolis	56.286%	\$43,386
Hennepin County	34.456	26,559
Special School District #1	21.908	16,887
Other	<u>7.138</u>	<u>5,502</u>
Total	119.788%	\$92,334

Fiscal and Economic Implications of the TIF District

The estimated amount of total tax increment that would be generated over the maximum duration of the TIF district is \$2,604,946.

The probable impact of the TIF district on City-provided services such as police and fire protection, public infrastructure, and borrowing costs attributable to the TIF district is projected to be very minor due to the small size of the project in comparison to the size of the City budget and tax base.

The estimated amount of tax increment generated over the life of the TIF district that would be attributable to the School District, assuming the School District's tax rate remains at approximately 18.3 percent of the total tax rate, would equal \$476,705.

The estimated amount of tax increment generated over the life of the TIF district that would be attributable to the County, assuming the County's tax rate remains at approximately 28.8 percent of the total tax rate, would equal \$750,224.

As of the date this plan was prepared, neither the County nor 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.

IX. Basis for Finding That Development Would Not Occur Without TIF Assistance

M.S. Section 469.175, Subd. 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 development to be constructed in the TIF district would not occur without public participation and financial assistance. This conclusion and finding is based upon the factors and circumstances described below.

The developer has stated that “but-for” the use of tax increment financing the development will not proceed. A financial analysis conducted by the City indicated that projected development costs exceed available funding sources and that a funding gap exists. In order to close this funding gap, tax increment financing assistance is deemed necessary and appropriate.

The project is consistent with development objectives set forth in the Minneapolis Tax Increment Policy in that it will 1) provide housing choices that meet the needs of current residents and attract new residents to the city, 2) provide affordable housing, 3) develop an underutilized site, and 4) create jobs.

The amount of tax increment financing requested is reasonable when compared to the overall cost of developing the project, and the developer has explored other options to secure private and public funding for these costs prior to requesting tax increment financing assistance from the City.

The funding gap is in part due to the inclusion of 16 affordable rental units within the project. This is in compliance with the City’s Unified Housing Policy. The Unified Housing Policy recognizes the serious shortage of affordable housing in Minneapolis and seeks to “grow the population and to have no net loss of housing across all income levels”. The Policy also states that the City will focus on linking incentives to housing opportunities in proximity to jobs and transit. The Nokomis Senior Assisted Living Project will be located in the 38th Street and 23rd Avenue South neighborhood commercial node and within the 38th Street Transit Station Area.

A tax increment financing district site must also pass a “market value test” in order to support the finding that the development could not occur without tax increment assistance (M.S. Section 469.175, Subd. 3(b)(2)(ii)). Exhibit 5 contains the calculations necessary to demonstrate that this test has been satisfied.



Nokomis Senior Assisted Living Tax Increment Financing Plan

Tax Increment Financing District Boundary Map



Tax Increment Financing District



Nokomis Senior Assisted Living Redevelopment Project Boundary

February 13, 2009

Exhibit 2
Documentation of Eligibility

The purpose of this exhibit is to describe the conditions that qualify the Nokomis Senior Assisted Living tax increment financing (TIF) district as a housing district as defined in Minnesota Statutes Section 469.174, Subd. 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. Housing project means a project, or a portion of a project, that meets all of the qualifications of a housing district under this subdivision, whether or not actually established as a housing district.

and Section 469.1761, Subd. 1:

(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 M.S. Section 462C.02, Subd. 9, clause (e).

and Section 469.1761, Subd. 3:

For residential rental property, the property must satisfy the income requirements for a qualified residential rental project as defined in section 142(d) of the Internal Revenue Code. The requirements of this subdivision apply for the duration of the tax increment financing district.

Compliance with Income Restrictions

The income requirements for a qualified residential rental project as defined in section 142(d) of the Internal Revenue Code are such that one of two tests must be met:

- a. **20-50 Test** Twenty percent or more of the residential units in the project are occupied by individuals whose income is 50 percent or less of area median gross income.

Nokomis Senior Assisted Living Tax Increment Financing Plan

- b. **40-60 Test** Forty percent or more of the residential units in the project are occupied by individuals whose income is 60 percent or less of area median gross income.

Sixteen of the 77 units in the Nokomis Senior Assisted Living facility, or 20.8 percent, will be occupied by individuals whose income is 50 percent or less of the area median gross income, and thus the project meets the first test.

Compliance with Requirements for Non-Residential Uses

M.S. Section 469.1761, Subd. 1(a) provides that no more than 20 percent of the square footage of buildings that receive tax increment assistance may consist of commercial, retail or other non-residential uses. The 112,478-square foot Nokomis Senior Assisted Living building will include 620 square feet of non-residential uses, which is less than one percent of the total building area. The non-residential use will be a beauty salon.

Exhibit 3
Assumptions Schedule
Nokomis Senior Assisted Living Project
Projections for TIF Plan
EMV Upon Completion = \$6,900,000
20 Years of Increment Collection

Type of Tax Increment Financing (TIF) District	Housing
Maximum Duration of TIF District	26 Years of Tax Increment Collection
Certification Request Date	05/01/09

	2008	2009	2010	2011
Construction Year =	2008	2009	2010	2011
Assessment Year =	2009	2010	2011	2012
Taxes Payable Year =	2010	2011	2012	2013
Total EMV Upon Completion		\$6,900,000	\$6,900,000	\$6,900,000
Percent Complete		15.00%	90.00%	100.00%
Total Estimated Market Value (a)	\$733,558	\$1,035,000	\$6,210,000	\$6,900,000
Classification Rate (4a)	1.25%	1.25%	1.25%	1.25%
Total Net Tax Capacity (NTC)	\$9,169	\$12,938	\$77,625	\$86,250

Original Estimated Market Value (EMV)	\$733,558 (1)
Classification Rate (4a)	1.25%
Original Net Tax Capacity (ONTC)	\$9,169

Total Net Tax Capacity Annual Growth Factor	1.00%
First Year of Annual Growth	2014
Total Tax Capacity Rate	120.000%
City Administrative Fee	10.00%
Fiscal Disparities Contribution From TIF District	0.0000%
Pooling for Affordable Housing	0.00%

Notes

(1) This parcel is currently classified tax-exempt. Upon sale it is projected that the property will be re-assessed by the Minneapolis City Assessor's Office at approximately \$733,558.

Exhibit 4
Projected Tax Increment Schedule
Nokomis Senior Assisted Living Project
Projections for TIF Plan
EMV Upon Completion = \$6,900,000
20 Years of Increment Collection

Year Ending	Total Net Tax Capacity	<u>Less:</u> Original Net Tax Capacity	<u>Less:</u> Fiscal Disp. @ 0.0000%	<u>Equals:</u> Retained Captured NTC	<u>Times:</u> Total Tax Capacity Rate	<u>Equals:</u> Annual Gross Tax Increment	<u>Less:</u> State Aud. Fee @ 0.36%	<u>Equals:</u> Increment Distributed to City	<u>Less:</u> City Adm. Fee @ 10.00%	<u>Less:</u> Pooling for Housing @ 0.00%	<u>Equals:</u> Net Tax Increment	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(9)	(10)	(10)	
12/31/09	9,169	9,169	0	0	120.000%	0	0	0	0	0	0	
12/31/10	9,169	9,169	0	0	120.000%	0	0	0	0	0	0	
12/31/11	12,938	9,169	0	3,769	120.000%	4,523	16	4,507	451	0	4,056	
12/31/12	77,625	9,169	0	68,456	120.000%	82,147	296	81,851	8,185	0	73,666	
12/31/13	86,250	9,169	0	77,081	120.000%	92,497	333	92,164	9,216	0	82,948	
12/31/14	87,113	9,169	0	77,944	120.000%	93,532	337	93,195	9,320	0	83,875	
12/31/15	87,984	9,169	0	78,815	120.000%	94,578	340	94,238	9,424	0	84,814	
12/31/16	88,863	9,169	0	79,694	120.000%	95,633	344	95,289	9,529	0	85,760	
12/31/17	89,752	9,169	0	80,583	120.000%	96,700	348	96,352	9,635	0	86,717	
12/31/18	90,650	9,169	0	81,481	120.000%	97,777	352	97,425	9,743	0	87,682	
12/31/19	91,556	9,169	0	82,387	120.000%	98,865	356	98,509	9,851	0	88,658	
12/31/20	92,472	9,169	0	83,303	120.000%	99,963	360	99,603	9,960	0	89,643	
12/31/21	93,396	9,169	0	84,227	120.000%	101,073	364	100,709	10,071	0	90,638	
12/31/22	94,330	9,169	0	85,161	120.000%	102,194	368	101,826	10,183	0	91,643	
12/31/23	95,274	9,169	0	86,105	120.000%	103,326	372	102,954	10,295	0	92,659	
12/31/24	96,226	9,169	0	87,057	120.000%	104,469	376	104,093	10,409	0	93,684	
12/31/25	97,189	9,169	0	88,020	120.000%	105,624	380	105,244	10,524	0	94,720	
12/31/26	98,161	9,169	0	88,992	120.000%	106,790	384	106,406	10,641	0	95,765	
12/31/27	99,142	9,169	0	89,973	120.000%	107,968	389	107,579	10,758	0	96,821	
12/31/28	100,134	9,169	0	90,965	120.000%	109,157	393	108,764	10,876	0	97,888	
12/31/29	101,135	9,169	0	91,966	120.000%	110,359	397	109,962	10,996	0	98,966	
12/31/30	102,146	9,169	0	92,977	120.000%	111,573	402	111,171	11,117	0	100,054	
							\$1,918,748	\$6,907	\$1,911,841	\$191,184	\$0	\$1,720,657

Exhibit 5
Market Value Test Schedule
Nokomis Senior Assisted Living Project
Projections for TIF Plan
EMV Upon Completion = \$6,900,000
20 Years of Increment Collection

26 Years of TI Collection		
Years of TIF Collection	Payable Year	Tax Increment Distributed To City
---	2010	\$0
1	2011	4,507
2	2012	81,851
3	2013	92,164
4	2014	93,195
5	2015	94,238
6	2016	95,289
7	2017	96,352
8	2018	97,425
9	2019	98,509
10	2020	99,603
11	2021	100,709
12	2022	101,826
13	2023	102,954
14	2024	104,093
15	2025	105,244
16	2026	106,406
17	2027	107,579
18	2028	108,764
19	2029	109,962
20	2030	111,171
21	2031	112,392
22	2032	113,625
23	2033	114,872
24	2034	116,130
25	2035	117,401
26	2036	118,685
		\$2,604,946
P.V. @	5.00%	\$1,294,418

Market Value Test	
<u>Analysis Required by M.S. Section 469.175, Subd. 3 (2)</u>	
(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	\$733,558
(b) Original estimated market value	733,558
(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.	\$6,166,442
(e) Present value of the projected tax increment for the maximum duration of the district	1,294,418
(f) Difference = (d) - (e)	\$4,872,024
(3) Since (c) is less than (f), the proposed development or redevelopment passes the test.	