



**Park Avenue East
Tax Increment Finance Plan**

July 9, 2004

Prepared by Development Finance Division
Finance Department
105 5th Avenue South, Minneapolis, Minnesota 55401

**Park Avenue East Tax Increment Finance Plan
July 9, 2004**

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Introduction

Plan documents have been prepared that are related to a proposed public parking ramp and housing redevelopment project, including Park Avenue East Tax Increment Finance (TIF) Plan, Modification No. 19 to the Industry Square Redevelopment Plan, and Modification No. 100 to the Common Development and Redevelopment and Common Tax Increment Finance Plan (the “Common Project”) (collectively, the “Plans”).

Modification No. 19 to the Industry Square Redevelopment Plan authorizes the creation of a new TIF district as a tool for carrying out the redevelopment activities described therein. Because the Industry Square Redevelopment Project Area is within the boundary of the Common Project, Modification No. 100 to the Common Plan has also been prepared to reflect the authorization to pursue these redevelopment activities within a project that has been incorporated within the Common Project Area. However, the new TIF district is not being incorporated into the Common Project and will not be subject to the existing Common Project obligations and commitments, and is being created as a free-standing tax increment district.

This TIF Plan provides for the establishment of a new redevelopment TIF district: the “Park Avenue East TIF District” (the “TIF District”). The TIF Plan authorizes public redevelopment activities/expenditures and establishes a new redevelopment TIF district and budget for expenditures within the boundaries of the Industry Square Project Area (the “Project Area”). Tax increment will be used to pay for a portion of the public redevelopment and administrative costs associated with the TIF District.

Background

On February 6, 1998, the Minneapolis City Council and the Minneapolis Community Development Agency approved the creation of the **West Side Milling District TIF and Hazardous Substance Subdistrict Plan** (the “Plan”). The Plan authorized public redevelopment activity and expenditures to assist the West Side Milling District Project, and created a new tax increment financing district and hazardous substance subdistrict.

The Plan authorized the use of tax increment revenue and other public funds to pay for public redevelopment activity – including acquisition, demolition, pollution remediation, rehabilitation of historic buildings, public improvements, and other project related activities. The primary purpose of the Plan was to facilitate the rehabilitation and residential reuse of the historic North Star Woolen Mill, the Utility Building of the Washburn Crosby Mill complex, and new infill housing development on an adjacent property. The Plan also authorized possible additional public improvements and expenditures to assist with the

stabilization and preservation of the remaining untreated historic structures in the Washburn Crosby Mill Complex, which included the development of a major historic interpretive and orientation center within the Washburn Crosby Mill Complex. The Plan authorized public assistance to facilitate the housing development project, assisted with the implementation of the historic interpretive center plan, and leveraged further public and private redevelopment activities and expenditures that facilitated the preservation and reuse of the entire complex of historic properties and resources. The site was previously decertified and removed from the existing Industry Square TIF District (#9) while a new redevelopment TIF district and Hazardous Substance Subdistrict (West Side Milling District TIF #86) were established. In January, 2001 the MBIA granted its consent to the release of the parcels from the pledge to the tax increment revenue bonds of 1990.

On February 2, 2001, the City Council approved **Modification No. 1** to the West Side Milling District TIF Plan. Modification No. 1 authorized the geographic enlargement of the TIF District with the addition of two parcels initially and the subsequent addition of portions of three other parcels, including portions of streets located within TIF District #9, for proposed continuing development and redevelopment within the West Side Milling District. The Modification also revised the budget to finance additional public redevelopment activities, and established the maximum amount of bonded indebtedness that may be incurred.

The development plans included development of the lower three floors of the eight-story Washburn/Crosby A Mill for the Minnesota Historical Society's Mill City Museum, and development of the upper five floors by Brighton Development Corporation into approximately 62,315 square feet of office space. Brighton also redeveloped the Humboldt Building and adjacent land into 36 units of ownership housing and 72 underground parking spaces.

Modification No. 2 to the West Side Milling District TIF Plan, approved on June 6, 2003, deleted from TIF District #86 property (owned by the MCDA and exempt from property taxes) bounded by 2nd Street South, Washington Avenue South, vacated Park Avenue South and vacated Chicago Avenue South. A portion of the property removed from the West Side Milling District will be included within the Park Avenue East TIF District.

The Park Avenue East TIF District will facilitate the construction of a public parking ramp containing approximately 324 stalls on a portion of the property that was removed from the West Side Milling District TIF District. The Park Avenue Lofts East housing development will contain 38 luxury condominiums with underground parking.

TAX INCREMENT FINANCE PLAN

I. Tax Increment District Boundary

The Park Avenue East TIF District is being established within and under the authority of the Industry Square Redevelopment Project. The parcels included in the new Park Avenue East TIF District remain within the existing Industry Square Redevelopment Project Area. However, the new Park Avenue East TIF District is not being incorporated into the Common Project and will not be subject to the existing Common Project obligations and commitments.

The property to be included in the proposed TIF District includes the two parcels described as Block 1, Lots 1 and 2, The New Mills District Second Addition. The boundary of the TIF District is shown in Exhibit #1.

The Project Area Report, which provides a more detailed description of the existing property conditions and documents the eligibility of this site for the establishment of the redevelopment TIF district, is appended as Exhibit #2 to this TIF Plan.

II. Statement of Objectives

Modification No. 13 to the Industry Square Redevelopment Plan, dated December 23, 1999; revised January 13, 2000, added the Historic Mills District Master Plan, adopted by the Minneapolis City Council on June 25, 1999, as a guide for the redevelopment of property within the Industry Square Project Area. This Master Plan and Updated Plan defines and provides guidance for permitted land use. It is the goal of the Historic Mills District Master Plan to increase substantially the residential uses, the commercial uses, street system additions, and recreational and cultural uses to support the newly created neighborhood. The new TIF District is located within the boundary of the Historic Mills District.

III. Development Program

A. Description of Development Program

A public parking ramp located in the center of the block bounded by Chicago Avenue, Park Avenue, Washington Avenue and 2nd Street South is being proposed. The ramp will contain approximately 324 stalls and will fulfill contractual commitments to the Mill City Museum and the Stone Arch Office Building which requires public parking on this block.

Another project proposed for construction on the west side of the block is the Park Avenue East Lofts project which is a four-to-five story luxury condominium development containing 38 units that mirrors the design of the Park Avenue West Lofts currently under construction across Park Avenue. Parking will be provided under the building.

The Park Avenue East District will include the ramp site and the Park Avenue East Lofts site. Tax increment generated by this district will be utilized to pay a portion of the debt service on the general obligation tax increment bonds issued by the City to construct the ramp. In addition, the net parking revenues of the ramp will provide additional funding for debt service. During the 2002 session, the Minnesota Legislature passed legislation granting the MCDA \$2.6 million to support the construction of a public parking ramp on the site.

B. Property That May Be Acquired.

The property is owned by the MCDA/City of Minneapolis.

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

The City of Minneapolis granted exclusive development rights to Brighton Development Corporation on April 30, 2004 and authorized negotiations to commence on a redevelopment agreement. No current contract has been executed at the time of this writing.

D. Other Development Activity

None.

IV. Description of Financing

The purpose of this TIF plan is to authorize public redevelopment activities and expenditures to assist with the public parking ramp development in the TIF district. Anticipated public redevelopment activities include new public parking ramp construction, administration, and other related activities. Sources of funds may include tax increment financing, a grant from the State Legislature, and other potential sources yet to be identified.

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 or Agency and each developer, not by the TIF Plan, which establishes a permissive rather than proscriptive ceiling on public expenditures.

A. Project Costs

TIF District Budget

Sources	Up-Front	Over Time
Bond Proceeds	\$ 4,500,000	---
Tax Increment	---	\$ 11,000,000
Net Parking Revenues	---	1,100,000
Total Sources	\$4,500,000	\$12,100,000
Uses		
Parking Construction	\$ 3,475,000	---
Capitalized Interest	900,000	---
Discount & Costs of Issuance	125,000	---
Bond Principal	---	\$ 4,500,000
Bond Interest	---	4,500,000
Affordable Housing Outside TIF District	---	2,000,000
Administration	---	1,100,000
Total Uses	\$ 4,500,000	\$12,100,000

B. Bonded Indebtedness to be Incurred

It is currently anticipated that the City will fund the construction of the public parking ramp by 1) utilizing the \$2.6M State grant, and 2) issuing general obligation tax increment bonds. The TIF bonds will be payable from net parking revenues of the ramp and tax increment generated by the TIF District (i.e. the Park Avenue Lofts East housing development). The City reserves the right to issue such bonds in an amount not to exceed \$4,500,000.

It is currently anticipated that the TIF bonds will be structured with annual debt service coverage. If future years, if tax increment is generated in excess of that needed to pay debt service on the bonds, the City Finance Department will make a determination whether such excess funds should be 1) used to call bonds prior to maturity, 2) deposit such funds in a debt service reserve fund, 3) allow such funds to be used for affordable housing purposes (see Section IV. J.), or 4) used for some other purpose as allowed for under the TIF Act.

C. Sources of Revenue

It is currently anticipated that tax increment bond proceeds and a \$2.6 million State Grant will pay for construction of the public parking ramp, with tax increment and net parking revenues annually paying debt service on the TIF bonds.

D. Original Net Tax Capacity

It is currently being projected that the Estimated Market Value (EMV) of taxable property in the TIF District will be approximately \$1,230,000. The Original Net Tax Capacity of the TIF District is therefore projected to be \$18,450.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the parking ramp and condominium redevelopment, it is anticipated that the estimated market value of taxable property in the TIF District will increase from \$1,230,000 to approximately \$21,850,000. This represents an increase of \$20,620,000 and will result in a total net tax capacity of approximately \$225,644, and an estimated captured net tax capacity of \$207,194.

Based upon an estimated total local tax rate of 147.000%, this will generate an estimated annual gross tax increment payment of \$304,575 (excluding deduction for State Auditor Fee).

F. Duration of TIF District

The Park Avenue East TIF District is a redevelopment 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 contribution required of the City for development occurring within this TIF District be 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 147.00% 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 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 properties 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 & 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:
 - (i) acquire and prepare the site of the housing;
 - (ii) acquire, construct, or rehabilitate the housing; or
 - (iii) 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, but may be spent anywhere in the city. However, the amount of tax increment used for such purposes is restricted.

Pursuant to M.S. Section 469.1763, Subd. 2, up to 25% of the tax increment from a redevelopment 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 35%), provided that these additional expenditures meet the affordable housing requirement listed above.

Administrative expenses are considered expenditures outside of the district, except that such administrative expenses can be considered expenditures inside the district, if the only other expenses outside of the district are for affordable housing purposes as described above.

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.

V. Type of Tax Increment Financing District

The proposed TIF District is a “Redevelopment District” as defined in Minnesota Statutes Section 469.174 Subdivision 10 (a) (2):

- “(a) “Redevelopment district” means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one or more of the following conditions, reasonably distributed throughout the district, exists:

- (2) the property consists of vacant, unused, underused, inappropriately used, or infrequently used railyards, rail storage facilities, or excessive or vacated railroad rights-of-way.”

Additional information about the proposed TIF District and the determination that the real property proposed for inclusion within the TIF District satisfies the statutory findings for eligibility of this area for inclusion as a “Redevelopment TIF District” can be found in the Project Area Report and Documentation of Blight, which is appended as Exhibit #2 to this TIF Plan.

VI. Estimated Impact on Other Taxing Jurisdictions

It is the position the City of Minneapolis that the redevelopment of the property located within the new district 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, that 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	Preliminary Tax Capacity Rate Payable 2004	Property Tax Revenues Resulting from \$207,194 Captured Tax Capacity
City of Minneapolis	64.538%	\$ 133,719
Hennepin County	41.932	86,881
Special School District #1	32.373	67,075
Other Taxing Jurisdictions	8.913	18,467
Total	147.756%	\$ 306,142

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

The proposed TIF district was formerly railroad right-of-way property, which has been vacated and subsequently used for surface parking. The property is tax exempt and has not paid taxes or generated any tax increment revenue for the past several years. Multiple proposals have been presented to the MCDA and the City over the past number of years, but the proposals were found to be financially infeasible. The provision of public parking and other infrastructure has created a financing gap for the project. Tax increment financing is essential to closing the financing gap in helping the City reach its development goals. The public parking ramp will include more than 300 spaces and will provide the required parking for the adjacent historic museum, the office and retail components, other potential parking, and will help to alleviate daytime parking shortages in the surrounding area.

Therefore, it is the opinion of the City of Minneapolis that the proposed redevelopment 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 following page of this plan document. 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 for the project described.

VIII. Modifications to Tax Increment Finance Plans

The TIF Plans 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.

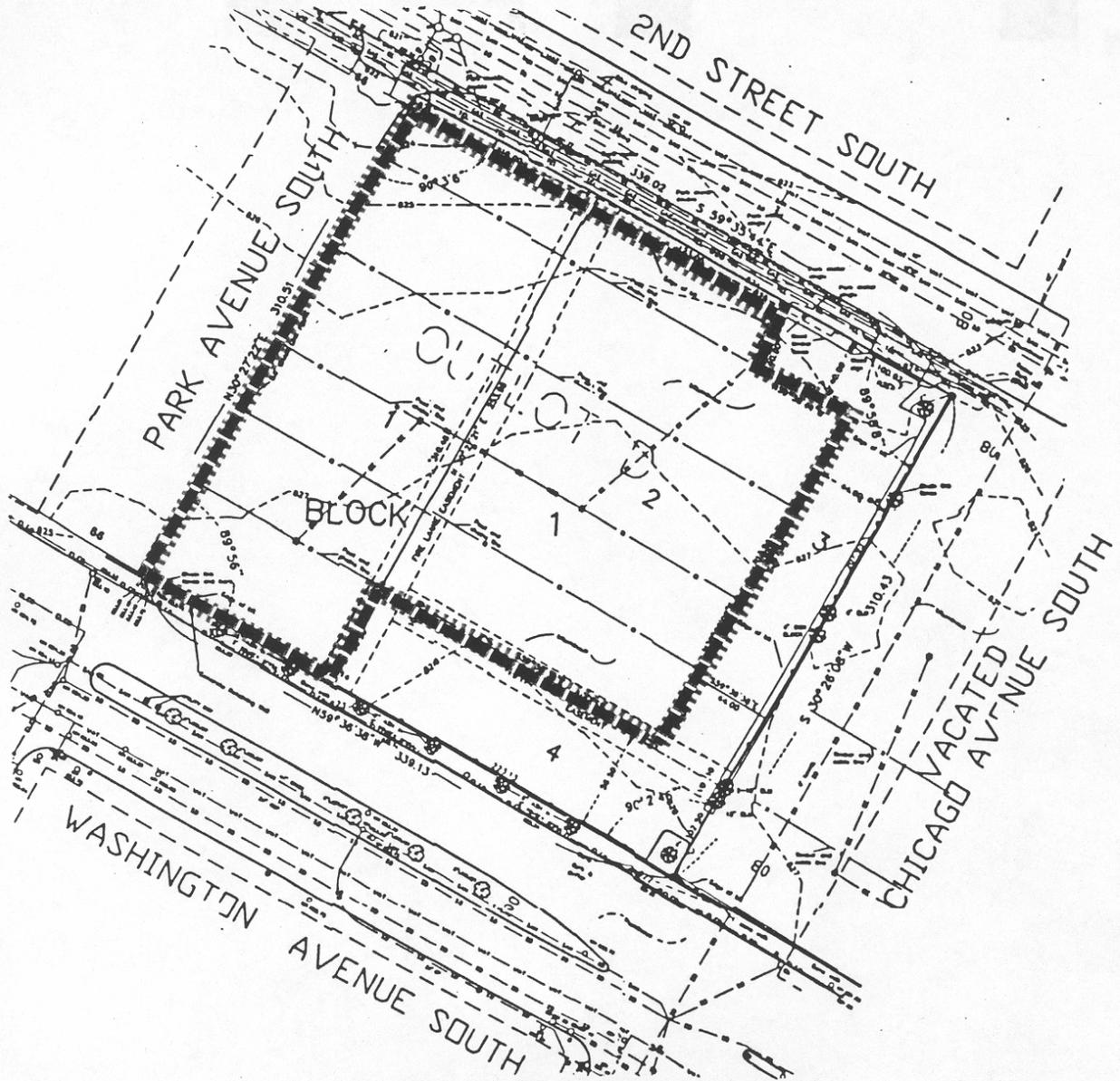
This plan document reflects the establishment of the Parcel D/Mill Quarter Parking Ramp TIF District.

Park Avenue East TIF District

Valuation and Tax Increment Assumptions			
	Pay 2006	Pay 2007	Pay 2008
Total Estimated Market Value (EMV)	\$3,277,500	\$21,850,000	
Less: Original EMV	1,230,000	1,230,000	
Captured EMV	\$2,047,500	\$20,620,000	
Total Net Tax Capacity (NTC)	\$18,950	\$33,847	\$225,644
Less: Original NTC	18,450	18,450	18,450
Captured NTC	\$500	\$15,397	\$207,194
Times: Projected Total Tax Rate	147.000%	147.000%	147.000%
Gross Tax Increment	\$735	\$22,634	\$304,575
Less: State Auditor's Fee (.36%)	3	81	1,096
Tax Increment Distributed to City	\$732	\$22,553	\$303,479

26 Years of TI Collection		
Years of TIF Collection	Payable Year	Tax Increment Distributed To City
---	2004	\$0
---	2005	0
1	2006	732
2	2007	22,553
3	2008	303,479
4	2009	303,479
5	2010	303,479
6	2011	303,479
7	2012	303,479
8	2013	303,479
9	2014	303,479
10	2015	303,479
11	2016	303,479
12	2017	303,479
13	2018	303,479
14	2019	303,479
15	2020	303,479
16	2021	303,479
17	2022	303,479
18	2023	303,479
19	2024	303,479
20	2025	303,479
21	2026	303,479
22	2027	303,479
23	2028	303,479
24	2029	303,479
25	2030	303,479
26	2031	303,479
		\$7,306,781
P.V. @	5.00%	\$3,637,551

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	\$1,230,000
(b) Original estimated market value	1,230,000
(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.	\$20,620,000
(e) Present value of the projected tax increment for the maximum duration of the district	3,637,551
(f) Difference = (d) - (e)	\$16,982,449
(3) Since (c) is less than (f), the proposed development or redevelopment passes the test.	



**Park Avenue East Tax Increment Finance District
Boundary Map
July 9, 2004**

Prepared by Development Finance Division, Finance Department,
105 5th Avenue S., Minneapolis, Minnesota



**PROJECT AREA REPORT
AND SUPPORTING DOCUMENTATION**

**Park Avenue East Tax Increment Finance Plan
June 11, 2004**

The Park Avenue East TIF District will facilitate the construction of a parking ramp structure to be constructed on a portion of the property that was removed from the West Side Milling District TIF district and will contain approximately 324 spaces. In addition, it will provide the parking for the St. Anthony Mills Apartments and additional public parking. The TIF district includes the Park Avenue East Lofts project--a four-to-five story luxury condominium development containing 38 units that mirrors the design of the Park Avenue West Lofts currently under construction across Park Avenue. Parking will be provided under the building. Further plans include development of the remaining portions of land around and adjacent to the public parking ramp. Public infrastructure for this development will include the extension of Chicago and Park Avenues from Washington Avenue South to 2nd Street South.

The purpose of this Project Area Report and Documentation of Blight is to describe the conditions that qualify the site for inclusion in a TIF district. The TIF District is located within the Industry Square Redevelopment Project, established in 1973 under provisions of Minnesota Statutes Sections 469.001 through 469.047.

The proposed TIF District is a "Redevelopment District" as defined in Minnesota Statutes Section 469.174 Subdivision 10 (a) (2):

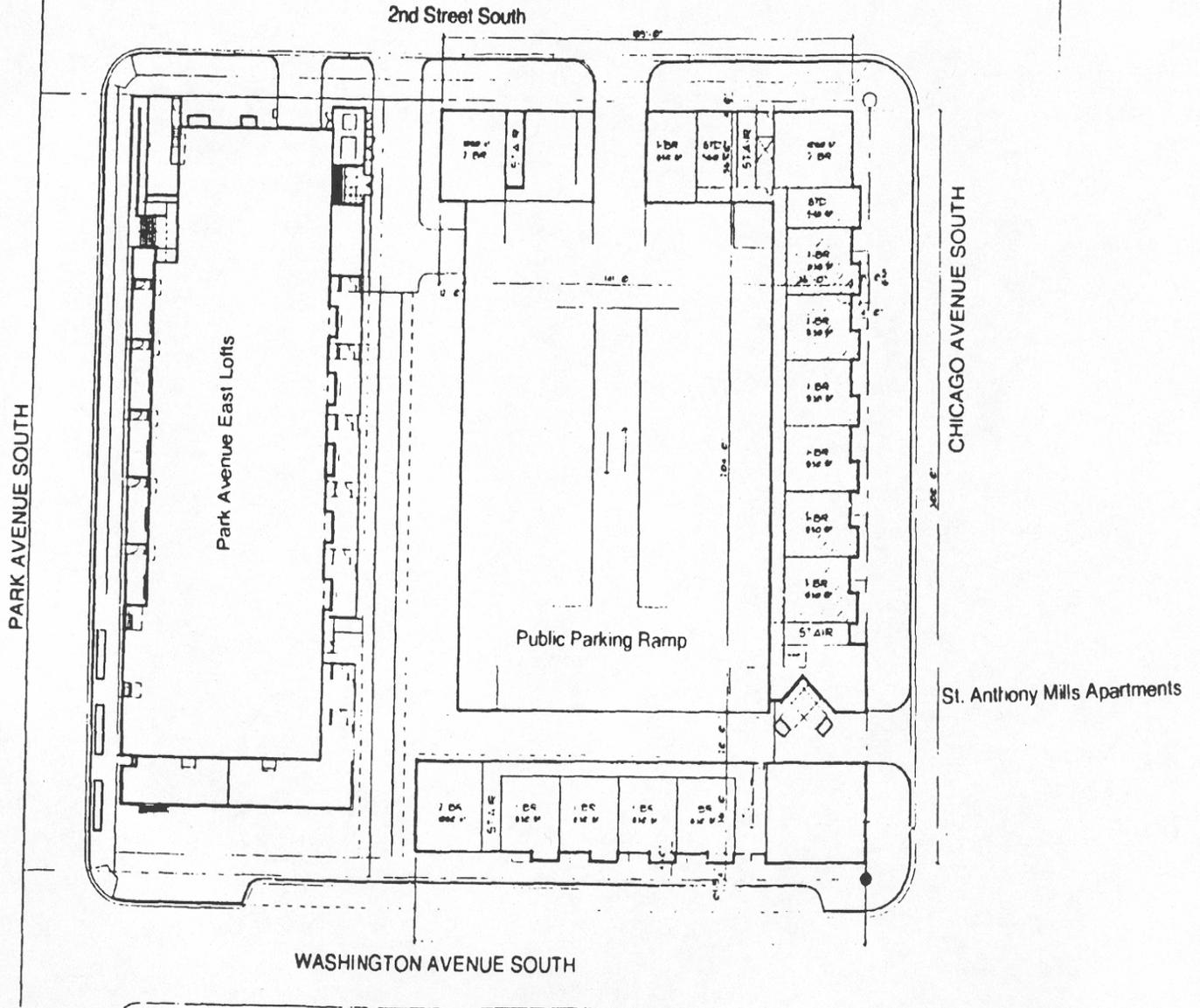
- “(a) “Redevelopment district” means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one or more of the following conditions, reasonably distributed throughout the district, exists:
 - (2) the property consists of vacant, unused, underused, inappropriately used, or infrequently used railyards, rail storage facilities, or excessive or vacated railroad rights-of-way.”

Conclusion: The proposed TIF district was formerly railroad right-of-way property, which has been vacated and subsequently used for surface parking. The property is tax exempt and has not paid taxes or generated any tax increment revenue for the past several years.

Documentation supporting these findings is on file in the office of the Development Finance Division, Finance Department, 105 5th Avenue South, Minneapolis, Minnesota.

EXHIBIT #3

Brighton Development



STREET LEVEL PLAN

74 February 2004