



**Request for City Council Committee Action
from the Department of
Community Planning & Economic Development**

Date: February 28, 2006

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

Subject: Adopting the Village in Phillips, Phase 2 Tax Increment Finance (TIF) Plan and District, Modification No. 1 to the Village in Phillips, Phase 1 TIF Plan, and Modification No. 2 to the Village in Phillips Redevelopment Plan.

Recommendation:

- 1) Adopt the attached resolution approving the Village in Phillips, Phase 2 Tax Increment Finance (TIF) Plan and District, Modification No. 1 to the Village in Phillips, Phase 1 TIF Plan and Modification No. 2 to the Village in Phillips Redevelopment Plan;
- 2) Adopt the attached resolution authorizing the issuance of a pay-as-you-go tax increment revenue note for this project in an amount not to exceed \$484,900;
- 3) Amend the 2006 General Appropriation Resolution by establishing the Community Planning & Economic Development agency Fund CVQO and appropriating 10,000 to the fund;
- 3) Approve the attached Term Sheet and authorize CPED staff to negotiate and execute the necessary agreements.

Previous Directives:

On July 1, 2005, the City Council approved Project Analysis Authorization, Non-Profit Housing Development Fund Assistance for the Village in Phillips – Phase 2 Redevelopment Project, which approved the acquisition of real property located at 2404 Bloomington Avenue South and approved the appraised value of the site; and

On April 14, 2005, the City Council authorized Workforce Ownership Housing Development Program funding up to \$240,000 for construction gap assistance to the VIP Project.

Prepared by: Theresa Cunningham, Senior Project Coordinator, (612.673.5237)

Approved by: Charles Lutz, CPED Deputy Director _____

Elizabeth Ryan, Director, Housing Policy & Development _____

Permanent Review Committee (PRC): Approval _____ Not Applicable X

Policy Review Group (PRG): Approval _____ Date of Approval _____ Not Applicable X

Presenter in Committee: Theresa Cunningham, Senior Project Coordinator

Financial Impact (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information).
- Action requires an appropriation increase to Fund CVQO for the Administrative Budget.
- Action provides increased revenue for appropriation increase.
- Action requires use of contingency or reserves.
- Business Plan: Action is within the plan. Action requires a change to plan.
- Other financial impact (Explain):
- Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)

Neighborhood Notification: On December 16, 2005, the referenced Plans and Modifications were forwarded to the East Phillips Improvement Coalition, Midtown Phillips Neighborhood Association and other interested individuals for review and comment. Letters of support were received by CPED staff.

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

Comprehensive Plan: 4.9 Minneapolis will grow by increasing its supply of housing; and 4.12 Minneapolis will reasonably accommodate the housing needs of all of its citizens.

Zoning Code: Various land use applications for the Village in Phillips Project have been considered and approved by the City Planning Commission as follows: Rezoning from R2B to R4, Conditional Use Permit for height and multiple yard variances and a alley vacation (all approved 6/2/03); minor subdivision replat (approved 10/7/03) and site plan approval (2/9/06).

Background

The Village in Phillips (VIP) redevelopment project area is a three and one-half block area in the Phillips Neighborhood of South Minneapolis. A unique collaborative planning process among several Minneapolis non-profit community developers and residents produced a design by and for neighborhood residents. The vision is to create a safe, diverse, sustainable, child friendly and physically identifiable "village" that utilizes innovative land use, built form and circulation. The project increases density while preserving quality open space (central commons/pedestrian paths) and the positive features of the existing area.

The VIP project is a four phase development that will produce between 55 and 65 affordable housing units encompassing 60% homeownership and 40% rental. An additional 15,000 square feet of new commercial space is proposed along Bloomington Avenue in a future phase.

Developer Qualifications

Powderhorn Residents Group, Inc. (PRG) is a community-based nonprofit organization that was founded in 1976 by a group of residents of the Powderhorn Park neighborhood who believed that resident-controlled housing was a key to the health of their community. Today, 30 years later, PRG continues to provide and operate affordable housing. PRG currently operates mainly in the Powderhorn Park, Phillips, and Central neighborhoods. They primarily serve low to moderate-income individuals or families from diverse backgrounds. They develop and market affordable housing, educate and counsel first-time homebuyers, and own and operate rental cooperatives.

In November of 2003, the City approved a Redevelopment Project encompassing the entire project area and a Tax Increment Financing (TIF) District for Phase 1 which included the new construction of 28 ownership townhouse units. Phase 1 is now completed and all units have been sold to owner occupants. Sales prices ranged from \$97,500 to \$186,000 and provided for the option of finishing an additional bedroom on the lower level.

Phase 2 Development

On May 9, 2005, CPED received an Application for Public Financial Assistance from Powderhorn Residents Group (PRG) for Phase 2 of the VIP project. Phase 2 will include the redevelopment of seven existing tax parcels of which five are currently owned by the City of Minneapolis, and the remaining two parcels owned by PRG.

Phase 2 will include the construction of 36 condominium units and approximately 1,100 square feet of commercial/retail space located on the southwest and southeast corners of Bloomington Avenue South and 24th Street East. Phase 2's redevelopment area includes 2400, 2401, 2404, 2406, 2415, 2417, and 2419 Bloomington Avenue South, an area that encompasses approximately 34,779 square feet of land or 0.80 acres. In addition, 2410 – 16th Avenue South which was originally going to be part of Phase 1, is now part of Phase 2. Modification No. 1 to the VIP, Phase 1 TIF Plan (attached) removes this parcel from the VIP Phase 1 TIF District so that it can be included in the VIP Phase 2 TIF District. Sales prices for Phase 2 will range from \$139,500 to \$199,500 and consist of 1, 2, and 3 bedroom units.

Eight units will be sold to Twin Cities Habitat for Humanity (TCHFH) for their estimated shell value. TCHFH will finish the units and sell them to families earning less than 50% of Area Median Income (AMI). The remaining 22 units will be developed and sold by PRG, targeted to families earning up to 115% of AMI. Six PRG constructed units will be sold to the City of Lakes Community Land Trust (CLCLT) and targeted to families earning less than 80% of AMI. All units will range in size from 950 to 1,296 square feet.

Project Financing

The VIP - Phase 2 project will eliminate functionally and economically obsolete, blighted, unimproved vacant land and develop in its place a homeownership condominium project that includes affordable housing. Public benefits of the project will include blight remediation, tax base enhancement, economic integration, and increased neighborhood livability. The creation of this TIF district is in the public interest because it will facilitate the development of a mixed-income homeownership housing project which will provide needed housing for moderate and low income persons and families.

Pursuant to state TIF statutes, income requirements do not apply in this district because the proposed TIF district lies within a targeted area as defined by M.S. 462C.02. Subd. 9, clause (3). A targeted area is defined as a census tract in which 70% or more of the families have income which is 80% or less of the statewide median family income as estimated by HUD. However, this project will be income restricted as noted and meets the City's Affordable Housing Requirements by providing at least 20% of the housing units to persons or families earning less than 50% of the Area Median Income.

The developer estimates the total development cost at approximately \$7.4 million. A combination of various financial resources have been secured for the proposed development from a number of public and private non-profit entities including Hennepin County, LISC, Metropolitan Transit, Metropolitan Council, MHFA, NRP and CPED. Attached is a Project Data Worksheet that provides additional detail and information on committed and pending assistance.

Staff's analysis of Phase 2 indicates that without the tax increment financing assistance, the project would be financially infeasible, and therefore the project passes the "but-for" test prescribed by state TIF statutes. Tax increment financing assistance will be provided to the project through the issuance of a pay-as-you-go TIF revenue note in an amount not to exceed \$484,900. Under the terms of the TIF note, the City will collect tax increment from the new development and will disburse 90% of this increment to the noteholder. There is no financial risk to the City utilizing this type of financing mechanism. Under a conservative set of assumptions, it is currently projected that it will take 15 years of increment collection to fully pay off the TIF note.

It is currently anticipated that PRG will obtain a TIF loan from Wells Fargo Bank, NA and will assign the TIF note to the bank as both collateral and the source of repayment for the TIF loan. The interest rate on both the TIF note and TIF loan will be set at the 3-year U.S. Treasury rate plus 3.75% and will be reset every three years.

Attachments:

- Project Data Worksheet
- Term Sheet
- Map of Site
- Site Plan
- Proposed development elevation drawings
- TIF District Resolution
- TIF Note Resolution
- TIF Plan & Modifications (3)