

**Wellstone
Tax Increment Finance Plan**

March 2, 2007



Prepared by the Development Finance Division
Crown Roller Mill, 105 5th Avenue S., Minneapolis, Minnesota 55401

**Wellstone Tax Increment Finance Plan
March 2, 2007**

TABLE OF CONTENTS

Introduction

- I. Tax Increment District Boundary
- II. Statement of Objectives
- III. Development Program
 - A. Description of Development Program
 - B. List of Property That May Be Acquired
 - C. Development Activity for Which Contracts Have Been Signed
 - D. Other Development Activity
- IV. Description of Financing
 - A. Project Costs
 - B. Bonded Indebtedness to be Incurred
 - C. Sources of Revenue
 - D. Original Net Tax Capacity
 - E. Estimated Captured Net Tax Capacity
 - F. Duration of District
 - G. Fiscal Disparities Election
 - H. Original Tax Capacity Rate
 - I. Permit Activity and Prior Planned Improvements
- V. Type of Tax Increment Finance District
- VI. Estimated Impact on Other Taxing Jurisdictions
- VII. Basis for Finding that Development Would Not Occur Without Tax Increment Financing Assistance

Exhibits

- # 1 Boundary Map
- # 2 Project Area Report and Documentation of Eligibility
- # 3 Site Plan

Wellstone Tax Increment Finance Plan

March 2, 2007

Introduction

Two plan documents have been prepared that are related to a proposed mixed income townhome-style rental and commercial project: Modification No. 1 to the Franklin-Portland Gateway Redevelopment Plan and this Wellstone Tax Increment Finance (“TIF”) Plan (the “Plans”).

Modification No. 1 to the Franklin-Portland Gateway Redevelopment Plan expands the boundary of the project area and authorizes the creation of a new tax increment finance district as a tool for carrying out the redevelopment activities described therein.

This plan document, the **Wellstone Tax Increment Finance Plan**, creates a new housing tax increment financing district to finance the anticipated costs of public redevelopment activities, and establishes a preliminary budget for the project.

TAX INCREMENT FINANCE PLAN

I. Tax Increment District Boundary

This plan establishes a new housing TIF district to be designated as the Wellstone TIF District. The proposed TIF District is located in the Ventura Village Neighborhood and Phillips Community in Ward 6 of South Minneapolis. The TIF District includes four (4) tax parcels located at the northeast corner of Franklin and Portland Avenues, within the boundary of the Franklin-Portland Gateway Redevelopment Project Area.

The tax parcels included in the Wellstone TIF District are:

<i>Property Identification Number</i>	<i>Address</i>
26-029-24-33-0071	1931 Portland Avenue
26-029-24-33-0072	612 E. Franklin Avenue
26-029-24-33-0073	616 E. Franklin Avenue
26-029-24-33-0074	620 E. Franklin Avenue

A map showing the boundary of the proposed Wellstone TIF District has been attached as Exhibit #1 to this Plan. The Project Area Report, which documents the eligibility of this site for the creation of a Housing TIF District, is attached as Exhibit #2 to this Plan.

II. Statement of Objectives

The objectives for this project are described in Section I. C. of the Franklin-Portland Gateway Redevelopment Plan. The development proposes to use tax

increment financing to accomplish these major objectives, which are consistent with City development objectives:

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

III. Development Program

A. Description of Development Program

The purpose of this plan is to authorize the use of tax increment revenue to pay for public redevelopment activity - including housing construction, administration, and other eligible project costs.

The Wellstone is the third phase of the Franklin-Portland Gateway development – a collaborative partnership between Hope Community, Inc. and Community Housing Trust (CCHT) to redevelop the northeast intersection of Franklin Avenue and Portland Avenue, located in the Ventura Village neighborhood of South Minneapolis.

The project will consist of high quality new construction of a 49-unit mixed-income rental townhome-style building, including ground floor commercial and underground parking. The Wellstone mixed-use project is designed to provide family-friendly, pedestrian-friendly, transit-friendly, and green-oriented places to live and work. The Wellstone provides urban density, including 49 units of mixed-income rental housing (37 tax credit units, 12 "market" units) and approximately 7,112 square feet of commercial space (4,441 square feet of restaurant space and 2,671 square feet of community commercial space for tenants). The four-story building is designed to accommodate a variety of household types, with unit sizes ranging from studios to spacious three-bedroom units for large families. Four studio units at the Wellstone are reserved for individuals experiencing long-term homelessness. Individuals will receive support services from St. Stephen's Human Services/Housing First Team. Underground parking will be provided to reduce land acquisition costs and improve the livability of the site through increased green space.

While the primary objective of the Wellstone development (and Gateway in its entirety) is to develop quality affordable housing, there is a limited amount of commercial space included. Commercial space is situated at the first floor, at the corner of Franklin and extending north along the Portland Avenue street face. The retail tenants will be an adjunct community center and a neighborhood-based business.

Anticipated redevelopment activities include demolition of a building to allow for the new construction of a four-story building along Portland and Franklin Avenues.

Tax increment assistance will be in the form of a pay-as-you-go note.

The Wellstone will have a total of 49 rental units. The unit composition and rent levels for the rental building are shown below.

Unit Composition	# of Units	30% of MMI	50% of MMI	60% of MMI	Mkt rate
Studio	5	4	1	0	0
One bedroom	6	0	3	0	3
Two bedroom	25	0	10	6	9
Three bedroom	13	0	7	6	0
Total Units	49	4	21	12	12

The rental apartment building will have a total of 5 studio apartments, 6 one-bedroom units, 25 two-bedroom units, and 13 three-bedroom units, with the rents and affordability levels shown above. Since there will be 25 units at or below 50% of MMI¹, this project complies with the City Affordable Housing Policy, which would require at least 10 affordable units (i.e. 20% of 49). In addition, there will be 12 units affordable at or below 60% of area median income for a total of 37 low income (75%) affordable units.

B. List of Property That May Be Acquired

The Gateway Collaborative has majority site control of the property to be developed. The City has taken action to approve the sale of the vacant lots at 616 and 620 East Franklin for the Wellstone project.

C. Development Activity for which Contracts Have Been Signed

As of the date of the preparation of this plan, the City of Minneapolis has not yet entered into any redevelopment contracts related to these activities. It is anticipated that a development agreement will be executed with Franklin-Portland Gateway Phase III Limited Partnership, Hope Community, Inc. and Central Community Housing Trust, and/or their subsidiaries.

D. Other Development Activity

No other future redevelopment activity has been identified at this time. Any activities or expenditures not identified in this plan, or consistent with the plan objectives and budget included herein, would require a modification of this plan, pursuant to Minnesota Statutes Section 469.175, Subdivision 4.

IV. Description of Financing

The purpose of this plan is to authorize the use of tax increment revenue to pay for public redevelopment activity – including housing construction, administration, and other project costs eligible to the needs of the project.

¹ Metropolitan Median Income

It is anticipated that public redevelopment costs will be financed in part with pay-as-you-go tax increment financing.

The figures, sources and methods of financing identified in this preliminary finance 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 project costs or bonded indebtedness of this project beyond the amounts listed herein, a modification to this plan might be necessary. Such a modification would require the same approval process as the original approval of this TIF Plan.

A. Project Costs

Total up-front project costs for the Wellstone TIF District are estimated at \$705,800. These costs include housing construction, acquisition, administration and other related project costs. Total estimated tax increment expenditures over time are estimated at \$1,825,263 which includes Pay-As-You-Go Note Principal, Pay-As-You-Go Interest and Administration.

Wellstone TIF District Budget

Sources	Up Front	Over Time
Developer Funds	\$705,800	--
Tax Increment		\$1,825,263
Total Sources	\$705,800	\$1,825,263
Uses		
Housing Construction	\$705,800	
Pay-As-You-Go Note Principal		\$705,800
Pay-As-You-Go Note Interest		936,937
Administration		182,526
Total Uses	\$705,800	\$1,825,263

B. Bonded Indebtedness to be Incurred

It is anticipated that public redevelopment costs will be financed through the City's issuance to the developer of a pay-as-you-go tax increment financing note. It is not anticipated that any tax increment bonded indebtedness will be issued by the City for the Wellstone project.

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 project. 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 one source of public funds used to pay a portion of the public redevelopment costs associated with the Wellstone Project. The estimated total development cost of the mixed-use rental project is \$13,373,791.

The proposal intends to capture the annual tax increment revenue via a pay-as-you-go note to increase the amount of the proposed first mortgage financing. The pay-as-you-go note capitalized to support a HUD-insured 221(d) 4 first mortgage (originated by MMA Financial LLC) will provide the capital resources (via a construction and permanent mortgage) to develop the Wellstone. The development will require public financing beyond the TIF requested. This is primarily due to the number of households earning between 30% and 50% of the area median income, the "gap" between market rent (what monthly rent should be, based on the development cost for that unit) and the affordable rent must be filled in order for the development to remain financially feasible into the future. CPED has committed \$1,175,000 of Affordable Housing Trust Fund resources to support the Wellstone development. Other sources include MMA Financial LLC First Mortgage, Syndication Proceeds, CPED Non-Profit Admin funds, FHF, Home Depot Foundation, Met Council LCDA, MHFA ELTH, Hennepin County TOD, Hennepin County ERF, and MN Green Community Funds.

D. Original Net Tax Capacity

The current estimated market value of the tax parcels included in the TIF district is \$359,000. This will result in an original net tax capacity of approximately \$4,667, upon property reclassification.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the development, it is anticipated that the estimated market value of taxable property in the District will increase from \$359,000 to approximately \$4,970,000. This represents an increase of \$4,611,000 and will result in a total net tax capacity of approximately \$67,600 and an estimated captured net tax capacity of \$62,933.

Based upon a total local tax rate of approximately 119.000% upon full taxation, this project will generate an estimated annual gross tax increment payment of \$74,620, excluding the deduction for the State Auditor fee.

F. Duration of District

The Wellstone TIF District is a Housing TIF District pursuant to Minnesota Statutes Section 469.174, Subdivision 11 and 469.1761, Subdivision 1 and 3. 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. It is estimated to use the entire 26 years to retire the pay-as-you-go note.

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 district be taken from outside the Wellstone TIF District. The election provided in Minnesota Statutes Section

469.177, Subdivision 3, Paragraph (a) of the Minnesota Tax Increment Financing Act is elected.

Due to the level of required subsidy for this project, choosing election (b) i.e. using a portion of the tax increment generated from this project to pay fiscal disparities, is not financially viable and would stop the proposed project from developing.

H. Original Tax Capacity Rate

The Original Tax Capacity Rate for this district will be the local tax capacity rate for taxes payable (TP) 2007. For tax increment projection purposes, a total tax rate of 122.000% for taxes payable in 2008 and 119.000% for taxes paid thereafter has been used in the TIF Plan. For project and impact purposes (see Section VI), the tax rate for taxes payable in 2007 has been used.

I. Permit Activity and Prior Planned Improvements

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

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

V. Type of Tax Increment Financing District

The proposed Wellstone TIF District is a "Housing District" as defined in Minnesota Statutes Section 469.174 Subdivision 11 and 469.1761, Subdivision 1 and 3:

Section 469.174 Subdivision 11 "Housing district" means a type of tax increment financing district which consists of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts and that satisfies the requirements of section 469.1761.

Section 469.1761, Subdivision 1. (a) In order for a tax increment financing district to qualify as a housing district: (1) the income limitations provided in this section must be satisfied; and (2) no more than 20 percent of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses. (b) The requirements imposed by this section apply to property receiving assistance financed with tax increments, including interest reduction, land transfers at less than the authority's cost of acquisition, utility service or connections, roads, parking facilities, or other subsidies. The provisions of this section do not apply to districts located in a targeted area as defined in section 462C.02, subdivision 9, clause (e).

Section 469.1761, Subdivision 3. Rental Property. For residential rental property, the property must satisfy the income requirements for a qualified residential rental project as defined in section 142(d) of the Internal Revenue Code. The requirements of this subdivision apply for the duration of the tax increment financing district.

Additional information about the eligibility of the project for inclusion in a housing TIF district can be found in the Project Area Report and Documentation of Eligibility, attached as Exhibit 2 to this Plan.

VI. Estimated Impact on Other Taxing Jurisdictions

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

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

Taxing Jurisdictions	Tax Capacity Rate Payable 2007	Property Tax Revenues Resulting from \$67,600 Captured Tax Capacity
City of Minneapolis	58.4330%	\$39,500.71
Hennepin County	36.3940	24,602.34
Special School District #1	25.5740	17,288.02
Other Taxing Jurisdiction	<u>7.5790</u>	5,123.40
Total	127.9800%	\$86,514.48

Fiscal calculations contained in this Plan are based upon the current property tax formulas and property values, and an estimate of the likely assessed market value of the proposed new development. This was the best information available at the time that this plan was prepared.

Fiscal and Economic Implications of Proposed TIF District

The estimated amount of total tax increment that would be generated over the life of the district is \$1,825,263.

A description of the probable impact of the district on city-provided services such as police and fire protection, public infrastructure, and borrowing costs attributable to the district is projected to be minor due to the small size of the project.

The estimated amount of tax increment generated over the life of the district that would be attributable to school district levies, assuming the school district's (19.983%) share of the total local tax rate for all taxing jurisdictions remained the same is approximately \$364,742.31 (\$14,589.69/year times 25 years).

The estimated amount of tax increment generated over the life of the district that would be attributable to county levies, assuming the county's share (28.437%) of

the total local tax rate for all taxing jurisdictions remained the same is approximately \$519,050.04 (\$20,762/year times 25 years).

As of the date of this TIF Plan, neither the County or School District have requested any additional information which could assist them in determining additional costs that may accrue due to the development in the TIF district.

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 TIF 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.

Affordable rents are not sufficient to amortize the entire cost of this development². The proposed project meets a need for affordable rental housing opportunities. The proposed development will address an underutilized site located directly on a major transit and commercial corridor. Other financial assistance is necessary because this public assistance pays for the costs of development and allows rents to be affordable to low and moderate income families³. Without this assistance, the rents would be unaffordable and unrealistic in the market. All of the identified public financing sources are necessary to fill the financing gap for this project as without these sources, the project would not be able to go forward. The project has the support of the neighborhood group and a commitment for long-term support for the project.

Underground parking, spacious units that accommodate larger families and the focus on high-quality, sustainable design equate to a slightly higher than typical construction cost. Premium for green, sustainable features at the Wellstone is estimated slightly over 2%. Owners are committed to tenant education concerning green features in the building. This can result in individual energy savings as well as a greater appreciation and respect for the environment. Sustainable initiatives provide long-term operating savings for owners and can contribute to marketing advantages for the Wellstone. The Wellstone Adjunct community service facility⁴ also contributes to a higher construction cost. However, the community center has a high impact benefit, serving Wellstone residents, overall Gateway residents and the low-income neighborhood as a whole.

The Wellstone development (and the entire Franklin-Gateway development) will be a significant, positive impact on an area of south Minneapolis that has been devoid of positive investment for years. The Franklin Avenue commercial corridor, especially in the Phillips

² According to *Minneapolis Trends, Third Quarter 2006*, it was reported that although the average construction cost per single-family home decreased in the city the average construction cost per multifamily unit increased by 57% in constant dollars.

³ Information provided by GVA Marquette Advisors' 2006 fourth quarter review of rental properties indicated that average apartment rent increased to \$871 with an annual rate increase of 2.4% in the Twin Cities metro area.

⁴ Wellstone common area amenities include exterior play yard at the rear of the development, a multi-purpose "social room" available to tenants for tenant activities, and a community services facility for the benefit of Gateway tenants overall and neighbors living in the lower-income neighborhood. This space will allow Hope to program additional education, services and community-building activities for Wellstone and Gateway residents as well as the larger neighborhood.

neighborhood, has suffered a thirty-year plus downturn. With recent developments all indicators are that the area is ready for redevelopment. The near-downtown location presents many possibilities for both creative commercial and residential development. The Wellstone development is located in the Ventura Village neighborhood, and is consistent with the goals outlined in the Ventura Village Master Plan, which has been created by members of the community. The entire plan puts in place immediate and future directions for land use that build on the area's attributes: proximity to downtown Minneapolis and access to employment, linkages to the City's network of parks and the proposed Hiawatha LRT station.

The Wellstone development needs the full benefit of tax increment financing available in order to proceed as the quality mixed-use, mixed income development is currently envisioned. The value of the tax increment financing will enable Phase III of the Franklin-Portland Gateway to offer a broad range of housing opportunities, including affordable rental units for singles and families. This financing source is critical to ensuring the Wellstone project is a financially viable long-term asset for the community. As the financing tools available to make mixed-income, mixed-use development projects become more limited, the availability to recapture the value of the tax increment to capitalize the development is necessary to make an important project like the Wellstone a reality. There is no comparable or alternative source of funding or financing to replace this important source.

Without tax increment financing, the project cannot proceed as a result of a gap due to the affordability of the rental units and the total development cost. Since there will be 21 units at or below 50% of MMI and 4 units at or below 30% of MMI, this project complies with the City Affordable Housing Policy, which would require at least 10 affordable units (i.e. 20% of 49).

The City adopted a Unified Housing Policy which consolidated existing city housing policies into one unified document, including the Affordable Housing Policy. This Policy recognizes the serious shortage of affordable housing in Minneapolis and sets the goal to "grow the population and to have no net loss of housing across all income levels". The Unified Housing Policy also states the City will focus on linking incentives to housing opportunities in proximity to jobs and transit. Development of the project will benefit residents by providing more housing choices as the affordable housing component will provide new quality housing to low to moderate income residents at a location with access to employment opportunities, and transportation. The site is ideally located near jobs, public transportation and existing services, and is within walking distance of schools, and businesses. The Wellstone site is will provide housing across income levels, with a mixture of homeless units, as well as units affordable at 50% of MMI, 60% of MMI, and market rate units.

A potential tax increment financing district site must also pass a "market value" test in order to make a finding that development could not occur without tax increment assistance. The calculations necessary to pass this test are contained on the following page of this plan. As shown there, the public redevelopment activity, expenditures, and market values associated with the development that is proposed in this plan results in a series of calculations and figures that clearly pass the market value test.

It is the position of the City of Minneapolis that the private redevelopment of the property included in the Wellstone TIF District could not occur without public participation and financial assistance within the foreseeable future.

Wellstone TIF District

Valuation and Tax Increment Assumptions

	Pay 2008	Pay 2009	Pay 2010
Total Estimated Market Value (EMV)	\$376,950	\$2,485,000	\$4,970,000
Less: Original EMV	359,000	359,000	359,000
Captured EMV	\$17,950	\$2,126,000	\$4,611,000
Total Net Tax Capacity (NTC)	\$4,901	\$33,425	\$67,600
Less: Original NTC	4,667	4,667	4,667
Captured NTC	\$234	\$28,758	\$62,933
Times: Projected Total Tax Rate	122.000%	119.000%	119.000%
Gross Tax Increment	\$285	\$34,222	\$74,890
Less: State Auditor's Fee (.36%)	1	123	270
Tax Increment Distributed to City	\$284	\$34,099	\$74,620

26 Years of TI Collection

Years of TIF Collection	Payable Year	Tax Increment Distributed To City
---	2006	\$0
---	2007	0
1	2008	284
2	2009	34,099
3	2010	74,620
4	2011	74,620
5	2012	74,620
6	2013	74,620
7	2014	74,620
8	2015	74,620
9	2016	74,620
10	2017	74,620
11	2018	74,620
12	2019	74,620
13	2020	74,620
14	2021	74,620
15	2022	74,620
16	2023	74,620
17	2024	74,620
18	2025	74,620
19	2026	74,620
20	2027	74,620
21	2028	74,620
22	2029	74,620
23	2030	74,620
24	2031	74,620
25	2032	74,620
26	2033	74,620
		\$1,825,263
P.V. @	5.00%	\$919,168

Market Value Test

Analysis Required by M.S. Section 469.175, Subd. 3 (2)

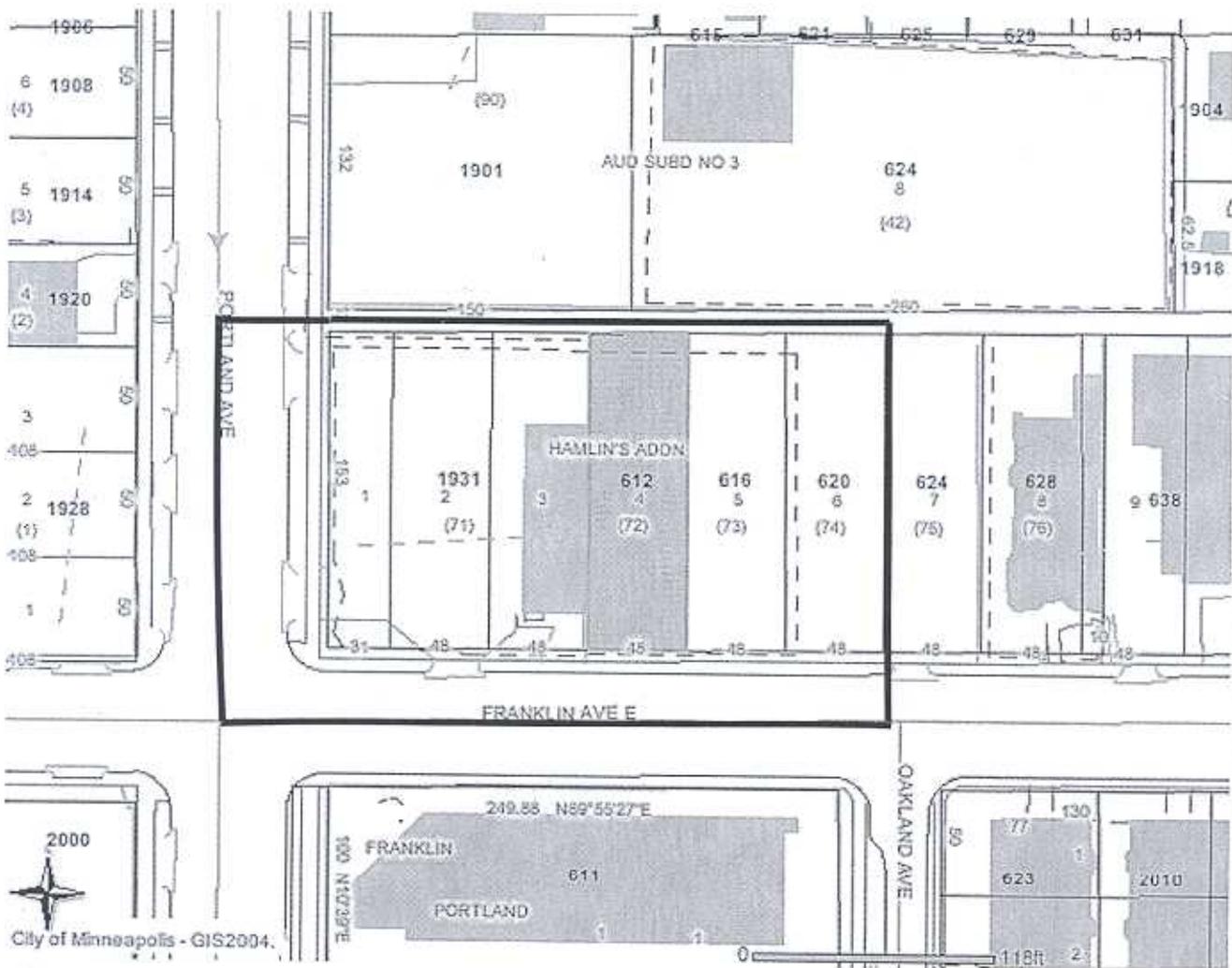
(1) "... the increased market value of the site that could reasonably be expected to occur without the use of tax increment ...":

(a) Projected estimated market value without the use of tax increment	\$359,000
(b) Original estimated market value	359,000
(c) Increased estimated market value without the use of tax increment = (a) - (b)	\$0

(2) "... increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by the plan.":

(d) Increase in the estimated market value of the completed development.	\$4,970,000
(e) Present value of the projected tax increment for the maximum duration of the district	919,168
(f) Difference = (d) - (e)	\$4,050,832

(3) Since (c) is less than (f), the proposed development or redevelopment passes the test.



**Wellstone
Tax Increment Finance District
Boundary Map**
March 2, 2007

TIF Boundary



**PROJECT AREA REPORT
AND DOCUMENTATION OF ELIGIBILITY**

**Wellstone Tax Increment Finance Plan, and Modification No. 1 to the
Franklin-Portland Gateway Redevelopment Plan**

March 2, 2007

The purpose of this Project Area Report and Documentation of Eligibility is to describe the conditions that qualify the Wellstone project for inclusion in a housing tax increment finance (TIF) district, and to describe the conditions that qualify the proposed expanded area of the Franklin-Portland Gateway site for inclusion in a redevelopment project area as defined in 469.002, Subd. 11.

The proposed TIF District is located within the Franklin-Portland Gateway Redevelopment Project, approved by the Minneapolis City Council on December 23, 2004.

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

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

Area Characteristics

The Franklin-Portland Gateway Project Area is located in south Minneapolis in the 6th ward of the Ventura Village neighborhood of the Phillips Community. The proposed expansion to the Redevelopment Project Area consists of 3 vacant tax parcels along Franklin Avenue near its intersection with Portland Avenue.

Findings of Blight within the Proposed Redevelopment Project Expansion Area

CPED Construction Management Specialist Duane Nygren conducted inspections of the proposed expanded area in February 2007. The proposed expansion to the project area includes three parcels consisting of open and vacant land for a total of 22,032 square feet for all three parcels. The three parcels are zoned C1/Neighborhood Commercial District with two of the three parcels fenced. Two parcels have a large mound of fill approximately 8 to 10 feet high adjacent to the alley; it is not known what this fill consists of as access was not available. The property consists of unused, underused or inappropriately used land, inadequate/inappropriate for existing land use.

Conclusion

These vacant and underutilized lots are in an area of high traffic with high visibility. The surrounding area is going through redevelopment and upgrading. Open or undeveloped land may be determined to be blighted due to unusual and difficult physical characteristics of the ground, faulty planning characterized by lots laid out in disregard of contours or of irregular form and shape or of inadequate size (no access) or other conditions which have prevented normal development of the land.

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

This report does not address environmental issues (e.g. pollution, contamination, fugitive spills, asbestos, PCB containing transformers), or other unknown physical or geo-technical problems.

Project Description

The rental apartment building will have a total of 5 studio apartments, 6 one-bedroom units, 25 two-bedroom units, and 13 three-bedroom units. Since there will be 25 units at or below 50% of MMI¹, this project complies with the City Affordable Housing Policy, which would require at least 10 affordable units (i.e. 20% of 49). In addition, there will be 12 units affordable at or below 60% of area median income for a total of 37 low income (75%) affordable units.

Tax Increment Finance District Eligibility The Wellstone TIF District is to be a housing TIF district as defined in the Minnesota Statutes, Section 469.174, Subdivision 11, and 469.1761 which states:

¹ Metropolitan Median Income

"Housing district" means a type of tax increment financing district which consists of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts and that satisfies the requirements of section 469.1761.

In order for a tax increment financing district to qualify as a housing district: (1) the income limitations provided in this section must be satisfied; and (2) no more than 20 percent of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses².

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

- 1) Does the project comply with the income restrictions for rental housing projects identified in Minnesota Statutes, Section 469.1761, Subdivision 3?
- 2) Does the square footage of the buildings that receive assistance from tax increments consist of no more than 20% of commercial, retail, or other nonresidential uses in the district?

Income Restrictions^{3, 4} Moderate-income housing is defined as housing affordable to families with incomes between 80 percent and 120 percent of the metropolitan median family income. Low-income housing is defined as housing affordable to families with incomes below 80 percent of the metropolitan median (MMI) family income.

The proposed rental project must satisfy the income requirements for a Housing Tax Increment Finance District as stated in the Minnesota Tax Increment Act (Minnesota Statutes, Section 469.1761, Subdivision 3). Subdivision 3 states that rental housing must meet one of the following tests in order to qualify as a Housing Tax Increment District:

1. At least 20 percent (10) of the units must be occupied by individuals whose income is 50 percent or less of the

² Minnesota Statutes, 84th Legislative Session (2005-2006)

³ The FY2006 Median Family Income Metro Area, State of Minnesota is \$78,500 as estimated by HUD

⁴ The MMI for Tax Credit Income Limits for 2006 is \$77,000 effective date 3/8/06

Metropolitan area median gross income (21 of 49 units are available at or below 50%); or

2. At least 40 percent (20) of the units must be occupied by individuals whose income is 60 percent or less of the area median gross income (12 units are available at or below 60%, 21 are at or below 50% and 4 units are available at or below 30% of MMI for a total of 37 affordable units).

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

Square Footage Test In addition to the rental apartments, the project will include about 4,441 sq. ft. of commercial space on the main level and 2,671 square feet of auxiliary commercial space for Hope/tenants. According to Minnesota Statutes, Section 469.174, Subdivision 11, and Section 469.1761, in order to establish a housing TIF district, no more than 20% of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses.

It has been estimated that the gross square footage of the Wellstone development will be 94,925 total square feet, of which 7,112 square feet will be commercial space (including the restaurant space and the auxiliary tenant space). This means that approximately 7.49% of the total square footage of the development is attributable to the commercial space in the project.

Minneapolis Housing Policy In 2002, modifications were made to the City's Comprehensive Plan ("The Minneapolis Plan") that strengthened its commitment to policies of housing growth and to increasing the supply of affordable housing. The principal goals of city housing policy are to improve choices, both for households with constrained choice and for households with many choices. The Zoning Code was also amended to allow developers of affordable housing to construct more housing units than would otherwise be allowed in instances where a proposed development includes affordable housing units. Previously city housing policy was contained in a number of documents which were approved at various times for specific reasons. Council action on June 18, 2004 adopted a Unified City of Minneapolis Housing Policy. This Policy shall be consistent with The Minneapolis Plan, goals 4.9.1 through 4.19.

The Wellstone project is consistent with the following policy statements:

- 4.9 Minneapolis will grow by increasing its supply of housing.
- 4.10 Minneapolis will increase its housing that is affordable to low and moderate income households.
- 4.11 Minneapolis will improve the availability of housing options for its residents.
- 4.12 Minneapolis will reasonably accommodate the housing needs of all of its citizens.

Minneapolis Tax Increment Finance Policy

The Minneapolis City Council approved the Minneapolis Tax Increment Policy to guide staff in forming recommendations regarding the use of tax increment financing and negotiating contract terms with developers; to provide a framework within which the City Council and Mayor can evaluate and compare proposed uses of tax increment financing; and to inform the public of the City's position on the use of tax increment financing and the process through which decisions regarding the use of the tool are made. Objectives that will be accomplished through the Wellstone tax increment financing district are:

- Provide an array of housing choices that meet the needs of current residents and attract new residents to the city, with an emphasis on providing affordable housing.
- Eliminate blighting influences throughout the city, and
- Support neighborhood retail services, commercial corridors and employment hubs.

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

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



