



**Clare Apartments/Old Third Avenue  
Townhomes  
Tax Increment Finance Plan**

**May 21, 2004**

Prepared by the Development Finance Division,  
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**Clare Apartments/Old Third Avenue Townhomes**  
**Tax Increment Finance Plan**  
**May 21, 2004**

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**Plan Documents**

Four plan documents have been prepared that are related to the proposed homeownership and rental projects that have been proposed in the St. Anthony East neighborhood in Ward 1 of Northeast Minneapolis. The plan documents include the Clare Apartments/Old Third Avenue Townhomes Tax Increment Finance (“TIF”) Plan, the Clare Apartments/Old Third Avenue Townhomes Redevelopment Plan, Modification No. 15 to the St. Anthony West/East Bank I-335 Urban Renewal Plan and TIF Plan (County Designation No. 18), and Modification No. 99 to the Common Development and Redevelopment and Common TIF Plans (collectively, the “Plans”).

**The Clare Apartments/Old Third Avenue Townhomes Redevelopment Plan**

establishes a new redevelopment project area, establishes objectives for redevelopment, identifies land uses for the redevelopment of the project area, and authorizes the creation of a new tax increment finance district as a tool for carrying out the redevelopment activities described therein.

**Modification No. 15 to the St. Anthony West/East Bank I-335 Urban Renewal and TIF Plan** removes parcels from the Project Area and TIF District in order that those parcels can be included in the new Clare Apartments/Old Third Avenue Townhomes TIF District and Project Area. The new public redevelopment costs associated with the proposed homeownership and rental projects cannot be financed within the limitations imposed by the existing St. Anthony West/East Bank I-335 TIF District because of statutory limitations on the use of tax increment from the TIF District #18, the short remaining term of the existing district, and the impact of the prior pledge of revenue from the district to the outstanding debt of other projects. For that reason a request has been made to release the parcels from the prior pledge of Tax Increment Revenue Bonds of 1990 (the Common Project) by the MBIA Insurance Corporation. A request will also be made to Hennepin County to decertify and remove the three affected parcels from the existing TIF District #18. Because the St. Anthony West/East Bank I-335 Urban Renewal Project and TIF District are in the Common Project, **Modification No. 99 to the Common Plans** has also been prepared. The new **Clare Apartments/Old Third Avenue Townhomes TIF District** and project area are not

being incorporated into the Common Project and will not be subject to the existing Common Project obligations and commitments, and are being created as a free-standing tax increment district and project area.

**The Clare Apartments/Old Third Avenue Townhomes TIF Plan** provides for the establishment of a new housing TIF district, authorizes public redevelopment activities, and establishes a budget for expenditures. Tax increment will be used to pay for a portion of the public redevelopment costs associated with the project.

## **TAX INCREMENT FINANCE PLAN**

### **I. Tax Increment District Boundary**

The TIF District is being established within and under the authority of the Clare Apartments/Old Third Avenue Townhomes Redevelopment Project. The proposed TIF district consists of six existing tax parcels<sup>1</sup> and a portion of a parcel (Property Identification Number 14-029-24-44-0044) located at 828 Spring Street NE<sup>2</sup>, at the intersection of old 3<sup>rd</sup> Avenue and Central Avenue Northeast. The boundary is shown on the boundary map (Exhibit #1). The tax parcels to be included in the TIF District are:

<b><i>Property Identification Number</i></b>	<b><i>Address</i></b>
14-029-24-44-0051	1006 3 <sup>rd</sup> Avenue NE
14-029-24-44-0053	957 Central Avenue NE
14-029-24-44-0074	1004 3 <sup>rd</sup> Avenue NE
14-029-24-44-0075	1000 3 <sup>rd</sup> Avenue NE
14-029-24-44-0083	929 3 <sup>rd</sup> Avenue NE (Outlot B) <sup>3</sup>
14-029-24-44-0101	200 – 10 <sup>th</sup> Street NE

The parcels that will be removed from the St. Anthony West/East Bank I-335 Urban Renewal Project, and subsequently decertified from the existing TIF District No. 18 are:

14-029-24-44-0074	1004 Third Avenue NE
14-029-24-44-0075	1000 Third Avenue NE
14-029-24-44-0101	200 – 10 <sup>th</sup> Street NE

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<sup>1</sup> A replat has been applied for and there is currently a division in process for the reconfiguration of the existing parcels.

<sup>2</sup> A ministerial lot division to enable Hennepin County to assign 2 property identification numbers to allow the appropriate portion to be included within the TIF district is underway.

<sup>3</sup> This parcel will be divided and a portion of this property will be swapped and deeded to MPHA (see Exhibit #4).

The Project Area Report, which documents the eligibility of this site for the establishment of a Housing TIF district, is appended as Exhibit #2 to this TIF Plan.

## **II. Statement of Objectives**

The objectives for this TIF Plan are described in the Clare Apartments/Old Third Avenue Townhomes Redevelopment Plan in Section I. C.

The development proposes to use tax increment financing to accomplish these major objectives, which are consistent with City development objectives:

- Increase the City's property tax base and maintain its population diversity.
- Provide an array of housing choices that meet the needs of current residents and attract new residents to the city with an emphasis on providing affordable housing.
- Eliminate blighting influences throughout the city.
- Support redevelopment efforts that enhance and preserve unique urban features and amenities.

St. Anthony East Neighborhood Housing Goals include:

1. To increase stability and sense of pride in community
2. To increase home ownership
3. To complement existing housing stock

## **III. Development Program**

### **A. Description of Development Program**

#### **Background**

On March 5, 2001, the Minneapolis Community Development Agency (MCDA) released a Request For Proposals (RFP) to develop the site including 929 3<sup>rd</sup> Avenue NE. The Clare Housing, Inc. (Clare Housing) proposal to develop the Clare Apartments was the only responder to the RFP. The St. Anthony East Neighborhood Association (SAENA) was notified of the Clare Apartments proposal in April of 2001 and met on several occasions throughout 2002 to come to a final resolution on what should be proposed at the redevelopment site. At the urging of the neighborhood organization, the developer sought and identified partner Central Community Housing Trust (CCHT) to assist them in creating a mixed-use development at the proposed project area. SAENA urged the

developer to seek another mixed-use developer to partner in developing the entire site in the hopes of providing a mixed-use, mixed-income development with affordable homeownership opportunities, and a small retail/commercial space. CCHT indicated its interest and ability to develop owner-occupied townhouse units, and a partnership agreement was entered into between Clare Housing and CCHT.

On November 25, 2002, exclusive development rights were granted to Clare Housing for a six-month period. In December 2002, the MCDA Board of Commissioners approved Multifamily Rental and Cooperative Program funding up to \$435,000 to assist in this development. Non-profit Housing Development Assistance Program funds were also provided to Clare Housing totaling \$30,000.

A retail market study was commissioned by Clare Housing to determine if commercial/retail was a viable option to incorporate within the development of Clare Apartments, as the St. Anthony East neighborhood requested. The findings of this market study indicated that the site is not conducive to support a commercial/retail business without a significant percentage of development cost of the space provided via public subsidy. Based on this finding, Clare Housing and CCHT are not proposing to include any commercial/retail space within the development beyond the Clare Housing Corporate offices. The development team will commission a residential market study or seek a professional assessment for the for-sale component of the project upon land sale approval of the site.

A copy of the proposed Site Plan for the Clare Apartments/Old Third Avenue Townhomes project is attached as Exhibit #3.

### **Development Proposal**

The developers, Clare Housing and CCHT, propose to develop 32 units of rental housing, 8 for-sale townhomes and reconfigured shared parking for the development residents and Minneapolis Public Housing Agency's (MPHA) Spring Manor (located at 828 Spring St. NE) residents adjacent to the site. The project is a mixed-use, mixed-income development, featuring affordable rental housing serving individuals living with HIV/AIDS, home ownership opportunities, office space for Clare Housing with a small community room, shared parking lot and green space improvements. The Clare Apartments/Old Third Avenue Townhomes development will have multiple ownership structures as necessitated by the end use (rental vs. home ownership) and the financing and funding tools proposed for Clare Housing.

Clare Housing acquired the vacant King of Clubs property (located at 957 Central Avenue NE) in 2002 and demolished it on December 29, 2003. The balance of the site is owned by CPED/City of Minneapolis and MPHA. Negotiations with MPHA are underway to convey a portion of the Spring Manor property currently used as surface parking to the development in exchange for a reconfiguration of the existing eastern portion of the surface parking lot, as well as Clare Housing, MPHA, and the subsequent Old Third Avenue Townhomes Homeowners Association, who will enter into a shared parking agreement.

**Clare Apartments** is a 37,063 sq. ft., four-story mixed use building with 22,464 sq. ft. of residential space on three levels, 6,020 sq. ft. office space on the main level that will be paid for and owned separately by Clare Housing. Locating Clare Housing offices in the building will increase the level of supervision of the building and help establish linkages between Clare Housing and residents in the building.

The lower level will feature 1,983 sq. ft. of space to be used for social services and property management offices serving the tenants. The lower level will also feature approximately 2,000 sq. ft. of common space that can be used by the tenants. Clare Housing proposes to create 31 units of affordable rental housing for people with HIV/AIDS, plus one resident support unit.

Clare Housing is a private, non-profit organization, whose mission is to provide services, shelter, and compassionate care to persons living with HIV and AIDS. They are developing the Clare Apartments project in direct response to the ever changing dynamics of the HIV/AIDS epidemic and the associated demand for permanent, supportive housing to serve those in need.

The four-story building is proposed as one level of concrete construction, with the balance being stick-frame wood construction. Exterior finishes will be primarily masonry, with elements of cast concrete, stucco, and stone. The Clare Apartments will be rent subsidized with MPHA Project Based Section 8 certificates for 28 low-income units affordable at or below 30% of Metropolitan Median Income (MMI).

The **Old Third Avenue Townhomes** are designed as eight units of owner-occupied townhome units, each with a 20 ft. x 32 ft. footprint. This component of the development will include eight units of market rate home ownership, located at the western edge of the development site with common green space shared with Clare Apartments and the neighboring MPHA high-rise. CCHT proposes to build the 8-unit townhomes on a portion of the 929-3<sup>rd</sup> Avenue NE parcel, currently occupied by MPHA Spring Manor resident parking. Units will be two-

story, with a full basement ready for future finishing. Four detached 28 ft. x 20 ft. garages are to be constructed, with a demising wall separating each, thus allowing each unit adequate space to park a vehicle plus additional storage. The townhomes will be wood frame construction. Exterior finishes are proposed to be a mix of brick and potentially stucco or cement-board. Each townhome will have a front porch and a rear patio area.

The development borrows from existing neighborhood precedents to ensure that the buildings and site blends with the context and character of the surrounding residential environment. The existing utility easement in favor of the City of Minneapolis presents certain site design limitations. The Old Third Avenue development effectively designs around this barrier by using this space for surface parking and landscaping. Pedestrian scale street lighting, widened sidewalks and boulevards and significant landscaping will add to the residential character of the project area and adjacent community. Significant site landscaping and strategic decorative fencing, retaining walls and planters will provide buffers to designate the public area from the private section reserved for building residents.

The developers have applied to vacate the two streets (3<sup>rd</sup> Avenue NE and 10<sup>th</sup> Street NE) that bisect the redevelopment area. The redevelopment area consists of three irregularly shaped parcels with a total square footage estimated at approximately 17,491 square feet. The proposed vacated streets will add approximately 8,100 (10<sup>th</sup> Street NE) to 27,600 square feet (3<sup>rd</sup> Avenue NE) to the proposed redevelopment area.

**Shared Green Space & Parking Lot Improvements** - Just north of the redevelopment area is MPHA-owned and operated Spring Manor. For the past several years, Spring Manor's resident parking has been partially located on the 929-3rd Avenue NE parcel. The Clare Housing and CCHT developments will cause parking to be reconfigured. The MPHA, Clare Housing and CCHT have entered into a "Shared Parking Agreement" that includes the creation of 90 shared parking spaces within the reconfigured parking lot, eight parallel parking spaces along new 3<sup>rd</sup> Avenue NE, and five handicap only parallel parking spaces in front of Spring Manor.

### **Unit Breakdown/Affordability**

*Clare Apartments will feature:*

- 16 efficiencies, with approximately 392 - 645 sq. ft. of living space
- 16 one-bedroom apartments with approximately 574 - 727 sq. ft. of living space

- 28 units will have project-based Section 8 assistance affordable at or below 30% of Metropolitan Median Income (MMI)
- two units will be affordable at or below 50% of MMI
- two units will be market rate

*Old Third Avenue Townhomes will feature:*

- eight 2-story townhomes with unfinished full basements with opportunities for potential expansion living space
- four 28 ft. x 20 ft. detached garages with a demising wall separating each, allowing each unit adequate space to park a vehicle plus additional storage space.
- 3-bedroom units, which will start at approximately 1,340 sq. ft. of living space
- 8 market rate units affordable to families earning 100% to 115% of MMI

Since there will be 28 units at or below 30% of MMI, and 2 units at or below 50% of MMI for a total of 30 affordable units, the project complies with the City's Affordable Housing Policy, which requires that at least 8 units are affordable to low or moderate income households (i.e. 20% of 40 units for both components).

Finding any type of decent, affordable housing, whether rented or owned, has become increasingly difficult to find for many people in the Twin Cities. Much of the problem stems from a shortage of lower-priced housing combined with the failure of incomes to keep pace with rising housing costs.<sup>4</sup>

The Minneapolis housing market experienced dramatic fluctuations in recent years. Average rent levels rose 39% from 1998 to 2002 (updated information will not be ready at the time of this writing). Over the same period, vacancy rates increased from 1.1% to 6.1%. This indicates that it was less difficult in 2002 to find a vacant rental unit compared with 1998, but it cost considerably more to rent it. The cost of renting housing remains quite high compared with average rents of a few years ago. Rent increases averaged about 9% a year between 1998 and 2002.

More recent reports<sup>5</sup> indicate average rent for the Twin Cities as \$845 per month, with average vacancy rates for the Twin Cities at 7.6%. In Minneapolis, average rents for studio units were \$550, with the vacancy rate reported at 5.6%, 1-bedroom units at \$758 per month, with a 6.2% vacancy rate, 2-bedroom units average \$1,067 per month, at 8.3% vacancy rate. Three-bedroom units

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<sup>4</sup> State of the City Report, 2002

<sup>5</sup> Source: Apartment Trends, a publication of GVA Marquette Advisors – Third Quarter Review through December 2003

averaged \$1,261 per month with a 5.3% vacancy rate. Average rents did not include phone or electricity. Overall, apartment rent was unchanged at an average of \$845 in last quarter of 2003, with an annual rate increase of 0.5%. The vacancy rate was 7.6%, up from 7 percent in the previous quarter.

The homeownership units will be marketed to families earning 100% to 115% of the Metropolitan Median Income (MMI). Average sales prices for this neighborhood over the past year have been approximately \$225,651. Sales prices for the Old 3<sup>rd</sup> Avenue Townhomes will start at \$220,000 supporting sales histories in the area during the past year.

### **Minneapolis Housing Policy**

In 2002, modifications were made to the City's Comprehensive Plan ("The Minneapolis Plan") that strengthened its commitment to policies of housing growth and to increasing the supply of affordable housing. The Zoning Code was also amended to allow developers of affordable housing to construct more housing units than would otherwise be allowed in instances where a proposed development includes affordable housing units. Please see Exhibit #2, Project Area Report and Eligibility Documentation, for excerpts from these documents.

Additional strategic policy documents include the Affordable Housing Resolution which established the city's "Affordable Housing Initiative" directing the activity of City staff in the development of housing affordable to low income households.

#### **B. Property That May Be Acquired**

All of the parcels that make up the site are currently owned by Clare Housing, the City or the MPHA. Land will be conveyed by the CPED/City to Clare Housing for the development of Clare Apartments. Land will be conveyed by MPHA and by the CPED/City to CCHT for the development of the CCHT Old Third Avenue Townhomes.

#### **Land Acquisition and Site Assembly – Old Third Avenue Townhomes**

- ◆ CCHT will acquire the land located at 929 Third Avenue NE from CPED as approved by the MCDA Board of Commissioners on August 8, 2003 for \$79,650.
- ◆ Approximately 11,688 square feet or the southeastern half of the real property will be split from the site and swapped for MPHA land located just to the north of the CPED-owned land.
- ◆ CCHT will take the necessary steps to split, reconfigure and combine the

CPED and MPHA land and include a portion of vacated old 3<sup>rd</sup> Avenue NE. The Old Third Avenue Townhome development will be situated on the reconfigured site and will result in a totally reconfigured project area of approximately 26,161 square feet.

- ◆ CCHT will take full responsibility for the lot split, replatting, rezoning, and vacating of the existing streets.

### **Land Acquisition and Site Assembly – Clare Apartments**

- ◆ Clare Housing has acquired the former “King of Clubs” site and razed the structure.
- ◆ CPED will sell and convey to Clare Apartments Limited Partnership the real property located at 200 – 10<sup>th</sup> Street NE, 1000, 1004 & 1006 – 3<sup>rd</sup> Avenue NE as approved by the MCDA Board of Commissioners on August 8, 2003 for \$55,350.
- ◆ Clare Housing will be solely responsible for the surveying, any subdivision and/or replatting of the real property acquired by Clare Housing from both CPED and the King of Clubs owners.
- ◆ Clare Housing will petition, on behalf of CPED, for vacation of the platted, but unimproved 3<sup>rd</sup> Avenue and 10<sup>th</sup> Street NE.

#### **C. Development Activity for Which Contracts Have Been Signed and Other Specific Development Expected to Occur**

The City is currently negotiating a development agreement with Clare Apartments Limited Partnership, and Central Community Housing Trust of Minneapolis.

#### **D. Other Development Activity**

No additional development activity is anticipated at the time of this writing.

### **IV. Description of Financing**

#### **A. Project Costs**

Total development costs for the Clare Apartments/Old Third Avenue Townhomes project is currently estimated at approximately \$8.8 million. Tax increment financing assistance in an amount not to exceed \$460,000 may be provided for parking lot and green space improvements, and new housing construction. This TIF assistance will be provided to CCHT and/or Clare Housing through the

issuance of a pay-as-you-go tax increment revenue note (the "TIF Note"). The TIF Note will be issued to CCHT by the City and will have a stated interest rate.

As tax increment is generated by the project in future years, a portion of the tax increment collected by the City will be paid to the noteholder (twice a year) as payment of principal and interest on the TIF Note. A portion of the tax increment collected by the City may also be used for administrative purposes or other affordable housing purposes as allowed by Minnesota State Statutes and stated in the tax increment budget. The tax increment budget for the TIF district is shown below:

**TIF District Budget**  
**Clare Apartments/Old Third Avenue Townhomes TIF District**

<b>Sources</b>	<b>Up Front</b>	<b>Over Time</b>
Developer Funds	\$ 460,000	---
Tax Increment	---	\$ 1,685,000
Other	---	0
<b>Total Sources</b>	<b>\$ 460,000</b>	<b>\$ 1,685,000</b>
<b>Uses</b>		
Housing/Parking Construction	\$ 460,000	---
Pay-As-You-Go Note Principal	---	\$ 460,000
Pay-As-You-Go Note Interest	---	551,000
Affordable Housing Outside TIF District (30%)	---	505,500
Administration (10%)	---	168,500
<b>Total Uses</b>	<b>\$ 460,000</b>	<b>\$ 1,685,000</b>

The figures, sources and methods of financing identified in this TIF Plan are based on the best estimates available at the time of writing. Slight changes in these figures can be expected. However, in the event that significant changes affect the structure or feasibility of this TIF Plan, or result in an increase in the public redevelopment costs or indebtedness beyond the amounts listed herein, a modification to the TIF Plan will be necessary. Such a modification would require the same approval process as the original approval of this TIF Plan. The actual public commitment to pay public redevelopment costs to be incurred within this Project Area is established in each redevelopment agreement entered into by the City and each developer, not by the TIF Plan, which establishes a permissive rather than proscriptive ceiling on public expenditures.

B. Bonded Indebtedness to be Incurred

It is anticipated that public redevelopment costs will be financed through the City's issuance to CCHT of a pay-as-you-go tax increment financing note. It is not anticipated that any tax increment bonded indebtedness will be issued by the City for the Clare Apartments/Old Third Avenue Townhomes project.

C. Sources of Revenue

Tax increment generated within the TIF District will be one source of public funds used to pay a portion of the public redevelopment costs associated with the Clare Apartments/Old Third Avenue Townhomes Project. Other sources of funds to pay public redevelopment costs may include Low Income Housing Tax Credits (LIHTC) syndication proceeds, Minnesota Housing Finance Agency (MHFA)-Housing Opportunities for Persons With AIDS (HOPWA) funds, MHFA/Family Housing Funds (FHF)-deferred program funds, CPED Multi-family Rental & Cooperate Housing Program funds, Owner's Equity, Hennepin County-Affordable Housing Incentive Funds (AHIF), HUD-Supportive Housing Program (SHP) funds, Federal Home Loan Bank funds, HUD HOPWA funds, Empowerment Zone funds, and CPED Non-Profit Housing Development Assistance Program funds.

D. Original Net Tax Capacity

It is currently projected that the Estimated Market Value of taxable property in the TIF District (upon street vacation and parcel reconfiguration) will be approximately \$405,300. The Original Net Tax Capacity of the TIF District is therefore projected to be approximately \$5,066.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the redevelopment it is anticipated that the estimated market value of taxable property in the District will increase from \$405,300 to approximately \$3,132,000. This represents an increase of \$2,726,700, and will generate a total net tax capacity of approximately \$34,780, and an estimated captured net tax capacity of \$29,714.

Based upon a projected total local tax rate of 147.000%, this will generate an estimated annual gross tax increment payment of \$43,680, excluding deduction for State Auditor fee.

F. Duration of District

The Clare Apartments/Old Third Avenue Townhomes TIF District is a housing TIF district. Tax increment can be paid to the City for up to twenty-six years of increment collection, or such period as is authorized by law and is necessary to complete financing of the eligible project costs.

G. Fiscal Disparities Election

It is the intent of the City of Minneapolis that the entire fiscal disparity taken from outside the TIF District. The option provided in Minnesota Statutes Section 469.177, Subdivision 3, Paragraph (a) of the Minnesota Tax Increment Financing Act is elected.

H. Original Tax Capacity Rate

The Original Tax Capacity Rate for this district will be the local tax capacity rate for taxes payable (TP) 2005, which was not known at the time this TIF Plan was prepared. For tax increment projection purposes, a tax rate of 147.000% has been used. For impact purposes (see Section VI), the tax rate for taxes payable in 2004 (147.756%) has been used.

I. Permit Activity and Prior Planned Improvements

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

The letter requesting certification by Hennepin County of the TIF District will be accompanied by a list of all of the building permits issued for the property included in this TIF District during the eighteen months immediately preceding approval of this TIF Plan, as mandated by Minnesota Statutes, Section 469.175, Subdivision 3.

J. Affordable Housing and Expenditures Outside TIF District

Pursuant to M.S. Section 469.176, Subd. 4k, tax increment may be spent to assist affordable housing meeting the requirements of M.S. Section 469.173, Subd. 2, paragraph (d), which states that such expenditures must:

- 1) be used exclusively to assist housing that meets the requirements for a qualified low income building (as defined in Section 42 of the IRC);

- 2) not exceed the qualified basis of the housing (as defined in Section 42c of the IRC) less the amount of any credit allowed under Section 42; and
- 3) be used to:
  - acquire and prepare the site of the housing;
  - acquire, construct, or rehabilitate the housing; or
  - make public improvements directly relating to the housing.

Tax increment expenditures for the qualifying affordable housing costs listed above are not restricted to the TIF district or “project area” (as that term is defined in Minnesota Statutes, Section 469.174), but may be spent anywhere in the city. However, the amount of tax increment used for such purposes is restricted.

Pursuant to Minnesota Statutes Section 469.1763, Subd. 2, up to 20% of the tax increment from a housing TIF district may be spent on activities located outside the boundaries of the TIF district. An authority may elect in the TIF plan to increase this amount by up to 10% (maximum total of 30%), provided that these additional expenditures meet the affordable housing requirement listed above. Administrative expenditures are normally considered outside of the TIF district. However, if the only other expenditures outside of the TIF district are for affordable housing purposes as described above, the administrative expenditures are then considered spent within the TIF district.

Pursuant to the provisions, requirements and restrictions noted above, the City elects to increase by 10% the amount of tax increment that may be expended outside the boundaries of the TIF district. It currently anticipates that up to 10% of the increment collected from the district (over its lifetime) may be used for administrative purposes, and up to 30% of the increment collected from the district (over its lifetime) will be used for affordable housing purposes as described above.

## **V. Type of Tax Increment Financing District**

The proposed TIF District is a “housing district” as defined in Minnesota Statutes Section 469.174 Subdivision 11:

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

any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts.

**VI. Estimated Impact on Other Taxing Jurisdictions**

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

Nevertheless, if it is assumed for purposes of analysis that the proposed development described herein, as the Project would occur without the tax increment financing assistance and that the estimated captured tax capacity generated by the development would under those circumstances be immediately available to the taxing jurisdictions, then the estimated annual impact on the taxing jurisdictions would be as follows:

Taxing Jurisdictions	Tax Capacity Rate Payable 2004	Property Tax Revenues Resulting from \$29,714 Captured Tax Capacity
City of Minneapolis	64.538%	\$ 19,177
Hennepin County	41.932	12,460
Special School District #1	32.373	9,619
Other Taxing Jurisdictions	<u>8.913</u>	<u>2,648</u>
Total	147.756%	\$ 43,904

**VII. Basis for Finding that Development Would Not Occur Without Tax Increment Financing Assistance**

Minnesota Statutes, Section 469.175, Subdivision 3, provides that prior to the approval of a tax increment financing plan, the City Council must find that the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and therefore the use of tax increment financing is deemed necessary.

It is the position of the City of Minneapolis that the private redevelopment of the property

included in the TIF District could not occur without public participation and financial assistance. This conclusion is based upon the following factors:

Rents and the prices of the for-sale units are not sufficient to amortize the entire cost of this development. The proposed project meets the need for affordable housing, creates a strong statement of progress along Central Avenue, and eliminates the blighting influences of vacant and irregularly-shaped parcels of land.<sup>6</sup> Since there will be 28 units at or below 30% of MMI, and 2 units at or below 50% of MMI for a total of 30 affordable units, the project complies with the City's Affordable Housing Policy, which requires that at least 8 units be affordable to low or moderate income households (i.e. 20% of 40 units for both components).

There is a strong unmet need for workforce housing<sup>7</sup> in the Twin Cities and the problem will only grow unless housing production increases significantly. Not addressing the need for workforce housing has significant, near-term consequences to the local economy, and working to solve the workforce housing problem will stimulate significant economic benefits that far outweigh the costs, and will last for decades. The existing cost structure for housing makes the development of workforce housing financially unfeasible for the private sector. A private developer would likely lose about \$31,000 per unit trying to develop average-size, new owner workforce units and about \$43,000 per unit trying to develop typical workforce rental units. Therefore it is necessary that gap financing will need to be provided from a variety of private and public sources. This is based on the current context for development in the Twin Cities, in terms of development costs, typical development patterns, consumer expectations and existing housing and zoning regulations. Low housing production levels and rapidly-rising housing costs leaves the Twin Cities in a poor position to accommodate new economic growth, much of which will require housing construction to house workers.<sup>8</sup>

Housing is considered affordable if it constitutes 30% or less of a household's gross income. Generally, when households spend more than 30% of their income to meet housing costs, they do not have enough income to meet other basic needs or financial setbacks. Households at the lowest income levels pay more of their income on housing than households at higher income levels. A minimum wage worker would need to work 136 hours per week to afford Hennepin County's fair market rent. Approximately 37% of renters in Hennepin County pay over 30% of their household income on housing and 16% of renters pay over 50%. The gap between the rent people can afford and the cost of

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<sup>6</sup> The Old Third Avenue Townhomes development is being constructed on an "outlot" which is currently designated as "undevelopable" due to the outlot designation.

<sup>7</sup> Housing that is affordable to the typical worker in the Twin Cities, often the essential, frontline workers in the economy, whose households earn between \$15,000 and \$50,000 annually.

<sup>8</sup> Maxfield Research Inc., GVA Marquette Advisors

housing is a major cause of homelessness. Forty-one percent of all adults experiencing homelessness in Minnesota report income from work.<sup>9</sup>

<sup>10</sup>The Northeast Community is a primarily stable, residential part of the city with significant areas of industry at its edges. It is enhanced by Central Avenue, its proximity to downtown, the Mississippi River and its parks, and is a community that is becoming increasingly desirable as a place to live. Central Avenue is undergoing major renovation, with elements that include pedestrian lighting, landscaped medians, and safety through improved design of buildings and parking areas. Central Avenue is a “Commercial Corridor” because it has largely commercial zoned property, carries high volumes of automobile traffic, and retains a traditional urban form in the buildings and street orientation of businesses. The Minneapolis Plan supports strengthening its Commercial Corridors by encouraging new development along its corridors, promoting alternative uses such as mixed residential, office, and institutional uses, and by addressing issues of parking, traffic, transit, and circulation.

The value of the tax increment financing will enable the Clare Apartments/Old Third Avenue Townhomes development to offer a broad range of housing opportunities, including affordable rental and home ownership units for singles and families. This financing source is critical to ensuring the project is a financially viable long-term asset for the community. As the financial tools to support mixed-income, mixed-use development projects become more limited, the ability to recapture the value of the tax increment to capitalize the development is necessary to make this important project a reality. Without the tax increment financing, the project would be abandoned, as it is not possible to replace the revenue from the tax increment with any other available and attainable resource. Other financial assistance is necessary because this public assistance pays for the costs of development and allows rents to be affordable to low and moderate income individuals. Without this assistance, the rents would be unaffordable and unrealistic in the market. All of the identified public financing sources are necessary to fill the financing gap for this project as without these sources, the project would not be able to go forward. The project has the support of the neighborhood group and a commitment for long-term support for the project.

The development will require public financing assistance beyond the tax increment financing requested. This is primarily due to the number of affordable units to be created with the development. In order to offer rents to households earning between 30% to 50% of the area median income, the “gap” between market rent (what monthly rent should be, based on the development cost for that unit), and the affordable rent must be filled in order for the development to remain financially viable into the future. The development team is seeking various forms of funding and financing to fill this gap, including low-income housing

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<sup>9</sup> Housing Minnesota fact sheet, [www.housingminnesota.org](http://www.housingminnesota.org)

<sup>10</sup> The Minneapolis Plan, Northeast Land Use Features

tax credits, and are committed, wherever possible, to capitalize private investment into the development to decrease the dependence of public financing.

The development will have a significant positive impact along Central Avenue in Northeast Minneapolis. The project site has been blighted and devoid of investment for more than 25 years. There has been significant planning and energy around revitalizing the Central Avenue corridor. The near-downtown location presents many possibilities for residential and other development. The project puts in place immediate and future directions for land use that build on the area's attributes: proximity to downtown Minneapolis and access to employment, linkages to the City's network of parks and the proposed light rail transit opportunities.

Therefore, it is the opinion of the City of Minneapolis that the proposed project to be financed, in part, by this TIF District would not occur solely through private investment within the foreseeable future.

The TIF Act requires that a potential TIF district must also pass a market value test in order to make a finding 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 increments for the maximum duration of the district permitted by this TIF Plan.

Because it is the opinion of the City of Minneapolis that the proposed Project to be financed, in part, by this TIF District would not occur solely through private investment 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 calculations necessary to pass this test are contained on the next page of this TIF Plan. As shown there, the public redevelopment activity, expenditures, and market values associated with the redevelopment that is proposed in this plan results in a series of calculations and figures that clearly pass the market value test.

## **VIII. Modifications to Tax Increment Finance Plans**

This TIF Plan may be modified, provided that the City Council shall adopt such modifications under the applicable provisions of the TIF Act, Minnesota Statutes, Section 469.175, Subdivision 4. This TIF Plan reflects the establishment of the Clare Apartments/Old Third Avenue Townhomes Tax Increment Financing District.

## Clare Apartments/Old Third Avenue Townhomes TIF District

Valuation and Tax Increment Assumptions		
	Pay 2006	Pay 2007
Total Estimated Market Value (EMV)	\$1,566,000	\$3,132,000
Less: Original EMV	405,300	405,300
Captured EMV	<u>\$1,160,700</u>	<u>\$2,726,700</u>
Total Net Tax Capacity (NTC)	\$17,390	\$34,780
Less: Original NTC	5,066	5,066
Captured NTC	<u>\$12,324</u>	<u>\$29,714</u>
Times: Projected Total Tax Rate	147.000%	147.000%
Gross Tax Increment	<u>\$18,116</u>	<u>\$43,680</u>
Less: State Auditor's Fee (.36%)	65	157
Tax Increment Distributed to MCDA	<u>\$18,051</u>	<u>\$43,523</u>

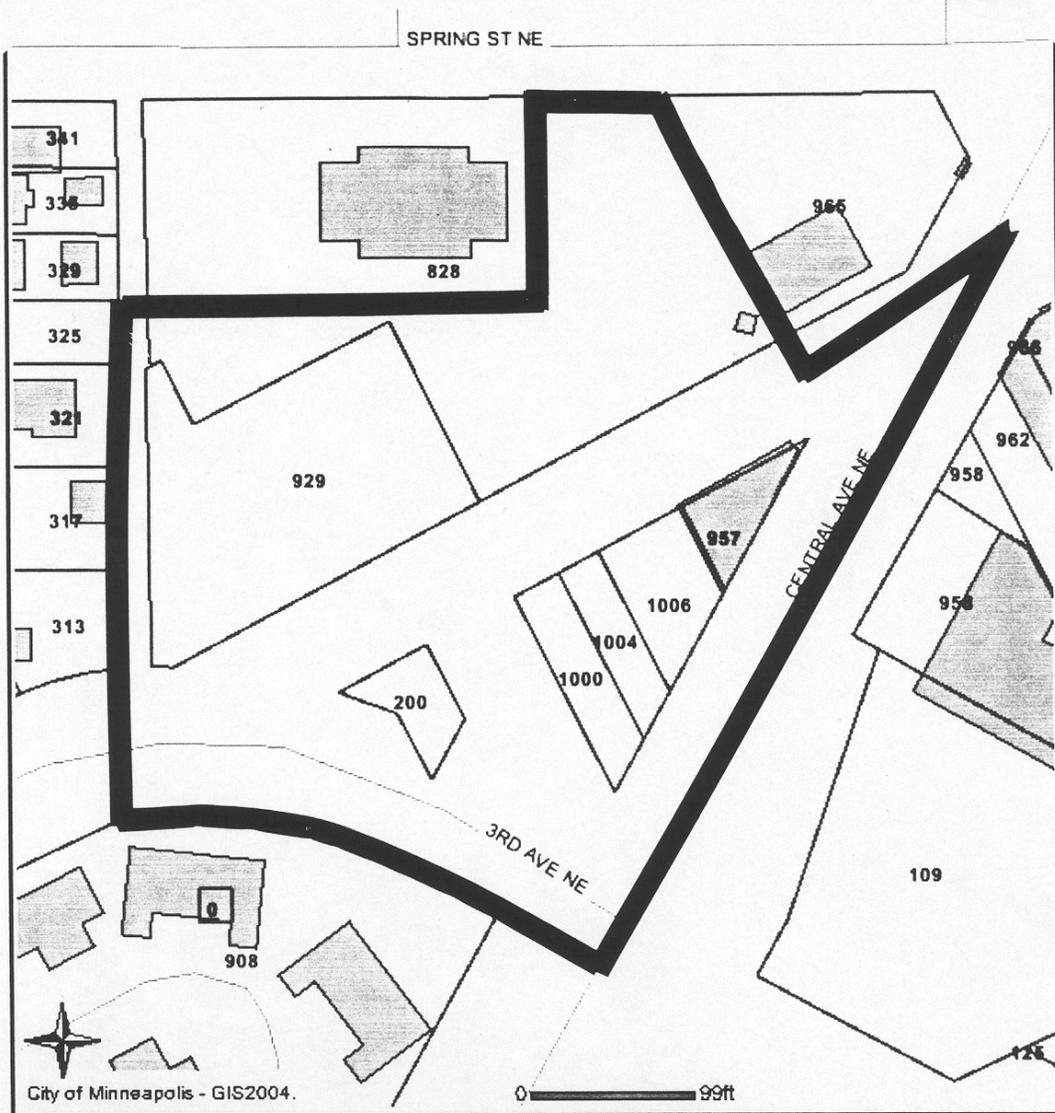
26 Years of TI Collection		
Years of TIF Collection	Payable Year	Tax Increment Distributed To MCDA
---	2004	\$0
---	2005	0
1	2006	18,051
2	2007	43,523
3	2008	43,523
4	2009	43,523
5	2010	43,523
6	2011	43,523
7	2012	43,523
8	2013	43,523
9	2014	43,523
10	2015	43,523
11	2016	43,523
12	2017	43,523
13	2018	43,523
14	2019	43,523
15	2020	43,523
16	2021	43,523
17	2022	43,523
18	2023	43,523
19	2024	43,523
20	2025	43,523
21	2026	43,523
22	2027	43,523
23	2028	43,523
24	2029	43,523
25	2030	43,523
26	2031	<u>43,523</u>
		\$1,106,126
<b>P.V. @ 5.00%</b>		<b>\$572,754</b>

Market Value Test	
<b><u>Analysis Required by M.S. Section 469.175, Subd. 3 (2)</u></b>	
(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	\$405,300
(b) Original estimated market value	<u>405,300</u>
(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.	\$2,726,700
(e) Present value of the projected tax increment for the maximum duration of the district	<u>572,754</u>
(f) Difference = (d) - (e)	\$2,153,946
 (3) <b>Since (c) is less than (f), the proposed development or redevelopment passes the test.</b>	





Exhibit # 1





**PROJECT AREA REPORT  
AND DOCUMENTATION OF BLIGHT**

**Clare Apartments/Old Third Avenue Townhomes Redevelopment Plan  
and  
Clare Apartments/Old Third Avenue Tax Increment Finance Plan  
May 21, 2004**

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A joint development by Clare Housing and Central Community Housing Trust (CCHT) has been proposed to construct a 32-unit apartment building and an 8-unit townhome development including shared open green space and off-street parking. Clare Housing proposes to create 31 units of affordable housing for persons living with HIV/AIDS, one resident support unit, and office space for Clare Housing's administration and Board. CCHT proposes to create 8 units of for-sale townhomes. Surface parking for residents and green space for the surrounding community will also be constructed by Clare.

This Project Area Report and Documentation of Eligibility describes the conditions that qualify the Clare Apartments/Old Third Avenue Townhomes site as a redevelopment project and a housing tax increment finance district.

The Clare Apartments/Old Third Avenue Townhomes Redevelopment Project (the "Redevelopment Project") will be a redevelopment project as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivision 14 and 16). According to Subdivision 14, Paragraph 1, redevelopment projects are established "for the purpose of removing, preventing, or reducing blight, blighting factors, or the causes of blight." The redevelopment project area therefore must be found to be a blighted area, which is defined in Section 469.002, Subd. 11 of the Act as:

"... any area with buildings or improvements which, by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light, and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, are detrimental to the safety, health, morals, or welfare of the community."

***Area Characteristics***

The Clare Apartments/Old Third Avenue Townhomes Redevelopment Project Area is located in northeast Minneapolis in the 1st ward of the St. Anthony East neighborhood. Two streets (3<sup>rd</sup> Avenue NE and 10<sup>th</sup> Street NE) bisect the redevelopment site, which the developers propose to vacate. The development area consists of three irregularly shaped parcels with a total square footage estimated at approximately 17,491 square feet. The proposed vacated streets will add approximately 8,100 (10<sup>th</sup> Street NE) to 27,600 square feet (3<sup>rd</sup> Avenue NE) to the proposed development areas.

The project site has been blighted and devoid of investment for more than 25 years. There has been significant planning and energy around revitalizing the Central Avenue corridor. The near-downtown location presents a host of possibilities for both creative commercial and residential development. The project puts in place immediate and future directions for land use that build on the area's attributes: proximity to downtown Minneapolis and access to employment, linkages to the City's network of parks and proposed light rail transit opportunities.

***Findings of Blight within the Proposed Redevelopment Project Area***

The proposed project area includes six tax parcels, and a portion of another, including vacated streets and alleys. CPED Construction Management Specialist G. Meyer conducted visual inspections of the proposed redevelopment project area. With reasonable certainty, the site analysis found several unimproved vacant lots, irregular shaped parcels, and vacated streets and alleys. It was found:

The vacant lots are detrimental to safety, morals and welfare of the community. The physical characteristics, lot size and configuration of the properties preclude the new construction of new R 5 structures without reconfiguring the parcels. The existing condition of the property is mostly flat with a combination of concrete, asphalt, grass/weeds and bare dirt.

The deterioration of the vacant parcels undermines the value of adjacent property. Vacant parcels may constitute a repository for debris, fire hazard, and may attract vagrants and criminal elements of the population. The vacant space is not only an uneconomic use of inner city real estate, but is considered a blighting condition.

***Tax Increment Finance District Eligibility Findings***

The Clare Housing/Old Third Avenue Townhomes TIF District is to be a housing TIF District as defined in the Minnesota Statutes, Section 469.174, Subdivision 11, which states:

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

A district does not qualify as a housing district under this subdivision if the fair market value of the improvements which are constructed in the district for commercial uses or for uses other than low and moderate income housing consists of more than 20 percent of the total fair market value of the planned improvements in the development plan or agreement. The fair market value of the improvements may be determined using the cost of construction, capitalized income, or other appropriate method of estimating market value. 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.

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

- 1) Does the project comply with the income restrictions for rental housing projects identified in Minnesota Statutes, Section 469.1761, Subdivision 2 and 3?
- 2) Does the fair market value of the low and moderate income housing project constitute at least 80% of the total valuation of the improvements constructed in the district?

***Income Restrictions<sup>11, 12</sup>***

Moderate-income housing is defined as housing affordable to families with incomes between 80 percent and 120 percent of the metropolitan median family income. Low-income housing is defined as housing affordable to families with incomes below 80 percent of the metropolitan median (MMI) family income.

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

1. At least 20 percent (6) of the units must be occupied by individuals whose income is 50 percent or less of the Metropolitan area median gross income (30 units of 32 are available at or below 50%); or
2. At least 40 percent (13) of the units must be occupied by individuals whose income is 60 percent or less of the area median gross income (30 units are available at or below 60%); or
3. At least 50 percent (16) of the units must be occupied by individuals whose income is 80 percent or less of the area median gross income (30 units are available at or below 80% of MMI).

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<sup>11</sup> The FY2004 Median Family Income Metro Area, State of Minnesota is \$73,300 as estimated by HUD

<sup>12</sup> The MMI for Tax Credit Income Limits for 2004 is \$76,400 effective date 1/28/04

**The proposed project meets all of the income requirements for a Housing TIF District.** Income guidelines will be monitored for the life of the district, as the requirements of this subdivision apply for the duration of the tax increment financing district.

### ***Valuation Test***

In addition to the rental apartment and townhome units, the project will include about 6,000 sq. ft. of office space on the main level, and 2,000 sq. ft. lower level expansion space suitable for a future community room (supportive and common spaces, including a multi-purpose room, and a “wellness room”, adequate for delivery of supportive services such as counseling, individual therapies, support groups, health services, sharing meals, and community building activities). According to Minnesota Statutes, Section 469.174, Subdivision 11, in order to establish a housing TIF district, the fair market value of the low and moderate income housing project must constitute at least 80% of the total valuation of the improvements constructed in the district.

It has been calculated that the Estimated Market Value (EMV) of the completed project will be about \$3,356,000. Approximately \$3,056,000 of the valuation is attributable to the apartments and townhomes, and \$300,000 is attributable to the office value. This means that about 8.9% of the assessed value of the complete development is attributable to the office value portion of the housing project.

### ***Minneapolis Housing Policy***

In 2002, modifications were made to the City’s Comprehensive Plan (“The Minneapolis Plan”) that strengthened its commitment to policies of housing growth and to increasing the supply of affordable housing. The principal goals of city housing policy are to improve choices, both for households with constrained choice, and for households with many choices. The Zoning Code was also amended to allow developers of affordable housing to construct more housing units than would otherwise be allowed in instances where a proposed development includes affordable housing units.

“The Minneapolis Plan” includes the following policy statements:

- 4.9 Minneapolis will grow by increasing its supply of housing.
- 4.10 Minneapolis will increase its housing that is affordable to low and moderate income households.
- 4.11 Minneapolis will improve the availability of housing options for its residents.
- 4.12 Minneapolis will reasonably accommodate the housing needs of all of its citizens.
- 4.15 Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.
- 4.16 Minneapolis will work closely with NRP planning and implementation to ensure that NRP plans are consistent with the City’s Housing Policy.

Each of these policies is associated with a set of related implementation steps, which are accomplished through a variety of mechanisms that include regulatory requirements and

enforcement, and the financial and staff resources of the City, NRP, and Empowerment Zone. These steps include:

**The variety of housing types throughout the city, its communities and the metropolitan area shall be increased giving prospective buyers and renters greater choice in where they live.**

- Develop/provide incentives for placing new housing on transportation corridors
- Up to 20 percent of the units in new multifamily housing developments should be affordable

**Minneapolis will improve the range of housing options for those with few or constrained choices.**

Another way to describe the city's policy objectives in influencing the housing market is to target the variety of residents' housing choices. The ability to provide residents from all walks of life with increased housing choices, in a variety of housing types, ages, (newly constructed and renovated older buildings) and affordability levels will hugely influence the pattern of future prosperity and vitality in the city. Tools have been developed to assist the city and its partners in implementing expanded choice in housing. These tools define terms such as affordability, medium and high density housing. They also relate the city's efforts at expanding housing choice to metropolitan initiatives, and include the Livable Communities Act guidelines, the Consolidated Plan for Housing and Community Development, tax credit programs for affordable housing developments and CPED-sponsored programs for housing redevelopment and new construction. Implementation steps include:

- Increase the variety of housing types (affordability, style, location) throughout the city, giving greater choice
- Encourage new housing production as a way to increase resident choices throughout the city.
- Promote mixed income housing development as a method of providing more choices to residents
- Promote mixed income housing as part of mixed use development so that the likelihood of affordable housing is increased

**Minneapolis will both assume its appropriate responsibility for improving housing options among those with few or constrained choices, and collaborate with partners at the regional, state, federal and local level to assure that appropriate solutions are pursued throughout the region.**

### ***The "Zoning Code"***

A modification to the Code provides an incentive to the development of affordable housing units, providing a 20% bonus in the number of units that can be built if at least 20% of the development's units are affordable to low-income households.

### ***Eligibility Findings***

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

The proposed TIF district includes new construction of 8 market rate units affordable to families earning 100% to 115% of MMI. In addition, 28 of the 32 Clare Housing rental units will have project-based Section 8 assistance affordable at or below 30% of MII, 2 units will be affordable at or below 50% of MMI, and 2 units will be market rate units.

Since there will be 30 units at or below 50% of MMI, the project complies with the City Affordable Housing Policy, which would require at least 8 units (20% of the total) of 40 units for both components.

The proposed TIF District is located within the Clare Apartments/Old Third Avenue Townhomes Redevelopment Project, in accordance with the provisions of Minnesota Statutes Sections 469.001 through 469.047.

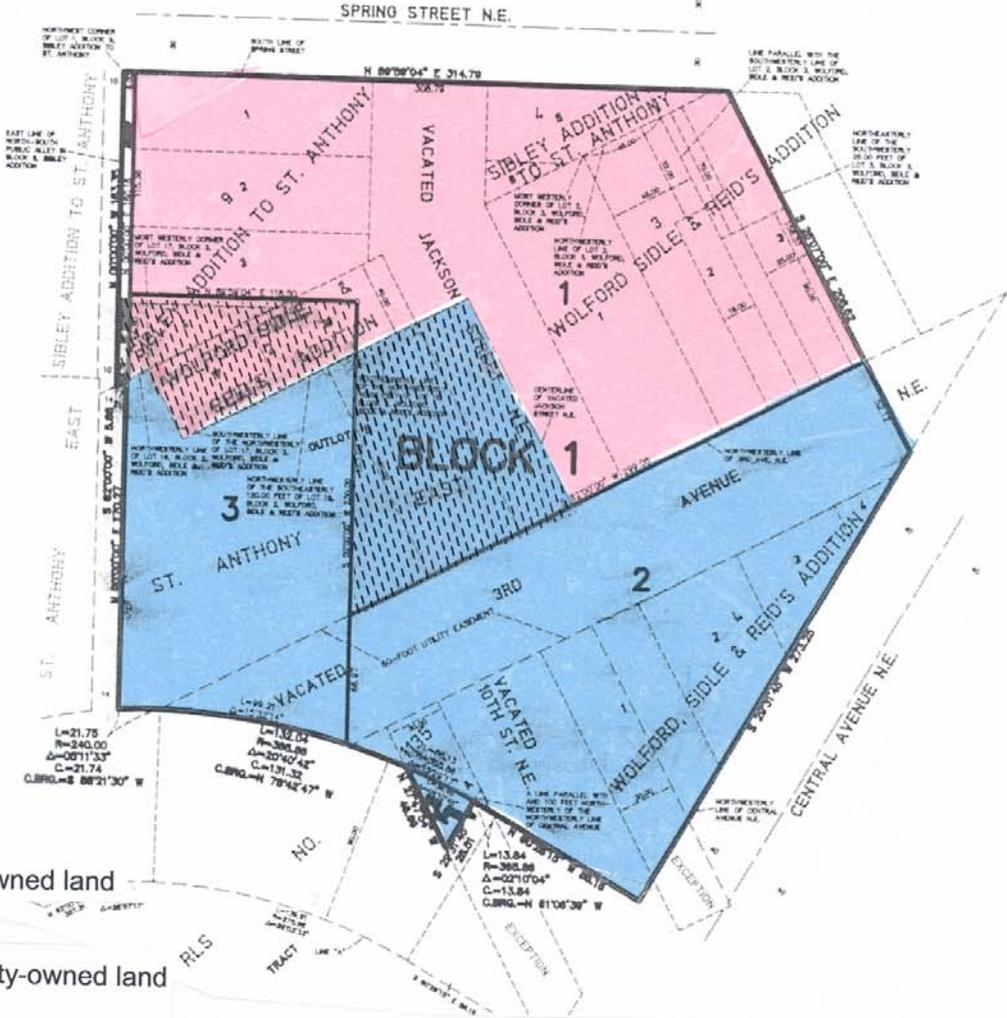
Documentation supporting these findings is on file in the office of the Development Finance Division, Finance Department, Suite 575, Crown Roller Mill, 105 5<sup>th</sup> Avenue South, Minneapolis, Minnesota.



PROPOSED PARKING	
SHARED PARKING LOT	90 SPACES
PARALLEL PARKING 3RD AVE NE	8 SPACES
PARALLEL PARKING SPRING ST	5 SPACES
TOTAL FOR MPHA + CLARE	103 SPACES
CCHT (GARAGES)	8 SPACES

N  
 1  
 PROPOSED SITE PLAN  
 NOT TO SCALE

# CLARE ADDITION



Legend

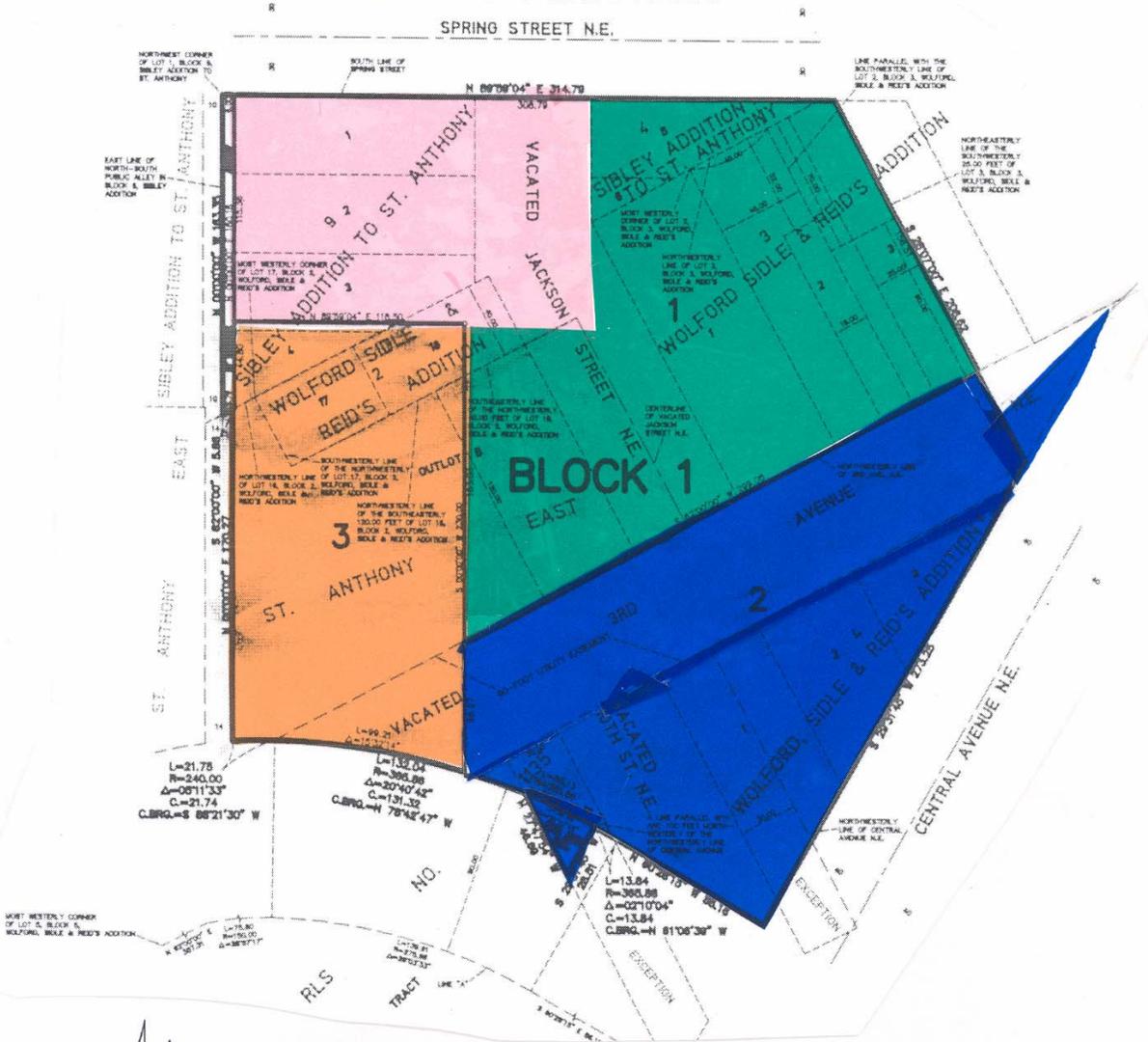
- MPHA-owned land
- CPED/City-owned land
- Split from MPHA, swap to CCHT
- CCHT land swap to MPHA

**Clare Apartments/Old Third Avenue Townhomes**  
**Existing Ownership and Land Swap Map**  
 May 21, 2004

Prepared by Development Finance Division, Finance Department,  
 105 5<sup>th</sup> Avenue S., Minneapolis, Minnesota



# CLARE ADDITION



**Clare Apartments/Old Third Avenue Townhomes**  
**Final Development Ownership**  
 May 21, 2004

MPHA/Shared Parking & Green Space	Old Third Avenue Townhomes
MPHA Spring Manor	Clare Apartments

Prepared by Development Finance Division, Finance Department,  
 105 5<sup>th</sup> Avenue S., Minneapolis, Minnesota