



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

Date: March 23, 2004

To: Council Member Lisa Goodman, Community Development Cmte
Council Member Barbara Johnson, Ways and Means/Budget Cmte

Prepared by: Beverly A. Wilson, Planner, Phone 612-673-5030

**Presenter in
Committee:** John Harrington, Senior Project Coordinator, Phone 612-673-5018

Approved by: Charles T. Lutz, Deputy Executive Director_____

Subject: Antiques Minnesota/1508 E. Lake Street TIF Plan, and Modification
No. 1 to the Lake and Bloomington Redevelopment Plan

RECOMMENDATION: Schedule public hearing for the Antiques Minnesota/1508 E. Lake Street TIF Plan, Modification No. 1 to the Lake and Bloomington Redevelopment Plan; Request review and comment by Ways and Means/Budget Committee.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information

The Antiques Minnesota/1508 E. Lake Street TIF Plan and Modification No. 1 to the Lake and Bloomington Redevelopment Plan have been prepared to facilitate a proposed commercial rehabilitation project in the Phillips Community in south Minneapolis, consisting of retail on the first floor, office on the second floor, and leased space on the entire third floor of the building to the Heart of the Beast Theater

Company. The Neighborhood Development Center (NDC) is proposing to rehabilitate the "Antiques Minnesota" building, a three story plus basement, 40,000 square foot commercial building. The proposed financing structure represents one of the first New Markets Tax Credits transactions that will close in the state of Minnesota. This investment will help close the financing gap on this project and will support a creative utilization of Local Initiatives Support Corporation (LISC's) New Markets Tax Credits that will push forward this important project.

The TIF Plan authorizes public redevelopment activities and expenditures, and is located within the boundaries of the Lake and Bloomington Redevelopment Project Area. Modification No. 1 to the Lake and Bloomington Redevelopment Plan authorizes the creation of a new TIF district as a tool for carrying out portions of the redevelopment activities described therein.

The Development Finance Division prepared the proposed Plans and transmitted them to interested parties for review and comment on April 14, 2004.

It is requested that the Community Development Committee schedule a public hearing on the proposed Plans, to be held by the Community Development Committee on Tuesday, May 18, 2004, at 1:30 p.m. Final Council Action will be held on Friday, May 28, 2004.

It is requested that the Ways and Means/Budget Committee review the proposed Plans and submit its comments at the public hearing to be held by the Community Development Committee.



***Antiques Minnesota/1508 E. Lake Street
Tax Increment Finance Plan***

April 16, 2004

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

***Antiques Minnesota/1508 E. Lake Street Tax Increment Finance Plan
April 16, 2004***

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- #2.....Project Area Report and Documentation of Blight

Antiques Minnesota/1508 E. Lake Street Tax Increment Finance Plan

April 16, 2004

Introduction

Plan documents have been prepared that are related to a proposed commercial rehabilitation project consisting of retail on the first floor, office on the second floor, and leased space on the entire third floor of the building to the Heart of the Beast Theater Company, a popular neighborhood puppet theater with very strong roots in the community that will also have a small ownership interest in the building.

This tax increment financing (TIF) Plan provides for the establishment of a new redevelopment TIF district: the "Antiques Minnesota/1508 E. Lake Street TIF District" (the "TIF District"). The TIF Plan authorizes public redevelopment activities and expenditures, and is located within the boundaries of the Lake and Bloomington Redevelopment Project Area (the "Project Area"). Modification No. 1 to the Lake and Bloomington Redevelopment Plan authorizes the creation of a new TIF district as a tool for carrying out portions of the redevelopment activities described therein.

TAX INCREMENT FINANCE PLAN

I. Tax Increment District Boundary

The property to be included in the proposed TIF District includes two tax parcels, including streets, alleys and public rights-of-way. The boundary of the TIF District is shown in Exhibit #1 and contains the following parcels:

Address	PID Number
(1) 1508-16 E. Lake Street	35-029-24-43-0152
(2) 2933 - 15 th Avenue S.	35-029-24-43-0154

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 a redevelopment TIF district, is appended as Exhibit #2 to this TIF Plan.

II. Statement of Objectives

The statement of Objectives can be found in the Lake and Bloomington Redevelopment Plan, Section I. C.

III. Development Program

A. Description of Development Program

The Neighborhood Development Center (NDC) is proposing to rehabilitate the “Antiques Minnesota” building, a three story plus basement, 40,000 square foot commercial building at 1508 E. Lake Street in the Midtown Phillips neighborhood of south Minneapolis. The building has been vacant since 1998 and its shuttered windows and uncontrolled parking lot have been a major source of concern for neighborhood residents and businesses. NDC acquired the building in December 2003 with a bridge loan from the Minneapolis Empowerment Zone, and has been working with a variety of community partners, including the Heart of the Beast Theater (“HOBT”) Company, the Latino Economic Development Center, the Cooperativa de Mercado Central, and the Midtown Phillips Neighborhood Association to formulate a viable plan for the facility. The community’s goals for the project are to restore the building, bring vitality to the street front, enhance the area’s burgeoning Latino business district, and create opportunities for further arts and cultural programming in the neighborhood.

NDC is a non-profit organization that provides training and financing to neighborhood entrepreneurs and facilitates community-based economic development in neighborhoods throughout Minneapolis and St. Paul. Its mission is to help communities in the inner cities of Minneapolis and St. Paul build their capacity and stability by helping emerging entrepreneurs develop successful businesses that serve the community. Close to 500 low/moderate income persons have received quality training in their own neighborhood in the past 32 months through NDC and its partners.

NDC’s development concept is to restore the building’s street level entrances and windows and to lease the first floor of the building to 3-4 established retail businesses that will complement the surrounding area’s retail mix. NDC will lease the building’s second floor and basement as office space to organizations that complement the building’s other users and surrounding neighborhood. NDC will lease the entire third floor of the property to the HOBT Company¹ which will enable HOBT to expand its programming and make the adjacent Avalon Theater, where its operations are currently located, more broadly available for use by other performing arts organizations. NDC will lease the building’s second floor and basement as office space to organizations that complement the building’s other users and surrounding neighborhood. NDC believes this project will restore this building as a community asset by reinvigorating street level commercial activity and by expanding the area’s cultural amenities. This project will facilitate the redevelopment of a long vacant and blighted building in the Midtown Phillips neighborhood of south Minneapolis.

¹ The HOBT Company has signed a letter of intent to occupy the entire third floor of the building.

The restoration of retail space on the first floor will create needed retail opportunities for neighborhood based businesses and will further bolster the surrounding Latino retail district. The project will also help anchor the HOBT, a long-time neighborhood cultural institution.

The Local Initiatives Support Corporation (LISC) has been a lead participant in the formulation of the Pilot Cities Initiative (PCI) in the Twin Cities. Lake Street is the focus of the PCI in Minneapolis. This project's goals of rehabilitating a blighted property, creating quality space for growing immigrant entrepreneurs, and supporting cultural amenities, are just the type of strategies contemplated by the Pilot Cities Initiative.

The proposed financing structure represents one of the first New Markets Tax Credits transactions that will close in the state of Minnesota. This investment will help close the financing gap on this project and will support a creative utilization of LISC's New Markets Tax Credits that will push forward this important project.

B. Property That May Be Acquired

There are no properties anticipated to be acquired. The developer owns both properties.

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 the Neighborhood Development Center / Mercado Vista L.L.C.

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 commercial/retail development in the TIF district. Anticipated public redevelopment activities include building rehabilitation, including all new mechanical systems, a new roof, lead and asbestos abatement², repairs to walls and floors, new windows, elevator repair, and some general site work and accessibility improvements, administration, and other related activities. Sources of funds include tax increment financing, Wells Fargo Equity Investment, Wells Fargo Loan, LISC Loan, Minneapolis Empowerment Zone, CPED Commercial Corridor funding, Metropolitan Council TBRA funds, Historic Tax Credit Equity, NDC REDI Loan, Midtown Phillips NRP Grant, Pohlad Foundation funds, CPED Business Development Fund³, and HOBT Equity⁴.

² The Metropolitan Council has approved a \$238,000 grant to this project for the removal of lead and asbestos from the building.

³ NDC has applied to the CPED business fund for a loan for tenant improvements for the retail space in this project.

National LISC has preliminarily earmarked \$3.75 million of its allocation of New Markets Tax Credits for this project, and NDC and LISC have been negotiating with Wells Fargo about a leverage investment scenario under which Wells Fargo would be able to utilize the tax credits. Under the proposed investment structure, Wells Fargo would make both an equity investment and a loan to the project. The LISC loan would be subordinate to the Wells Fargo loan.

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.

A. Project Costs

Antiques Minnesota/1508 E. Lake Street TIF District Budget

<i>Sources</i>	<u>Up-Front</u>	<u>Over Time</u>
Developer Funds	\$ 450,000	---
Tax Increment	---	\$ 1,250,000
<u>Other</u>	---	0
<u>Total Sources.</u>	\$ 450,000	\$ 1,250,000
 <u>Uses</u>		
Building rehabilitation	\$ 450,000	---
Pay-As-You-Go Note Principal	---	\$ 450,000
Pay-As-You-Go Note Interest	---	362,500
Pooling for Affordable Housing	---	312,500
Administration	---	125,000
<u>Total Uses.</u>	\$ 450,000	\$ 1,250,000

B. Bonded Indebtedness to be Incurred

It is not anticipated that bonded indebtedness will be used for this project. It is anticipated that up-front public redevelopment costs will be financed with pay-as-you-go tax increment financing. With pay-as-you-go tax increment financing, the developer finances eligible public redevelopment costs under contract with the City in exchange for a note that pledges repayment of these costs, with interest, out of the

⁴ HOBT Company has committed \$10,000 to this project from a grant it received from the National Endowment of the Arts.

tax increment revenue generated by the new development to be constructed by the developer. This approach reduces the financing risks for the City, since the developer is only fully reimbursed if sufficient tax increment revenue is actually generated by the new development.

C. Sources of Revenue

Tax increment generated within the TIF District will be a source of public funds used to pay a portion of the public redevelopment costs associated with the Antiques Minnesota/1508 E. Lake Street project. Other sources of funds to pay redevelopment costs may include Wells Fargo Equity Investment, Wells Fargo Loan, LISC Loan, Minneapolis Empowerment Zone, CPED Commercial Corridor funding, Metropolitan Council TBRA funds, Historic Tax Credit Equity, NDC REDI Loan, Midtown Phillips NRP Grant, Pohlad Foundation funds, CPED Business Development Funds, and HOBT Equity.

D. Original Net Tax Capacity

The 2003 estimated market value of the tax parcels included in the TIF district is \$517,900. This will result in an original net tax capacity of approximately \$9,608.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the redevelopment it is anticipated that the estimated market value of property in the TIF District will increase from \$517,900 to approximately \$1,806,900. This represents an increase of \$1,289,000 and will result in a total net tax capacity of approximately \$35,388, and an estimated captured net tax capacity of \$25,780.

Based upon an estimated total local tax rate of 147.000%, this will generate an estimated annual gross tax increment payment of \$37,897 (excluding deduction for State Auditor Fee).

F. Duration of TIF District

The Antiques Minnesota/1508 E. Lake Street 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) 2003 (153.007%). For projection and impact purposes, a total tax rate of 147.000% 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) (1):

"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:

- (1) parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots or similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance".

Additional information about the physical conditions in the proposed TIF District and the determination by the City 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 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, 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:

<i>Taxing Jurisdictions</i>	Tax Capacity Rate Payable 2003	Property Tax Revenues Resulting from \$25,780 Captured Tax Capacity
City of Minneapolis	63.883%	\$16,469
Hennepin County	44.832	11,558
Special School District #1	33.555	8,650
Other Taxing Jurisdictions	10.737	2,768
Total	153.007%	\$39,445

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:

The site includes an underutilized blighted, structurally substandard commercial property that contains lead and asbestos. The project will eliminate blighted and vacant parcels, result in the provision of needed commercial revitalization, provide needed parking, and provide and encourage development that includes improvements to the existing commercial/retail space available. Even with the anticipated TBRA grants, revenue generated from the project is not sufficient to fully amortize the extraordinary costs of rehabilitation which include lead and asbestos abatement, despite the amount of public financing being provided. In fact, the project requires a complex mix of a variety of funding sources, both public and private.

The Antiques Minnesota Building is the second largest vacant property in Midtown Phillips, (the building has been vacant since 1998) and its boarded up windows and uncontrolled parking lot have been a blighting influence in the neighborhood and a source of major concern for neighborhood residents and the area business association. The project being proposed by NDC will rehabilitate this important property, will help anchor an important neighborhood institution, and will build upon the other positive revitalization efforts that are currently underway in the surrounding neighborhood.

By renovating this prime historic property, this project creates new economic and cultural opportunities for residents and businesses located in the Empowerment Zone - housing arts and community-based businesses that will create jobs for teens and adults, provide cultural programs for neighborhood youth and families, and generate new customers for nearby restaurants, retail stores and other businesses.

The project will also strengthen and enhance the work the NDC, the Latino Economic Development Corporation and Whittier CDC have been doing with emerging immigrant entrepreneurs in the neighborhood. The project will benefit the nearby Mercado Central by removing a blighting influence and by providing strategically located retail space for some of the Mercado's growing businesses to graduate into. There is a real shortage of retail space with storefront access and parking along the Lake Street Commercial Corridor, and this project would provide the next logical step for many of

the successful businesses inside the Mercado which are ready to expand into larger spaces.

The proposed project fits extremely well with the stated goal of the Twin Cities Pilot Cities Initiative, which is to connect the energy and vitality of emerging immigrant communities to the revitalization of aging commercial corridors. The proposed project will contribute to the redevelopment of a vacant building and of the broader revitalization of Lake Street, while also helping small businesses capitalize on that rebirth.

This project provides an opportunity for LISC to creatively utilize its allocation of New Markets Tax Credits to attract critical investment and push forward (in partnership with the Midtown Phillips Neighborhood Association, NDC, LEDC, and the City of Minneapolis) an important project.

This project accomplishes five of the City's development objectives for tax increment financing: (1) expanding the Minneapolis economy to create more living-wage jobs, with an emphasis on providing new job opportunities for the underemployed and unemployed, (2) increasing the city's property tax base and maintaining its diversity, (3) eliminating blighting influences throughout the city, (4) supporting neighborhood retail services, commercial corridors and employment hubs, and (5) supporting redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the riverfront and historic structures.

The project is also consistent with and supports the following City goals:

- Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets;
- City government will serve as a community catalyst for business development, job creation and transit access.
- Minneapolis will be recognized as a good place in which to do business.
- In addition, the City will support building capacity within the business community, in order to strengthen the business community's ability to attract new businesses and foster entrepreneurship.

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 page 12 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 Antiques Minnesota/1508 E. Lake Street Tax Increment Financing District.

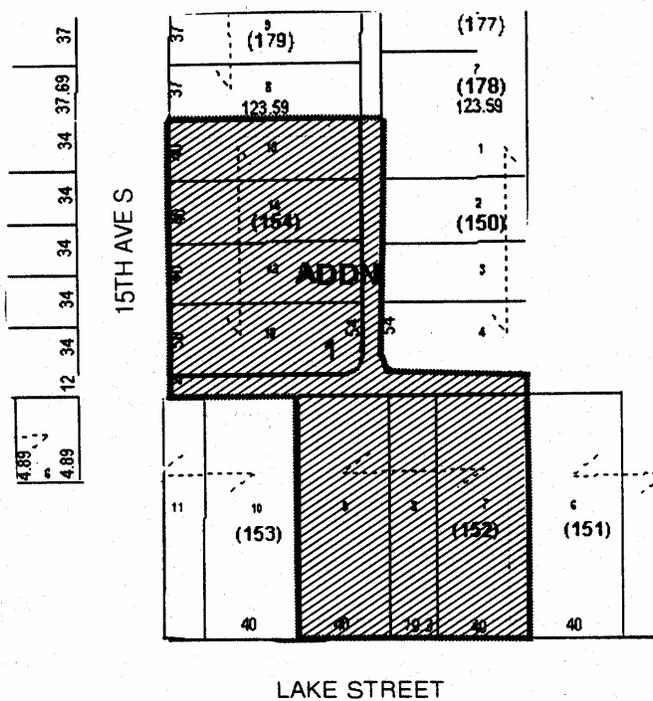
Antiques Minnesota/1508 E. Lake Street TIF District

Valuation and Tax Increment Assumptions		
	Pay 2006	Pay 2007
Total Estimated Market Value (EMV)	\$1,381,900	\$1,806,900
Less: Original EMV	517,900	517,900
Captured EMV	\$864,000	\$1,289,000
Total Net Tax Capacity (NTC)	\$26,888	\$35,388
Less: Original NTC	9,608	9,608
Captured NTC	\$17,280	\$25,780
Times: Projected Total Tax Rate	147.000%	147.000%
Gross Tax Increment	\$25,402	\$37,897
Less: State Auditor's Fee (.36%)	91	136
Tax Increment Distributed to MCDA	\$25,311	\$37,761

26 Years of TI Collection		
Years of TIF Collection	Payable Year	Tax Increment Distributed To City
---	2004	\$0
---	2005	0
1	2006	25,311
2	2007	37,761
3	2008	37,761
4	2009	37,761
5	2010	37,761
6	2011	37,761
7	2012	37,761
8	2013	37,761
9	2014	37,761
10	2015	37,761
11	2016	37,761
12	2017	37,761
13	2018	37,761
14	2019	37,761
15	2020	37,761
16	2021	37,761
17	2022	37,761
18	2023	37,761
19	2024	37,761
20	2025	37,761
21	2026	37,761
22	2027	37,761
23	2028	37,761
24	2029	37,761
25	2030	37,761
26	2031	37,761
		\$969,336
P.V. @	5.00%	\$505,680

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	\$522,010
(b) Original estimated market value	517,900
(c) Increased estimated market value without the use of tax increment = (a) - (b)	\$4,110
(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.	\$1,289,000
(e) Present value of the projected tax increment for the maximum duration of the district	505,680
(f) Difference = (d) - (e)	\$783,320
(3) Since (c) is less than (f), the proposed development or redevelopment passes the test.	

Exhibit # 1





Antiques Minnesota/1508 E. Lake Street
Tax Increment Finance Plan
Boundary Map
April 16, 2004

Boundary



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

PROJECT AREA REPORT
AND SUPPORTING DOCUMENTATION

**Antiques Minnesota/1508 E. Lake Street Tax Increment Finance Plan and
Modification No. 1 to the Lake and Bloomington Redevelopment Plan
April 16, 2004**

The purpose of this Project Area Report and Supporting Documentation is to describe the conditions that qualify the site for inclusion in a redevelopment TIF district. The TIF District is located within the Lake and Bloomington Redevelopment Project, established in 2002, under provisions of Minnesota Statutes Sections 469.001 through 469.047.

Description of the Neighborhood The Phillips neighborhood has long been a “point of entry” for recent immigrants to the City of Minneapolis, and consequently it remains the largest and most diverse neighborhood in the city. According to 2000 census data, the neighborhood has a total population of 19,805 – of which 32% is white, 29% is black or African American, 12% is American Indian, 6% is Asian, and 22% is Hispanic or Latino. The neighborhood’s Latino and Somali populations continue to grow at a tremendous rate and have begun to exert a profound influence on the neighborhood’s social fabric⁵. The Latino population in Minneapolis grew by over 269% (from 7,900 to 29,175) between 1990 and 2000 and most of the City’s Latino population resides in close proximity to this proposed project.

Between 1990 and 2000, the Phillips Community experienced a 14.83% increase in total population. The increase is largely associated with an increase in the non-white population in particular the Black or African American population, other races and the Hispanic or Latino population.⁶ The Hispanic or Latino population increased from 667 in 1990 to 4,385 in 2000, a numeric change of 3,718 or 557.42%.

Franklin Avenue and Lake Street are major commercial corridors that serve the neighborhood. Both are well served by public transportation and contain numerous older commercial buildings that have begun to come back to life behind the energy of the recent influx of immigrant entrepreneurs.

Lake Street has seen a dramatic influx of Latino businesses between Nicollet Avenue and Minnehaha Avenue. A windshield survey completed by the Latino Economic Development Center in 2002 indicated that Lake Street between Nicollet and Minnehaha was populated by well over 100 Latino businesses.

⁵ Executive Summary, Description of Neighborhood, LISC Proposal

⁶ Minneapolis Planning Department, 2000 Census Report: Population, Race, and Ethnicity, October 2001

As Lake Street undergoes significant changes over the next few years, preserving historic structures will help to create a unique commercial corridor that will revitalize South Minneapolis. Lake Street is a major commercial thoroughfare well served by public transportation. The project is a half block west of the Bloomington/Lake intersection, a busy commercial node. The blocks immediately surrounding that node host a healthy mix of neighborhood-based commercial retail, entertainment and service uses, including a Latino grocery store, a Wells Fargo Bank, the Avalon Theater and the Mercado Central, a Latino business incubator that houses over 40 small Latino businesses. The area, buoyed by the success of the Mercado Central, has become home to numerous Latino retail businesses in recent years. The business mix draws high levels of both automobile and pedestrian traffic. The project property is located adjacent to the Avalon Theater and across the street from the Mercado Central.

Site The Antiques Minnesota building is located at 1508 E. Lake Street, just east of the intersection of Lake Street and 15th Avenue. The three-story plus basement building, which has a large 60+ space parking in the back, was built in 1923 as a Masonic lodge and is an excellent example of the multi-use properties that lined Lake Street as a central commercial corridor. The building is reinforced concrete, with approximately 41,184 square feet of commercial/retail space. The structure has both a barrel roof and flat roof.

This section of the report is a *summary* of the documentation and condition surveys of the existing parcels. There are two subject parcels categorized as follows: a vacant commercial parcel, a paved parking lot, and adjoining alleys. The site analysis included an interior inspection conducted in February 2004 and the conditions therein do not meet the standards required for safe, sanitary, human occupancy. Structure is in poor condition and does not meet Uniform Building, Energy and Minneapolis Housing Maintenance Codes and Ordinances.

The building has sustained water damage in the basement of the building and general neglect. Plumbing systems are a mix of cast iron, PVC, galvanized and copper. . There is evidence that the systems have been altered, disassembled, and possible portions scraped and sold. There are several electrical meters and panels throughout the structure. Structure lacks fire suppression systems, sprinklers, alarms and/or fireboxes. The property does not meet the current Uniform Building Code, State of Minnesota Energy Code, State of Minnesota Fire Code or the Accessibility Code. The property has been tested and does contain both lead-based paint and asbestos.

The interior inspection revealed the presence of the following deficiencies:

- Property's exterior shows evidence of settlement cracks, spalling and deteriorated bricks at both the chimney and at rear of structure.
- Loading docks are missing rails and bumpers.
- Property lacks sanitary facilities, and the original facilities are not handicap accessible.
- HVAC systems are outdated and inoperable. (State Energy Code requires heating systems to be 80% efficient).
- Plumbing is illegal, outdated, and needs replacement.
- Property has illegal outdated electrical, exposed wires and inoperable fixtures. Electrical system is not in operation.

- Some original windows remain and contain lead-based paint.⁷
- Floor tile contains asbestos.
- Property has mildew that needs to be treated.
- Property contains illegal stairwell guardrails and handrails.
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- Property lacks adequate foundation insulation of R-5, wall insulation of R-11 and roof insulation of R-19 required of all commercial properties
- Property has evidence of graffiti that has been painted over.
- The structure has been poorly maintained over the years and is creating a possible health and safety hazard due to lack of normal maintenance, hygiene, vandalism, infestation and increased police incident reports for the area.
- The parking lot and retaining walls are deteriorated and in need of repair/replacement. The lot offers no handicap parking or accessible routes for businesses and is underused. The lot is in deteriorated condition, contains potholes, cracks and damaged bituminous paving.

TIF Eligibility Findings The parcels are found to be blighted and substandard to a degree requiring substantial renovation and exhibits deficiencies in other categories such as lacking essential utilities, (heat, light, ventilation etc.) facilities, fire protection, additional factors such as asbestos and lead containing materials, and basic energy conservation code requirements under statutory criteria, Minnesota Statutes Section 469.174, Subdivision 10 (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:

- (1) Parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.

⁷ The Metropolitan Council has approved a \$238,000 grant to this project for the removal of lead and asbestos from the building.

“Structurally substandard” shall mean containing defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection including adequate egress, layout and condition of interior partitions, or similar factors, which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

A building is not structurally substandard if it is in compliance with the building code applicable to new buildings or could be modified to satisfy the building code at a cost of less than 15% of the cost of constructing a new structure of the same square footage and type on the site. The cost to bring this structure into compliance with the building codes stated exceeds the 15% requirement stated here.

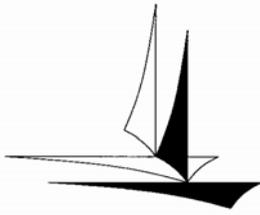
More than 50% of the freestanding buildings (100%) were found structurally substandard due to a combination of building code defects. Findings to this affect will be included in the resolutions considered by the Minneapolis City Council at the time these plan documents are offered for approval. The parking lot and retaining walls are deteriorated and in need of repair/replacement. The lot offers no handicap parking or accessible routes for businesses and is underused. The lot is in deteriorated condition, contains potholes, cracks and damaged bituminous paving.

Interior inspection of the property to be included in the proposed new redevelopment tax increment financing district was conducted by Geri Meyer, Construction Management Specialist III, in February 2004. Documentation supporting these findings is on file in the office of the Development Finance Division, Crown Roller Mill, 105 5th Avenue South, Minneapolis, Minnesota.

The Lake and Bloomington Redevelopment Project (the “Redevelopment Project”) qualifies as a redevelopment project as defined in the Minnesota Housing and Redevelopment Authorities Act (Minnesota Statutes, Section 469.002, Subdivision 14 and 16).

Redevelopment Project Findings An area wide assessment for eligibility for purposes of establishing a redevelopment project was conducted in November 2001. It was found that the real property within the Redevelopment Project boundaries (the “Project Area”) is characterized by significant blighting influences caused by the traffic congestion on East Lake Street, undersized lots for housing development, incompatible land uses, the age and condition of structures, all of which made it difficult to reuse much of the real property and which may have contributed to and prevented normal development of the land in the past. It was also found that with reasonable certainty, deficiencies exist in structures located within the boundaries of the Redevelopment Project. A survey of the buildings by the Agency indicated that most of the buildings surveyed are below standards contained in the Uniform Building Code applicable to new buildings.

The statutory definition for “blighted areas” include “buildings or improvements that exhibit dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light and sanitary facilities, excessive land coverage, deleterious land use, obsolete layout and other factors, detrimental to the safety, morals or welfare of the community”. The existing structures are obsolete for their present or continued use and are functionally obsolete. The structures lacked certain life safety factors, such as smoke detectors, elements of the Americans with Disabilities Act and obsolete mechanical and electrical systems essential for continued occupancy. Further, residential and commercial buildings lack energy conservation standards essential for continued occupancy in order to be in compliance with the Uniform Building Code of Ordinances (see State Energy Code 2000, and Bulletin 80-1 Property Code). In addition several illegal conversions of property to uses not permitted in the City’s Zoning Ordinance were observed.



City of Minneapolis

**Modification No. 1
to the
Lake and Bloomington
Redevelopment Plan**

April 16, 2004

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

**Modification No. 1 to the Lake and Bloomington
Redevelopment Plan
April 16, 2004**

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**Modification No. 1 to the Lake and Bloomington
Redevelopment Plan
April 16, 2004**

Introduction

Two plan documents have been prepared to assist a proposed commercial rehabilitation project at 1508 E. Lake Street in the Midtown Phillips neighborhood of south Minneapolis: this Modification No. 1 to the Lake and Bloomington Redevelopment Plan, and the Antiques Minnesota/1508 E. Lake Street Tax Increment Finance (TIF) Plan. The Modification to the Lake and Bloomington Redevelopment Plan authorizes the creation of new redevelopment tax increment finance district as a tool for carrying out portions of the redevelopment activities described therein.

Background

The Neighborhood Development Center (NDC) is proposing to rehabilitate the “Antiques Minnesota” building, a three story plus basement, 40,000 square foot commercial building at 1508 E. Lake. The building has been vacant since 1998 and its shuttered windows and uncontrolled parking lot have been a major source of concern for neighborhood residents and businesses. NDC acquired the building in December 2003 with a bridge loan from the Minneapolis Empowerment Zone, and has been working with a variety of community partners, including the Heart of the Beast Theater (“HOBT”) Company, the Latino Economic Development Center, the Cooperativa de Mercado Central, and the Midtown Phillips Neighborhood Association to formulate a viable plan for the facility. The community’s goals for the project are to restore the building, bring vitality to the street front, enhance the area’s burgeoning Latino business district, and create opportunities for further arts and cultural programming in the neighborhood.

REDEVELOPMENT PLAN

I. Project Description

NDC’s development concept is to restore the building’s street level entrances and windows and to lease the first floor of the building to 3-4 established retail businesses that will complement the surrounding area’s retail mix. NDC will lease the building’s second floor and basement as office space to organizations that complement the building’s other users and surrounding neighborhood. NDC will lease the entire third floor of the property to the HOBT Company⁸ which will enable

⁸ The HOBT Company has signed a letter of intent to occupy the entire third floor of the building.

HOBt to expand its programming and make the adjacent Avalon Theater, where its operations are currently located, more broadly available for use by other performing arts organizations. NDC believes this project will restore this building as a community asset by reinvigorating street level commercial activity and by expanding the area's cultural amenities. This project will facilitate the redevelopment of a long vacant and blighted building in the Midtown Phillips neighborhood of south Minneapolis.

The restoration of retail space on the first floor will create needed retail opportunities for neighborhood based businesses and will further bolster the surrounding Latino retail district. The project will also help anchor the HOBt, a long-time neighborhood cultural institution.

The Local Initiatives Support Corporation (LISC) has been a lead participant in the formulation of the Pilot Cities Initiative (PCI) in the Twin Cities. Lake Street is the focus of the PCI in Minneapolis. This project's goals of rehabilitating a blighted property, creating quality space for growing immigrant entrepreneurs, and supporting cultural amenities, are just the type of strategies contemplated by the Pilot Cities Initiative.

The proposed financing structure represents one of the first New Markets Tax Credits transactions that will close in the state of Minnesota. This investment will help provide financing for this project and will support a creative utilization of LISC's New Markets Tax Credits that will push forward this important project.

- A. Boundary of Redevelopment Project (No Change)
- B. Project Boundary Map (No Change)
- C. Objectives of the Redevelopment Plan (No Change)
- D. Types of Redevelopment Activities (No Change)

III. Project Proposals **(Changed)**

The proposed development will convert and rehabilitate a former vacant structure into a variety of new commercial uses focusing on the arts including art studio space, retail space, office space, and rehearsal and storage space for HOBt. The project also includes parking land, and will be used to help solve parking issues for the project area, HOBt and the neighborhood.

- A. Land Acquisition Map (No Change)
- B. Land Acquisition (No Change)

C. Rehabilitation (No Change)

D. Redevelopers' Obligations

The general requirements to be imposed upon the developers, their successors or assigns, will be established in development agreements between the City of Minneapolis and each developer. Specific terms and conditions of a development agreement between the City and Neighborhood Development Center / Mercado Vista L.L.C. will be indicated in the development agreement.

IV. Relocation (No Change)

V. Official Action to Carry Out the Redevelopment Plan (No Change)

VI. Procedure for Changes in Approved Redevelopment Plan (No Change)

**PROJECT AREA REPORT
AND SUPPORTING DOCUMENTATION**

**Modification No. 1 to the Lake and Bloomington Redevelopment Plan and the
Antiques Minnesota/1508 E. Lake Street Tax Increment Finance Plan
April 16, 2004**

The purpose of this Project Area Report and Supporting Documentation is to describe the conditions that qualify the site for inclusion in a redevelopment TIF district. The TIF District is located within the Lake and Bloomington Redevelopment Project, established in 2002, under provisions of Minnesota Statutes Sections 469.001 through 469.047.

Description of the Neighborhood The Phillips neighborhood has long been a “point of entry” for recent immigrants to the City of Minneapolis, and consequently it remains the largest and most diverse neighborhood in the city. According to 2000 census data, the neighborhood has a total population of 19,805 – of which 32% is white, 29% is black or African American, 12% is American Indian, 6% is Asian, and 22% is Hispanic or Latino. The neighborhood’s Latino and Somali populations continue to grow at a tremendous rate and have begun to exert a profound influence on the neighborhood’s social fabric⁹. The Latino population in Minneapolis grew by over 269% (from 7,900 to 29,175) between 1990 and 2000 and most of the City’s Latino population resides in close proximity to this proposed project.

Between 1990 and 2000, the Phillips Community experienced a 14.83% increase in total population. The increase is largely associated with an increase in the non-white population in particular the Black or African American population, other races and the Hispanic or Latino population.¹⁰ The Hispanic or Latino population increased from 667 in 1990 to 4,385 in 2000, a numeric change of 3,718 or 557.42%.

Franklin Avenue and Lake Street are major commercial corridors that serve the neighborhood. Both are well served by public transportation and contain numerous older commercial buildings that have begun to come back to life behind the energy of the recent influx of immigrant entrepreneurs.

Lake Street has seen a dramatic influx of Latino businesses between Nicollet Avenue and Minnehaha Avenue. A windshield survey completed by the Latino Economic Development Center in 2002 indicated that Lake Street between Nicollet and Minnehaha was populated by well over 100 Latino businesses.

As Lake Street undergoes significant changes over the next few years, preserving historic structures will help to create a unique commercial corridor that will revitalize South

⁹ Executive Summary, Description of Neighborhood, LISC Proposal

¹⁰ Minneapolis Planning Department, 2000 Census Report: Population, Race, and Ethnicity, October 2001

Minneapolis. Lake Street is a major commercial thoroughfare well served by public transportation. The project is a half block west of the Bloomington/Lake intersection, a busy commercial node. The blocks immediately surrounding that node host a healthy mix of neighborhood-based commercial retail, entertainment and service uses, including a Latino grocery store, a Wells Fargo Bank, the Avalon Theater and the Mercado Central, a Latino business incubator that houses over 40 small Latino businesses. The area, buoyed by the success of the Mercado Central, has become home to numerous Latino retail businesses in recent years. The business mix draws high levels of both automobile and pedestrian traffic. The project property is located adjacent to the Avalon Theater and across the street from the Mercado Central.

Site The Antiques Minnesota building is located at 1508 E. Lake Street, just east of the intersection of Lake Street and 15th Avenue. The three-story plus basement building, which has a large 60+ space parking in the back, was built in 1923 as a Masonic lodge and is an excellent example of the multi-use properties that lined Lake Street as a central commercial corridor. The building is reinforced concrete, with approximately 41,184 square feet of commercial/retail space. The structure has both a barrel roof and flat roof.

This section of the report is a *summary* of the documentation and condition surveys of the existing parcels. There are two subject parcels categorized as follows: a vacant commercial parcel, a paved parking lot, and adjoining alleys. The site analysis included an interior inspection conducted in February 2004 and the conditions therein do not meet the standards required for safe, sanitary, human occupancy. Structure is in poor condition and does not meet Uniform Building, Energy and Minneapolis Housing Maintenance Codes and Ordinances.

The building has sustained water damage in the basement of the building and general neglect. Plumbing systems are a mix of cast iron, PVC, galvanized and copper. There is evidence that the systems have been altered, disassembled, and possible portions scraped and sold. There are several electrical meters and panels throughout the structure. Structure lacks fire suppression systems, sprinklers, alarms and/or fireboxes. The property does not meet the current Uniform Building Code, State of Minnesota Energy Code, State of Minnesota Fire Code or the Accessibility Code. The property has been tested and does contain both lead-based paint and asbestos.

The interior inspection revealed the presence of the following deficiencies:

- Property's exterior shows evidence of settlement cracks, spalling and deteriorated bricks at both the chimney and at rear of structure.
- Loading docks are missing rails and bumpers.
- Property lacks sanitary facilities, and the original facilities are not handicap accessible.
- HVAC systems are outdated and inoperable. (State Energy Code requires heating systems to be 80% efficient).
- Plumbing is illegal, outdated, and needs replacement.
- Property has illegal outdated electrical, exposed wires and inoperable fixtures. Electrical system is not in operation.
- Some original windows remain and contain lead-based paint.¹¹

¹¹ The Metropolitan Council has approved a \$238,000 grant to this project for the removal of lead and asbestos from the building.

- Floor tile contains asbestos.
- Property has mildew that needs to be treated.
- Property contains illegal stairwell guardrails and handrails.
- Existing roof is leaking and needs to be removed and replaced.
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TIF Eligibility Findings The parcels are found to be blighted and substandard to a degree requiring substantial renovation and exhibits deficiencies in other categories such as lacking essential utilities, (heat, light, ventilation etc.) facilities, fire protection, additional factors such as asbestos and lead containing materials, and basic energy conservation code requirements under statutory criteria, Minnesota Statutes Section 469.174, Subdivision 10 (a).

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Preliminary Budget and Method of Financing

Modification No. 1 to the Lake and Bloomington Redevelopment Plan April 16, 2004

Description of Development

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Developer Information

The Neighborhood Development Center is a non-profit organization that provides training and financing to neighborhood entrepreneurs and facilitates community-based economic development in neighborhoods throughout Minneapolis and St. Paul. Its mission is to help communities in the inner cities of Minneapolis and St. Paul build their capacity and stability by helping emerging entrepreneurs develop successful businesses that serve the community. Nearly 500 low/moderate income persons have received quality training in their own neighborhood in the past 32 months through NDC and its partners.

Financing Overview

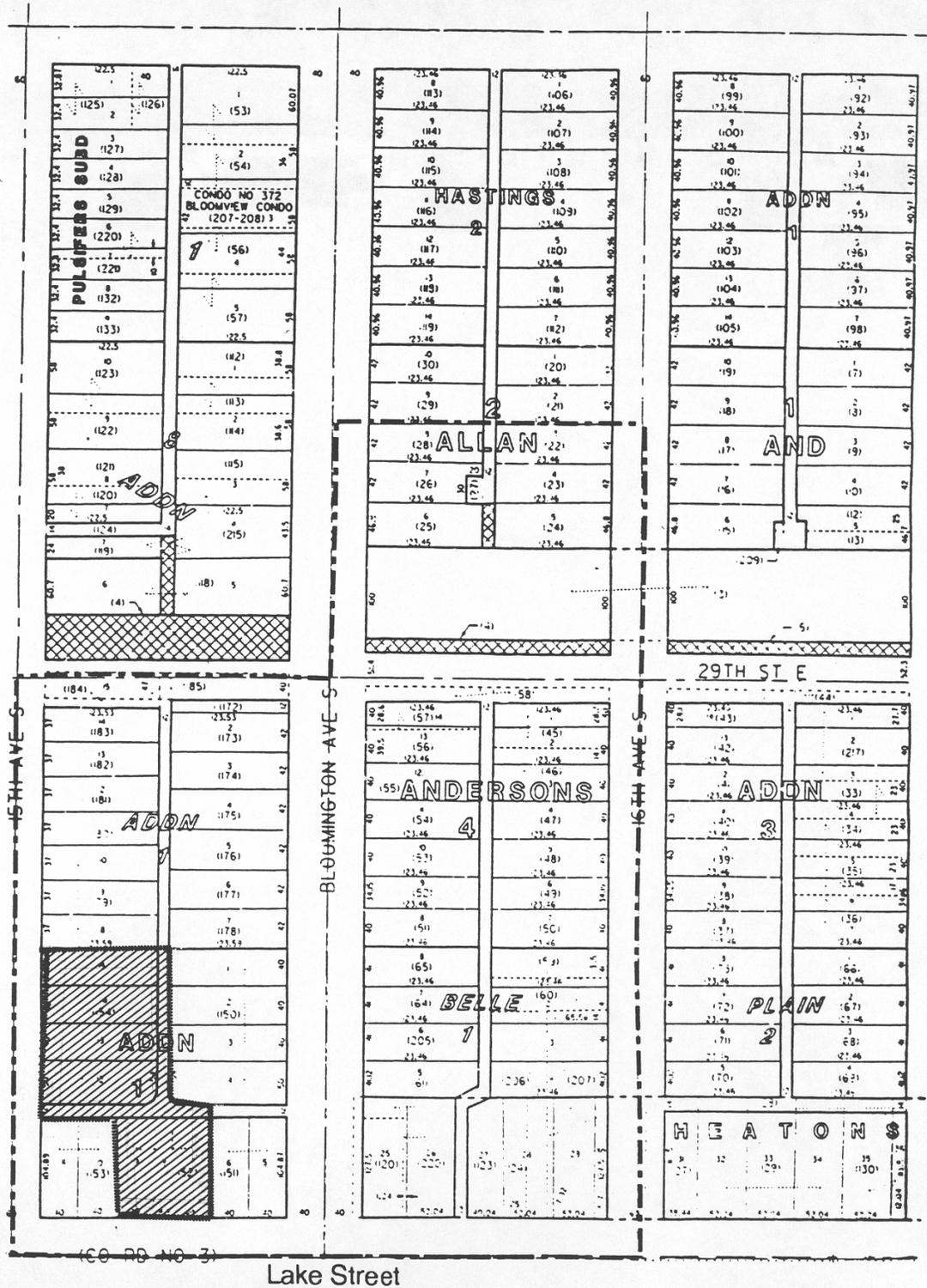
Tax increment generated within the TIF District will be a source of public funds used to pay a portion of the public redevelopment costs associated with the Antiques Minnesota/1508 E. Lake Street project. Other sources of funds to pay redevelopment costs may include Wells Fargo Equity Investment, Wells Fargo Loan, LISC Loan, Minneapolis Empowerment Zone, CPED Commercial Corridor funding, Metropolitan Council TBRA funds, Historic Tax Credit Equity, NDC REDI Loan, Midtown Phillips NRP

Grant, Pohlad Foundation funds, CPED Business Development Funds, and HOBT Equity.

TIF District Budget

Sources	Up-Front	Over Time
Developer Funds	\$ 450,000	---
Tax Increment	---	\$ 1,250,000
Other	---	0
Total Sources	\$ 450,000	\$ 1,250,000
Uses		
Building rehabilitation	\$ 450,000	---
Pay-As-You-Go Note Principal	---	\$ 450,000
Pay-As-You-Go Note Interest	---	362,500
Pooling for Affordable Housing	---	312,500
Administration	---	125,000
Total Uses	\$ 450,000	\$ 1,250,000

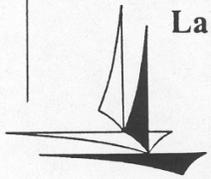
It is not anticipated that bonded indebtedness will be used for this project. It is anticipated that up-front public redevelopment costs will be financed with pay-as-you-go tax increment financing. With pay-as-you-go tax increment financing, the developer finances eligible public redevelopment costs under contract with the City in exchange for a note that pledges repayment of these costs, with interest, out of the tax increment revenue generated by the new development to be constructed by the developer. This approach reduces the financing risks for the City, since the developer is only fully reimbursed if sufficient tax increment revenue is actually generated by the new development.



Lake and Bloomington Redevelopment Plan

Boundary Map
 May 10, 2002

ANTIQUES MINNESOTA/1508 E LAKE STREET TIF
 APRIL 16, 2004



City of Minneapolis

