

Request for City Council Action

Date: July 29, 2003

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

Refer to: MCDA Board of Commissioners

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

Presented by: Tiffany Glasper, Project Coordinator III, Phone 612-673-5221

Approved by: Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

SUBJECT: Proposed Housing Replacement TIF District II

<p>Previous Directives: Not Applicable.</p> <p>Ward: Citywide</p> <p>Neighborhood Group Notification: Field-Regina-Northrop Neighborhood Group, Folwell Neighborhood Association, Jordan Area Community Council, McKinley Community</p> <p>Consistency with <i>Building a City That Works</i>: Not Applicable.</p> <p>Comprehensive Plan Compliance: Not Applicable.</p> <p>Zoning Code Compliance: Not Applicable.</p> <p>Impact on MCDA Budget: (Check those that apply) Not Applicable. <input checked="" type="checkbox"/> No financial impact <input type="checkbox"/> Action requires an appropriation increase to the MCDA Budget <input type="checkbox"/> Action provides increased revenue for appropriation increase <input type="checkbox"/> Action requires use of contingency or reserves <input type="checkbox"/> Other financial impact (Explain):</p> <p>Living Wage / Business Subsidy: Not Applicable.</p>
--

Job Linkage: Not Applicable.

Affirmative Action Compliance: Not Applicable.

RECOMMENDATION: The Deputy Executive Director recommends that the City Council Community Development Committee schedule a public hearing to be held on August 12, 2003 for the proposed Housing Replacement TIF District II Plan (the “Plan”); and it is recommended that the Ways and Means/Budget Committee review the proposed Plan and submit its comments at the Community Development Committee public hearing scheduled for Tuesday, August 12, 2003.

In 1995 the Minnesota State Legislature passed legislation to allow cities to establish housing replacement tax increment districts. In December 1995, the Minneapolis City Council adopted a resolution enabling the Minneapolis Community Development Agency (MCDA) to establish a housing replacement tax increment financing district within the City of Minneapolis, and directed MCDA staff to prepare a Housing Replacement District Plan for their review and approval. Subsequently, 100 parcels were added to the original housing replacement district resulting in the acquisition of 100 parcels and the subsequent disposition of 115 parcels for new or rehabilitated housing units. In 2002 the Minnesota State Legislature passed legislation to allow the City of Minneapolis to add additional parcels to the housing replacement tax increment financing district. Because the existing district has reached the limitation on designation of parcels within the five year period, and in order to take full advantage of the additional parcels we’ve been allowed, a second housing replacement tax increment financing district is being created.

The main benefit to the City of Minneapolis for creating a housing replacement tax increment district is to set up a continuing source of funds (tax increment) to offset a portion of the cost of acquiring and removing substandard housing. This will allow for the replacement of substandard housing with new or rehabilitated market rate housing.

The Minneapolis Community Development Agency prepared the proposed Housing Replacement TIF District II Plan (the “Plan”) and transmitted it to interested parties for review and comment on July 11, 2003. Comments have been requested and are due at the Agency by August 11, 2003.

It is requested that the Community Development Committee schedule a public hearing on the proposed Plan, to be held by the Community Development Committee on Tuesday, August 12, 2003, at 1:30 p.m. Final Council and MCDA Board Action will be held on Friday, August 22, 2003.

It is requested that the Ways and Means/Budget Committee review the proposed Plan and submit its comments at the public hearing to be held by the Community Development Committee on Tuesday, August 12, 2003.

Housing Replacement District II Plan
City of Minneapolis

July 11, 2003

**Prepared by the Minneapolis Community Development Agency
Project Planning and Finance Department**

Table of Contents

I.	Housing Replacement District Plan	Page
A.	Definitions.....	1
B.	Statutory Authorization.....	2
C.	Statement of Objectives.....	2
D.	Statement of Compliance.....	5
E.	Criteria for Inclusion in the District.....	5
	1. List of Parcels To Be Included.....	6
	2. Criteria for Adding Parcels.....	6
	3. Procedure for Adding Parcels.....	6
	4. Procedure for Deleting Parcels.....	7
F.	Conditions for Acquisition.....	7
G.	Proposed Development Activity.....	8
H.	Description of District Financing.....	8
	1. Total Project Costs.....	9
	2. Sources of Revenue.....	10
	3. Bonded Indebtedness.....	10
	4. Eligible Uses of District Funds.....	10
I.	Estimated Fiscal Impacts of District.....	11
	1. Estimated Market Value of Completed Development.....	11
	2. Original Tax Capacity.....	11
	3. Estimated Captured Tax Capacity.....	12
	4. Original Tax Capacity Rate.....	12
	5. Estimated Tax Increment.....	12
	6. Duration Limits.....	12
J.	Estimated Impact.....	13
K.	Basis for Finding Development Would Not Occur Without Tax Increment Financing Assistance.....	13
	Market Value Analysis.....	15
Exhibits		
	Boundary Map	
	Project Area Report	
	Special Legislation	

Housing Replacement District II Plan City of Minneapolis

July 11 , 2003

Introduction

This plan authorizes the creation of the Housing Replacement District II (the "District") in the City of Minneapolis. The purpose of this plan is to identify Parcels that currently consist of either vacant land, vacant housing or substandard housing, and to designate these Parcels for acquisition, demolition, occupant relocation, site preparation and pollution remediation, as necessary, in order to market these infill sites for the development of new or rehabilitated Market Rate Housing.

A Housing Replacement District is a type of tax increment financing district. It is a financing tool that is utilized to pay eligible public redevelopment costs. All revenues derived from the District must be used in accordance with the housing replacement district plan. The revenues must be used solely to pay the costs of site acquisition, relocation, demolition of existing structures, site preparation, and pollution abatement on Parcels identified in the housing replacement district plan, as well as public improvements and administrative costs directly related to those Parcels.

This plan document establishes the second Housing Replacement District in the City of Minneapolis, establishes a budget for the District, identifies the fiscal impacts of the District on local taxing jurisdictions, identifies the initial group of tax Parcels to be included in the District, and establishes the criteria for adding additional Parcels to the District in the future.

In 1997, the City of Minneapolis established its first Housing Replacement District, resulting in the acquisition of 100 Parcels and the subsequent disposition of 115 new or rehabilitated housing units. Recent legislation¹ approved the addition of an additional 100 Parcels. Because the existing district has reached the limitation on designation of Parcels within the five year period, this new Housing Replacement District is being created at this time to accommodate the additional 100 Parcels authorized.

A. Definitions

The terms defined below shall, for purposes of this Housing Replacement District Plan, have the meanings specified herein, unless the context otherwise specifically requires:

"Agency" means the Minneapolis Community Development Agency.

¹ Minnesota Session Laws 2002, Chapter 377, Article 7.

"City" means the City of Minneapolis.

"Comprehensive Plan²" means the City's Comprehensive Plan.

"District" means the Housing Replacement District II of the City of Minneapolis, as established by the adoption of this Plan, August 22, 2003, and as it may be subsequently modified.

"Enabling Legislation" means the Laws of Minnesota, 1995, Chapter 264, Article 5, Sections 44 through 47, as amended by Minnesota Session Laws 1996, Chapter 471, Article 7, Minnesota Session Laws 1997, Chapter 231, Article 10, and Minnesota Session Laws 2002, Chapter 377, Article 7.

"Market Rate Housing" means housing that has a market value that does not exceed one hundred fifty percent (150%) of the average market value of single family housing in the City.

"Parcel" means a tract or plat of land established prior to the certification of the housing replacement district as a single unit for purposes of assessment.

"Plan" means the Housing Replacement District II Plan adopted August 22, 2003, and as it may be subsequently modified.

"Project" means a project as defined in Minnesota Statutes, Section 469.174, Subdivision 8 and Minnesota Statutes, Section 469.002, Subdivision 12.

"Project Area" means the area within the territorial boundaries of the City in which the Agency is authorized to develop, implement or operate the Project.

B. Statutory Authorization

The Laws of Minnesota, 1995, Chapter 264, Article 5, Sections 44 through 47, as amended by Minnesota Session Laws 1996, Chapter 471, Article 7, Minnesota Session Laws 1997, Chapter 231, Article 10, and Minnesota Session Laws 2002, Chapter 377, Article 7 provides for the establishment of a housing replacement district in the City, and for the adoption and implementation of this Plan. In the City of Minneapolis, the Agency is designated as the authority to prepare and implement this Plan.

C. Statement of Objectives

² To serve the needs of the City of Minneapolis and to meet the conditions of the Metropolitan Land Planning Act, the City of Minneapolis has developed a new comprehensive plan entitled "The Minneapolis Plan" adopted March 24, 2000.

The quality and variety of a city's housing stock determines the livability of its neighborhoods, the stability and strength of its tax base, and its ability to compete effectively in the broader metropolitan area housing market.

Minneapolis is a fully developed city, with a large stock of aging single family and multi-family housing units. There are more than 169,000³ housing units in Minneapolis. Single family homes account for more than 75,000 housing units. Ninety percent of the City's single family homes were built before 1959, with only 10 percent built since 1960. As properties age, they often lose value and desirability due to physical deterioration, as well as functional and economic obsolescence. All properties begin to deteriorate after being built. Routine maintenance can slow deterioration, and in some cases, rehabilitation of older structures can reverse this process, and is a sound investment for property owners. Major rehabilitation, however, sometimes costs more than the value it adds, which creates an economic disincentive for property owners to make substantial repairs to older properties. Curing functional obsolescence by expanding kitchens or adding bathrooms to conform with contemporary housing standards also often costs more than the value it adds. One of the main goals of local housing policy is to channel sufficient private and public investment into the housing market to preserve and expand the existing housing stock, and to provide a suitable mix of housing units and choices to meet the needs of City residents.

Consequently, developing and implementing housing programs that maintain and preserve the quality of the City's existing housing inventory, ensure high occupancy levels, promote home ownership, encourage additional investment in home improvement activities, eliminate the blighting influence of vacant and substandard properties, protect neighborhood livability, and promote the development of new, compatible housing units at infill locations has been a fundamental objective of City and Agency housing policy for many years.

Vacant lots, substandard buildings, and vacant and boarded houses in established residential neighborhoods pose a particularly serious threat to maintaining neighborhood image and livability, and to preserving the quality and value of adjacent residential property. The Minneapolis Inspections Department maintains a list of vacant, boarded and condemned properties that currently contains about 150 properties, down from 400 properties in 1996. The city has set a goal to reduce the number of blighted residential buildings, and to demolish those structures that are unsuitable for rehabilitation.

Over the past several years, the Agency has been successful in acquiring a number of vacant lots, boarded houses, and blighted properties in established Minneapolis residential neighborhoods. In many cases, substandard houses have been demolished, sites have been prepared for redevelopment, the lots have been sold to redevelopers, and new homes have been constructed. Although this effort has been successful in

³ Includes 75,000 single family detached homes, in addition to 10,000 townhomes, condominiums and cooperative housing units.

removing blight, developing new Market Rate Housing, and improving neighborhoods, is very expensive. Without public resources and significant initiative, it is unlikely that the private market would invest in the acquisition, site clean up and removal of substandard property to create buildable sites.

The cost to acquire and remove severely deteriorated housing far exceeds what can be recovered by selling the land for new development. With diminishing federal and state resources for these types of activities, the Agency is limited in the total number of properties it can treat. The District provides an invaluable tool and added mechanism for financing part of the cost of acquiring and removing substandard housing.

In order to facilitate the redevelopment of these blighted properties, the Agency has prepared this Plan. The sole objective of this Plan is to facilitate the acquisition, site preparation and disposition of Parcels currently containing either undeveloped land, or vacant or substandard houses for purposes of their rehabilitation or redevelopment as Market Rate Housing.

Additional public purpose goals that may be accomplished include:

- removal of substandard residential structures, as defined in Minnesota Statutes, Section 469.174, Subdivision 10.
- encouragement of infill housing development and redevelopment that is compatible in use and scale with surrounding neighborhoods.
- rehabilitation of existing housing stock and preservation of existing residential neighborhoods where possible.
- elimination of code violations and nuisance conditions that adversely affect neighborhoods.
- restoration and improvement of the residential tax base.
- accomplishment of comprehensive planning goals.
- revitalization of property to improve the livability of Minneapolis neighborhoods.
- creation and maintenance of a healthy and safe environment.
- removal of non conforming land uses.
- stimulation of private activity and investment to stabilize and balance the city's housing supply.

Housing Replacement District II is a financing tool that may be utilized to pay

the eligible public redevelopment costs for project activities consistent with the public purposes and objectives identified in this Plan. The City of Minneapolis is the Project Area within which the District is established. Parcels included in the District must conform with the eligibility criteria included in the State Statutes and in this Plan.

A Project Area Report, that further describes general housing conditions within the City of Minneapolis, is included as Exhibit #2 to this Plan.

D. Statement of Compliance

This District is being established pursuant to the Laws of Minnesota, 1995, Chapter 264, Article 5, Sections 44 through 47, as amended by Minnesota Session Laws 1996, Chapter 471, Article 7, Minnesota Session Laws 1997, Chapter 231, Article 10, and Minnesota Session Laws 2002, Chapter 377, Article 7.

The adoption and implementation of this Plan will comply with all statutory requirements for housing replacement districts. Redevelopment activities undertaken within this Plan will follow the applicable and established Agency, City, State and Federal regulations and procedures. Development activities that are undertaken will conform to the City's Comprehensive Plan, The Minneapolis Plan⁴, and Zoning Code, as well as the respective neighborhoods' land use plans.

In 2002, modifications were made to the city's comprehensive plan that strengthened its commitment to policies of housing growth and of increasing the supply of affordable housing.⁵ The Zoning Code was also amended to allow developers of affordable housing to construct more housing units than would otherwise be allowed in instances where a proposed development includes affordable housing units.

E. Criteria for Inclusion in the District

The Agency may designate a maximum of 100 Parcels, over a period not to exceed five years, for inclusion within the District. This is in addition to the 100 Parcels which have already been designated within the Housing Replacement District which was established by the Agency in 1996. The Agency will either draw upon the City's existing inventory of eligible Parcels or designate and acquire other suitable privately owned Parcels that meet the statutory requirements for inclusion within a housing replacement district. These Parcels must be either vacant land or Parcels containing vacant or substandard houses.

Parcels included in the District are designated as sites that will be prepared and sold for the development or rehabilitation of Market Rate Housing. Following certification, some

⁴ The Minneapolis Plan is the City's policy foundation, in which basic city policies or objectives are identified. In 2002, the City Council adopted changes to the Minneapolis Plan that include the addition of housing policy statements, and housing policies.

⁵ State of the City Report 2002.

of the Parcels included in the District may be subdivided and utilized for the construction of more than one housing unit.

1. List of Parcels to be Included in the District

The following Parcels are to be certified for inclusion in the District at this time.

	<u>PIN Number</u>	<u>Address</u>
1.	08-029-24-44-0095	2750 Thomas Avenue North
2.	10-028-24-44-0197	4515 5 th Avenue South
3.	03-029-24-33-0072	3651 4 th Street North
4.	09-029-24-14-0065	3300 Dupont Avenue North
5.	10-029-24-23-0136	3223 6 th Street North
6.	10-029-24-23-0120	3250 6 th Street North
7.	09-029-24-14-0210	3210 Aldrich Avenue North
8.	09-029-24-14-0123	3243 Aldrich Avenue North
9.	16-029-24-21-0111	2354 James Avenue North
10.	08-029-24-41-0074	3010 Queen Avenue North
11.	09-029-24-34-0026	2709 Humboldt Avenue North
12.	16-029-24-21-0023	2505 Irving Avenue North
13.	16-029-24-21-0022	2509 Irving Avenue North

Records documenting the original site conditions and eligibility of each Parcel certified for inclusion in the District are on file in the offices of the Minneapolis Community Development Agency, Suite 600, Crown Roller Mill, 105 5th Avenue South, Minneapolis, Minnesota.

A map showing the location of the initial group of Parcels to be included in the District is attached as Exhibit #1 to this Plan.

2. Criteria for Adding Parcels to the District

This Plan only identifies the first 13 Parcels that are to be included within the new District. Consequently, the Agency has set forth the following criteria to be used in selecting future Parcels for inclusion in the District. The selected Parcels must comply with the City's public purpose goals and must satisfy one of the following criteria:

1. be a vacant site;
2. contain a vacant house; or
3. **contain a house determined to be structurally substandard pursuant to Minnesota Statutes, Section 469.174, Subdivision**

3. Procedure for Adding Parcels to the District

Following adoption of this Plan by the City and Agency, and certification of the Parcels listed herein, the Board of Commissioners of the Agency may identify by resolution, at any time, any additional Parcels to be added to the District. No more than 100 Parcels may be included in this Housing Replacement District over the life of the District. These Parcels may be added at any time without formal modification of this Plan, provided the designated Parcels meet the criteria listed above.

4. Procedure for Deleting Parcels from the District

If for any reason, Parcels identified in this plan document, or added to this District in the future, are not redeveloped or rehabilitated for Market Rate Housing, these Parcels may be deleted from the District. Examples of circumstances that may result in the deletion of a Parcel from the District include polluted soils, excessive site preparation costs, inability on behalf of the Agency to acquire the property, limitations on the marketability of the property, or changes in the neighborhood land use plan. Under these circumstances, Parcels may be deleted from the District by resolution of the Agency Board of Commissioners. If the Parcels that are deleted from the District have not generated any tax increment subsequent to their initial certification and have not utilized any tax increment funds from the District, these Parcels may be replaced by other eligible Parcels.

F. Conditions for Acquisition

Parcels included in the District may be either already owned by the Agency, or they may be privately owned and designated for future acquisition by the Agency. In some instances, property to be included in the District may be acquired directly from the U.S. Department of Housing and Urban Development (“HUD”), or from other Federal, State or local governmental agencies.

The Agency may acquire Parcels subject to the following conditions:

1. The Agency may acquire property by gift, dedication, condemnation or voluntary sale, in order to achieve the objectives of the Plan.
2. Such acquisition will be undertaken only when there is assurance of funding to finance the acquisition and related costs.

By identifying privately owned Parcels as property that may be acquired, the Agency is signifying that it is considering acquiring these Parcels, subject to limitations imposed by availability of funds, developer interest, soil contamination and other financial and environmental considerations. Inclusion does not indicate an absolute commitment on the part of the Agency to acquire a property. State law authorizes the Agency to acquire property either on a negotiated basis or by its power of eminent domain, if necessary, to

carry out a plan. The Agency will seek to acquire property from willing sellers whenever possible, but may use the power of eminent domain to acquire property identified as “property that may be acquired” when necessary.

The following Parcels that are included in the District are not currently owned by the City or the Agency at the time of this writing, and are identified here as property that may be acquired by the MCDA:

	<u>PIN Number</u>	<u>Address</u>
1.	08-029-24-44-0095	2750 Thomas Avenue North
2.	09-029-24-14-0065	3300 Dupont Avenue North
3.	03-029-24-33-0072	3651 4 th Street North

Parcels included in the District may be conveyed to a redeveloper for the purpose of either building new Market Rate Housing or rehabilitating the existing structure.

G. Proposed Development Activity

Public redevelopment activity may include property acquisition and disposition, demolition, relocation, pollution testing and remediation, public improvements directly related to these Parcels, project administration, and other related activities.

The sole objective of the redevelopment activity authorized by this Plan is to facilitate the acquisition, site preparation and disposition of Parcels currently containing either undeveloped land, or vacant or substandard houses for purposes of their rehabilitation or redevelopment as Market Rate Housing.

The anticipated market value of the proposed new or rehabilitated housing units constructed on Parcels included in the District cannot exceed 150% of the average market value of single family housing of the city. According to the City Assessor's Office, for taxes payable (TP) 2003, the average market value of single family housing in Minneapolis is \$173,967. This means that the anticipated sales price for new or rehabilitated housing units developed in the District in 2003 shall not exceed \$260,950.

H. Description of District Financing

The financial projections included in this plan are based upon the creation of a District that includes 100 tax Parcels, which is the maximum number of Parcels eligible for inclusion under the current enabling legislation. It is anticipated that it will take approximately five years for the entire 100 Parcels to be identified and certified for inclusion in the District.

Most of the Parcels that will be included within the District are single family residential lots that are currently either vacant land or are occupied by vacant and/or blighted houses. These Parcels will be redeveloped with a single new housing unit. However, a few of the vacant Parcels that may be included in the District may be larger. These Parcels will be subdivided and redeveloped with more than one new Market Rate Housing unit. It is estimated that a total of 115 new or rehabilitated Market Rate

Housing units will be produced on the 100 tax Parcels included in the District. The average market value of the completed new or rehabilitated housing units will be approximately \$200,000.

The public costs of redeveloping each of these Parcels will vary. The costs of acquiring and preparing some Parcels will greatly exceed the total future value of the tax increment revenue that will be generated by these individual Parcels. However, some of the Parcels included in the district will have very low costs, since they are vacant sites that are already owned by the Agency. These low cost Parcels will generate tax increment revenue that can be utilized to pay eligible project costs for other high cost Parcels that are also located within the District. An effort will be made to combine a mixture of high and low cost Parcels within the proposed District in order to offset the total project costs with the available tax increment revenue from the District and the minimum 25% local contribution from unrestricted funds of the City or Agency. For the purposes of this Plan document, it is assumed that the average cost to acquire and prepare each Parcel will be \$70,000. A more complete project budget, identifying both the sources and uses of project funds, is provided below.

The figures, sources and methods of financing identified in this preliminary District Plan are the best estimates available at the time of writing. Slight changes in these figures can be expected. However, should the total project costs exceed the amount listed here, a modification of this Plan might be necessary. Such a modification would require the same approval process as the original adoption of this Plan.

1. Total Project Costs

The cost to acquire and prepare for redevelopment Parcels located in the District will vary enormously from Parcel to Parcel, depending upon their individual site characteristics.

For the purposes of this Plan document, it is assumed that the average cost to acquire and prepare each Parcel will be approximately \$70,000. This will result in a total project budget for 100 Parcels of \$7,000,000. An estimated breakdown of these public costs is listed below:

Project Budget – Minneapolis Housing Replacement District II

Acquisition	\$4,750,000
Demolition	700,000
Relocation	50,000
Pollution Cleanup, Public Improvements, and other Site Preparation	500,000
Interest Expense	300,000
Administrative Expense	700,000

Total Project Costs	\$7,000,000
----------------------------	--------------------

2. Sources of Revenue

Sources of funds to pay project costs may include tax increment revenue, CDBG program funds, other available State or Federal funds, grant money, NRP funds, land sale proceeds, and other Agency or City housing or redevelopment funds.

Tax increment will be collected either to directly pay eligible project costs or, in most instances, to reimburse other fund sources that have already paid the eligible project costs up-front. Most project costs will be initially funded by capital advances that will be reimbursed by tax increment revenue from the District, as these revenues become available over the life of the District.

However, a portion of project costs will be financed with a local contribution equal to a minimum of twenty-five percent (25%) of total project costs. This local contribution must come from a source other than tax increment revenue, which may include the City’s general fund, a property tax levy, or other discretionary redevelopment funds of the City or the Agency.

Based upon the amount of tax increment revenue that is expected to be generated by the District, the anticipated sources of funds to pay total project costs have been identified as follows:

Sources of Project Funds – Minneapolis Housing Replacement District II

Direct Payment or Reimbursement by Tax Increment Revenue	\$5,250,000
Qualifying Local Contribution Funds	1,750,000
Total Project Sources of Funds	\$7,000,000

3. Bonded Indebtedness to be Incurred

It is not anticipated that bonds will be utilized to pay any of the public redevelopment costs associated with the District.

4. Eligible Uses of District Funds

Expenditures of tax increment revenues derived from the District are limited to the following eligible uses.

All revenues derived from tax increments must be used in accordance with the District plan. The revenues must be used solely to pay the costs of site acquisition, relocation, demolition of existing structures, site preparation, and pollution abatement on Parcels identified in the District Plan, as well as public improvements, interest expense and administrative costs directly related to those Parcels.

Revenue generated by any Parcel located within the District may be utilized to pay or reimburse eligible project costs for any other Parcel included within the District.

I. Estimated Fiscal Impacts of the District

The fiscal projections included in this Plan are based upon the creation of a District that includes 100 tax Parcels. It is anticipated that it will take approximately five years for the entire 100 Parcels to be identified and certified for inclusion in the District.

Most of the Parcels that will be included within the District are single family residential lots that are currently either vacant land or are occupied by vacant and/or substandard houses. These Parcels will be redeveloped with a single new housing unit. However, a few of the vacant land Parcels that may be included in the Minneapolis District may be larger. These Parcels will be subdivided and redeveloped with more than one new Market Rate Housing unit. Because of these larger Parcels, it is estimated that a total of 115 new or rehabilitated Market Rate Housing units will be produced on the 100 tax Parcels included in the District.

1. Estimated Market Value of Completed Development

It is anticipated that 115 new or rehabilitated housing units will be developed in the District. The average market value of the completed new or rehabilitated housing units will be approximately \$200,000.

Therefore, the total estimated market value of all Parcels included within the District upon completion of redevelopment will be approximately \$23,000,000.

This will result in a net tax capacity upon completion of approximately \$230,000 for the entire District.

2. Original Tax Capacity

For Parcels included in the District, the original net tax capacity is the value attributable to the land only, and is frozen at the time of certification. This means that the value of the existing improvements are not included in the original tax capacity of the District.

In those cases where the Parcel included in the District is tax exempt because of public ownership by the City of Minneapolis or the Agency, and the property has been in public ownership for greater than one year, the original net tax capacity of the property shall be zero.

For purposes of this analysis, we are assuming that approximately 20 of the Parcels included in the District will be tax exempt Parcels that have been owned by either the City or the Agency for at least one year. These Parcels will have an original net tax capacity of zero.

It is assumed that the land value for the other 80 Parcels to be included in the District will be approximately \$2,000,000 (\$25,000 per Parcel).

Therefore, the estimated original tax capacity for the entire District will be approximately \$20,000.

3. Estimated Captured Tax Capacity

After certification of all 100 tax Parcels to be included in the District, and the redevelopment of these properties into new or rehabilitated housing units, the estimated captured tax capacity for the District will be about \$210,000.

4. Original Tax Capacity Rate

The Original Tax Capacity Rate for each Parcel in the District will be its total tax rate for taxes payable in 2003. A Parcel located in the Middle Mississippi Watershed District will have an Original Tax Capacity Rate of 153.007%. Parcels located in other areas of the City will have Original Tax Capacity Rates that are slightly lower.

5. Estimated Tax Increment

The amount of tax increment that will be generated each year by the fully redeveloped District will be approximately \$321,315 (before State Auditor fee is paid).

Therefore, the total future value of the tax increment collected over the life of the District will be approximately \$5,141,040.

Any tax increment revenue generated by this District that is in excess of the actual eligible District costs will be identified as excess tax increment, and **distributed by the County Auditor to the original taxing jurisdictions, pursuant to Minnesota Statutes, Section 469.177, Subdivision 9.**

6. Duration Limits

Tax increment can be collected for a maximum of fifteen (15) years from the date of receipt of the first tax increment from each Parcel. The effective sixteen year term of collection is determined separately for each Parcel, based upon the date that each Parcel actually begins to generate tax increment.

J. Estimated Fiscal Impacts of the District on Other Taxing Jurisdictions

It is the position of the Agency and the City that without tax increment financing assistance, it is very unlikely that redevelopment into new or rehabilitated Market Rate Housing would occur on all of the Parcels included in the District solely by private investment within the foreseeable future.

Nevertheless, if it is assumed for purposes of analysis that the proposed development 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:

	Tax Capacity Rate Payable 2003	Property Tax Revenues Resulting from \$210,000 Captured Tax Capacity
City of Minneapolis	63.883%	\$134,154
Hennepin County	44.832	94,147
Special School District #1	33.555	70,466
Other Taxing Jurisdictions	10.737	22,548
Total	153.007%	\$321,315

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

Without tax increment financing assistance, it is very unlikely that redevelopment into new or rehabilitated Market Rate Housing would occur on all of the Parcels included in the District solely by private investment within the foreseeable future.

The District will include a total of 100 Parcels, located at diverse, scattered sites and infill locations in established residential neighborhoods throughout the City of Minneapolis. Parcels included in the District may be either vacant land, vacant houses, or structurally substandard houses.

Most of the Parcels that will be included within the District are single family residential lots that are currently either vacant land or are occupied by vacant and/or blighted houses. The public costs of redeveloping each of these Parcels will vary. The costs of acquiring and preparing some Parcels will greatly exceed the total future value of the tax increment revenue that will be generated by these individual Parcels. In fact, it is

estimated that the average cost to acquire and prepare each Parcel will be at least \$70,000.

However, some of the Parcels included in the District may have very low costs, since they are vacant sites that are already owned by the Agency. These lower cost Parcels will generate tax increment revenue that can be utilized to pay eligible project costs for other high cost Parcels that are also located within the District. An effort has been made in this Plan to combine a mixture of high and low cost Parcels within the District in order to offset the total project costs with the available tax increment revenue generated by the District and the required local contribution.

After completing acquisition and site preparation for each Parcel included in the District, the Agency will sell each site to a redeveloper for the production of new or rehabilitated Market Rate Housing units. It is estimated that the average sale price of these prepared lots will be approximately \$5,000. The gap between the cost to prepare each Parcel, and the sale price of the lot to the redeveloper is a land write down that will be financed, in part, with tax increment revenue generated by the District. Without the payment of these public redevelopment costs, it is highly unlikely that these Parcels would be redeveloped by private investment.

Therefore, but for the use of tax increment financing to pay the eligible public redevelopment costs, it is clear that the redevelopment or rehabilitation of Market Rate Housing on all of the Parcels identified in this plan document would not occur. Without the available tax increment funds to be generated by this District, there would be insufficient public resources to treat all of the vacant and boarded properties identified in this Plan. It is likely that only a small number of these Parcels would be redeveloped for Market Rate Housing without the proposed use of tax increment generated by this District, or without the coordinated public redevelopment effort identified in this Plan.

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. A potential tax increment financing district site must also pass a "market value" test in order to make this finding.

The figures and analysis required by this market value test are shown on the next page. As shown on this page, 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 passes the market value test. Therefore, it is the opinion of the Agency and the City that development in this District would not occur solely through private investment within the foreseeable future.

EMV page goes here

PDF Map goes here

Project Area Report

Minneapolis Housing Replacement District II Plan July 11, 2003

This Plan authorizes the creation of a Housing Replacement District in the City of Minneapolis. The purpose of this Plan is to identify Parcels that currently consist of either vacant land, vacant and/or boarded housing or substandard housing for inclusion in the District⁶; and to designate these Parcels for acquisition, demolition, occupant relocation, site preparation and pollution remediation, as necessary, in order to market these infill sites for the development of new or rehabilitated market rate housing.

A Housing Replacement District is a financing tool that may be utilized to pay the eligible public redevelopment costs for the Project activities consistent with the public purposes and objectives identified in the Plan. The City of Minneapolis is the Project Area within which the District is established. The District consists of the Parcels that are to be redeveloped according to the Plan. Parcels included in the District must conform with the eligibility criteria included in the State Statutes and in this Plan. Parcels included in the District may be either vacant land, vacant houses, or structurally substandard houses. Parcels included in the District may be located anywhere within the Project Area provided that they meet these eligibility requirements.

The District will include a total of 100 Parcels, located at diverse, scattered sites and infill locations in established residential neighborhoods throughout the City of Minneapolis.

This Project Area Report describes the general housing conditions within the City of Minneapolis.

Minneapolis is a fully developed city, with a large stock of aging single family and multi-family housing units. There are more than 178,000 housing units in Minneapolis. Single family homes account for more than 75,300 housing units. Nearly 90% of the City's single family homes were built before 1959, with only the remaining 10% built since 1960. As properties age, they often lose value and desirability due to physical deterioration, as well as functional and economic obsolescence.

⁶ At this time there are 13 parcels being included in the District; 9 parcels are vacant land already owned by the MCDA; 2 parcels are boarded and condemned; 1 parcel is vacant Hennepin tax forfeit property; and the remaining parcel is vacant, blighted, and in need of major repair.

The following information is from the 2002 State of City Report, produced by the Minneapolis Planning Department:

- ? In 2002, Minneapolis housing stock consisted of 101,000 residential structures containing approximately 169,000 units.
- ? Overall vacancy rates for all housing units grew only 1% in 2002, bringing the 2002 vacancy rate to approximately 6%.
- ? Single family detached homes remain the dominate residential structure in Minneapolis with 75,402 homes accounting for 45% of the total stock of housing in the city.
- ? 83.9% of the residential structures are owner occupied. Single family detached homes make up the majority of homesteaded properties, and over one half of the single attached units and duplex structures are also owner occupied.
- ? In 2002, only 3.8% of the city's housing units are rated as below average, compared to 19.6% in 2000.
- ? Residential properties containing 4-5 units contribute the largest number of below average units. 11.8% of structures containing 4-5 units are in below average condition.
- ? The 2002 data shows that 3.2% of single family detached units were classified as below average, compared to the city average of 3.8%.

Condition in 2002	Percentage of Units
Above Average	6.7%
Average	89.5%
Below Average	3.8%

- ? The majority of Minneapolis residential property was constructed prior to 1960, but the average year of construction differs by housing type. Two to five unit buildings tend to be older than other building types. About 23% of housing units built before 1920 are in 2 to 5 unit buildings. Of housing units built from 1920 to 1959, only about 8% are in 2 to 5 unit buildings. Condominiums tend to have been built more recently, with 76% developed in 1960 or later.
- ? The number of houses in the City that were built before 1920 is decreasing, reflecting the demolition of substandard units. Minneapolis Inspection Department records show that 2002 was the best year in more than a decade for residential growth. 1,866 housing units were constructed – the highest number since 1985. Further, its 151 demolitions represent the fewest housing units demolished since

1987. Taking both construction and demolition into consideration, the net gain in housing units was approximately 1,700.

The area in which the Housing Replacement District tool can be used extends to the entire City of Minneapolis.

Although current use is limited to 100 parcels, both the need and the potential is apparent for the use of the Housing Replacement District financing tool as a resource to assist with the conversion of thousands of vacant, blighted and substandard residential properties into new or rehabilitated market rate housing units.

Minnesota Session Laws 1995, Chapter 264, Article 5; as amended

Sec. 44. [CITIES OF CRYSTAL, FRIDLEY, ST. PAUL, AND MINNEAPOLIS; HOUSING REPLACEMENT DISTRICTS; DEFINITIONS.]

Subdivision 1. [CAPTURED NET TAX CAPACITY.] "Captured net tax capacity" means the amount by which the current net tax capacity in a housing replacement district exceeds the original net tax capacity, including the value of property normally taxable as personal property by reason of its location on or over property owned by a tax-exempt entity.

Subd. 2. [ORIGINAL NET TAX CAPACITY.] "Original net tax capacity" means the net tax capacity of all taxable real property within a housing replacement district as certified by the commissioner of revenue for the previous assessment year less the net tax capacity attributable to existing improvements, provided that the request by the authority for certification of a new housing replacement district has been made to the county auditor by June 30. The original net tax capacity of housing replacement districts for which requests are filed after June 30 has an original net tax capacity based on the current assessment year. In any case, the original net tax capacity must be determined together with subsequent adjustments as set forth in Minnesota Statutes, section 469.177, subdivision 1, paragraph (c). In determining the original net tax capacity, the net tax capacity of real property exempt from taxation at the time of the request shall be zero, except for real property which is tax exempt by reason of public ownership by the requesting authority and which has been publicly owned for less than one year prior to the date of the request for certification, in which event the net tax capacity of the property shall be the net tax capacity as most recently determined by the commissioner of revenue.

Subd. 3. [PARCEL.] "Parcel" means a tract or plat of land established prior to the certification of the housing replacement district as a single unit for purposes of assessment.

Subd. 4. [AUTHORITY.] For housing replacement projects in the city of Crystal, "authority" means the Crystal economic development authority. For housing replacement projects in the city of Fridley, "authority" means the housing and redevelopment authority in and for the city of Fridley or a successor in interest. For housing replacement projects in the city of Minneapolis, "authority" means the Minneapolis community development agency. For housing replacement projects in the city of St. Paul, "authority" means the St. Paul housing and redevelopment authority. For housing replacement projects in the city of Duluth, "authority" means the Duluth economic development authority. For housing replacement projects in the city of Richfield, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Richfield. For

housing replacement projects in the city of Columbia Heights, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Columbia Heights.

Sec. 45. [ESTABLISHMENT OF HOUSING REPLACEMENT DISTRICTS.]

Subdivision 1. [CREATION OF PROJECTS.] (a) An authority may create a housing replacement project under sections 44 to 47, as provided in this section. (b) For the cities of Crystal, Fridley, Richfield, and Columbia Heights, the authority may designate up to 50 parcels in the city to be included in a housing replacement district. No more than ten parcels may be included in year one of the district, with up to ten additional parcels added to the district in each of the following nine years. For the cities of Minneapolis, St. Paul, and Duluth, each authority may designate not more than 200 parcels in the city to be included in a housing replacement district over the life of the district. The only parcels that may be included in a district are (1) vacant sites, (2) parcels containing vacant houses, or (3) parcels containing houses that are structurally substandard, as defined in Minnesota Statutes, section 469.174, subdivision 10. (c) The city in which the authority is located must pay at least 25 percent of the housing replacement project costs from its general fund, a property tax levy, or other unrestricted money, not including tax increments. (d) The housing replacement district plan must have as its sole object the acquisition of parcels for the purpose of preparing the site to be sold for market rate housing. As used in this section, "market rate housing" means housing that has a market value that does not exceed 150 percent of the average market value of single-family housing in that municipality.

Subd. 2. [HOUSING REPLACEMENT DISTRICT PLAN.] To establish a housing replacement district under sections 44 to 47, an authority shall adopt a housing replacement district plan which contains: (1) a statement of the objectives and a description of the housing replacement projects proposed by the authority for the housing replacement district; (2) a statement of the housing replacement district plan, demonstrating the coordination of that plan with the city's comprehensive plan; (3) estimates of the following: (i) cost of the program, including administrative expenses; (ii) sources of revenue to finance or otherwise pay public costs; (iii) the most recent net tax capacity of taxable real property within the housing replacement district; and (iv) the estimated captured net tax capacity of the housing replacement district at completion; (4) statements of the authority's alternate estimates of the impact of the housing replacement district on the net tax capacities of all taxing jurisdictions in which the housing replacement district is located in whole or in part. For purposes of one statement, the municipality shall assume that the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the housing replacement district, and for purposes of the second statement, the county shall assume that none of the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the housing replacement district; and (5) identification of all parcels to be included in the district, to the extent known at the time the original housing replacement district plan is prepared. At a minimum, the parcels that will be included in the housing replacement district during its first year must be identified in the

original housing replacement district plan. If parcels for subsequent years are not specifically identified, the original housing replacement district plan must include the criteria that will be used by the authority to select parcels to be included in the later years.

Subd. 3. [PROCEDURE.] The provisions of Minnesota Statutes, section 469.175, subdivisions 3, 4, 5, and 6, apply to the establishment and operation of the housing replacement districts created under sections 44 to 47, except as follows: (1) the determination specified in Minnesota Statutes, section 469.175, subdivision 3, clause (1), is not required; and (2) addition of parcels not identified in the original housing replacement district plan is not treated as a modification of that plan requiring an approval process provided that the parcels added are consistent with the criteria described in subdivision 2, clause (5).

Sec. 46. [LIMITATIONS.]

Subdivision 1. [DURATION LIMITS.] No tax increment may be paid to the authority on each parcel in a housing replacement district after 15 years from date of receipt by the county of the first tax increment from that parcel.

Subd. 2. [LIMITATION ON USE OF TAX INCREMENTS.] All revenues derived from tax increments must be used in accordance with the housing replacement district plan. The revenues must be used solely to pay the costs of site acquisition, relocation, demolition of existing structures, site preparation, and pollution abatement on parcels identified in the housing replacement district plan, as well as public improvements and administrative costs directly related to those parcels.

Sec. 47. [APPLICATION OF OTHER LAWS.]

Subdivision 1. [COMPUTATION OF TAX INCREMENT.] The provisions of Minnesota Statutes, section 469.177, subdivisions 1a, and 5 to 10, apply to the computation of tax increment for the housing replacement districts created under sections 44 to 47. The original local tax rate is the rate for the year a parcel is certified for inclusion in a housing replacement district.

Subd. 2. [OTHER PROVISIONS.] References in Minnesota Statutes to tax increment financing districts created and tax increments generated under Minnesota Statutes, sections 469.174 to 469.179, other than references in Minnesota Statutes, section 273.1399, include housing replacement districts and tax increments subject to sections 44 to 47, provided that Minnesota Statutes, sections 469.174 to 469.179, apply only to the extent specified in sections 44 to 47.

Subd. 3. [MINNEAPOLIS SPECIAL LAW.] Laws 1980, Chapter 595, section 2, subdivision 2, does not apply to a district created under sections 44 to 47.

Minnesota Session Laws 1996, Chapter 471, Article 7

Sec. 21. Laws 1995, Chapter 264, Article 5, Section 44, Subd 4, is amended to read:

Subd. 4. [AUTHORITY.] For housing replacement projects in the city of Crystal, "authority" means the Crystal economic development authority. For housing replacement projects in the city of Fridley, "authority" means the housing and redevelopment authority in and for the city of Fridley or a successor in interest. For housing replacement projects in the city of Minneapolis, "authority" means the Minneapolis community development agency. For housing replacement projects in the city of St. Paul, "authority" means the St. Paul housing and redevelopment authority. For housing replacement projects in the city of Duluth, "authority" means the Duluth economic development authority. For housing replacement projects in the city of Richfield, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Richfield. Sec. 22. Laws 1995, chapter 264, article 5, section 45, subdivision 1, is amended to read: Subdivision 1. [CREATION OF PROJECTS.] (a) An authority may create a housing replacement project under sections 44 to 47, as provided in this section. (b) For the cities of Crystal ~~and~~, Fridley, and Richfield, the authority may designate up to 50 parcels in the city to be included in a housing replacement district. No more than ten parcels may be included in year one of the district, with up to ten additional parcels added to the district in each of the following nine years. For the cities of Minneapolis ~~and~~, St. Paul, and Duluth, each authority may designate up to 100 parcels in the city to be included in a housing replacement district over the life of the district. The only parcels that may be included in a district are (1) vacant sites, (2) parcels containing vacant houses, or (3) parcels containing houses that are structurally substandard, as defined in Minnesota Statutes, section 469.174, subdivision 10. (c) The city in which the authority is located must pay at least 25 percent of the housing replacement project costs from its general fund, a property tax levy, or other unrestricted money, not including tax increments. (d) The housing replacement district plan must have as its sole object the acquisition of parcels for the purpose of preparing the site to be sold for market rate housing. As used in this section, "market rate housing" means housing that has a market value that does not exceed 150 percent of the average market value of single-family housing in that municipality.

Minnesota Session Laws 1997, Chapter 231, Article 10

Sec. 12. Laws 1995, Chapter 264, article 5, section 44, subdivision 4, as amended by Laws 1996, chapter 471, article 7, section 21, is amended to read:

Subd. 4. [AUTHORITY.] For housing replacement projects in the city of Crystal, "authority" means the Crystal economic development authority. For housing replacement projects in the city of Fridley, "authority" means the housing and redevelopment authority in and for the city of Fridley or a successor in interest. For housing replacement projects in the city of Minneapolis, "authority" means the Minneapolis community development agency. For housing replacement projects in the city of St. Paul, "authority" means the St. Paul housing and redevelopment authority. For housing replacement projects in the city of Duluth, "authority" means the Duluth economic development authority. For housing replacement projects in the city of Richfield, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Richfield. For housing replacement projects in

the city of Columbia Heights, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Columbia Heights.

Sec. 13. Laws 1995, chapter 264, article 5, section 45, subdivision 1, as amended by Laws 1996, chapter 471, article 7, section 22, is amended to read: Subdivision 1. [CREATION OF PROJECTS.] (a) An authority may create a housing replacement project under sections 44 to 47, as provided in this section. (b) For the cities of Crystal, Fridley, ~~and~~ Richfield, and Columbia Heights, the authority may designate up to 50 parcels in the city to be included in a housing replacement district. No more than ten parcels may be included in year one of the district, with up to ten additional parcels added to the district in each of the following nine years. For the cities of Minneapolis, St. Paul, and Duluth, each authority may designate up to 100 parcels in the city to be included in a housing replacement district over the life of the district. The only parcels that may be included in a district are (1) vacant sites, (2) parcels containing vacant houses, or (3) parcels containing houses that are structurally substandard, as defined in Minnesota Statutes, section 469.174, subdivision 10. (c) The city in which the authority is located must pay at least 25 percent of the housing replacement project costs from its general fund, a property tax levy, or other unrestricted money, not including tax increments. (d) The housing replacement district plan must have as its sole object the acquisition of parcels for the purpose of preparing the site to be sold for market rate housing. As used in this section, "market rate housing" means housing that has a market value that does not exceed 150 percent of the average market value of single-family housing in that municipality.

Minnesota Session Laws 2002, Chapter 377, Article 7

Sec. 6. Laws 1995, chapter 264, article 5, section 45, subdivision 1, as amended by Laws 1996, chapter 471, article 7, section 22, and Laws 1997, chapter 231, article 10, section 13, is amended to read:

Subdivision 1. [CREATION OF PROJECTS.] (a) An authority may create a housing replacement project under sections 44 to 47, as provided in this section. (b) For the cities of Crystal, Fridley, Richfield, and Columbia Heights, the authority may designate up to 50 parcels in the city to be included in a housing replacement district. No more than ten parcels may be included in year one of the district, with up to ten additional parcels added to the district in each of the following nine years. For the cities of Minneapolis, St. Paul, and Duluth, each authority may designate ~~up to 100~~ not more than 200 parcels in the city to be included in a housing replacement district over the life of the district. The only parcels that may be included in a district are (1) vacant sites, (2) parcels containing vacant houses, or (3) parcels containing houses that are structurally substandard, as defined in Minnesota Statutes, section 469.174, subdivision 10. (c) The city in which the authority is located must pay at least 25 percent of the housing replacement project costs from its general fund, a property tax levy, or other unrestricted money, not including tax increments. (d) The housing replacement district plan must have as its sole object the acquisition of parcels for the purpose of preparing the site to be sold for market rate housing. As used in this section, "market rate housing" means housing that has a market value that does not exceed 150 percent of the average market value of single-family housing in that municipality.