



Hiawatha Commons Tax Increment Finance Plan

November 12, 2004

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

Hiawatha Commons
Tax Increment Finance Plan
November 12, 2004

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Hiawatha Commons Tax Increment Finance Plan

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Plan Documents

Three plan documents have been prepared that are related to the proposed mixed use rental housing project that has been proposed in the Longfellow neighborhood in Ward 9 of South Minneapolis. The plan documents include the Hiawatha Commons Tax Increment Finance ("TIF") Plan, Modification No. 14 to the Seward South Urban Renewal Plan (County TIF Designation #10) and Modification No. 102 to the Common Development and Redevelopment and Common TIF Plans (collectively, the "Plans").

Modification No. 14 to the Seward South Urban Renewal Plan removes portions of parcels from the existing TIF District in order that those parcels can be included in the new Hiawatha Commons TIF District. The new public redevelopment costs associated with the proposed rental project cannot be financed within the limitations imposed by the existing Seward South TIF District because of statutory limitations on the use of tax increment from TIF District #10, the short remaining term of the existing district, and the impact of the prior pledge of revenue from the district to the outstanding debt of other projects. For that reason a request was made to release the parcels from the prior pledge of Tax Increment Revenue Bonds of 1990 (the Common Project) by the MBIA Insurance Corporation¹. A request will also be made to Hennepin County to decertify and remove the portions of the two affected parcels from the existing TIF District #10. Because the Seward South TIF District is in the Common Project, **Modification No. 102 to the Common Plans** has also been prepared. The parcels included in the new **Hiawatha Commons TIF District** remain within the existing Seward South Project Area. The geographical area of the Seward South Urban Renewal Project is included within the Common Project; however, the new **Hiawatha Commons TIF District** is not being incorporated into the Common Project. Rather, it is intended to be a freestanding TIF district and will not be subject to the existing Common Project obligations and commitments. **Modification No. 14 to the Seward South Urban Renewal Plan** authorizes the creation of a new tax increment finance district as a tool for carrying out the redevelopment activities described therein.

¹ The request to release the parcels from the prior pledge was approved by MBIA

The Hiawatha Commons TIF Plan provides for the establishment of a new housing TIF district, authorizes public redevelopment activities, and establishes a budget for expenditures. Tax increment will be used to pay for a portion of the public redevelopment costs associated with the project.

TAX INCREMENT FINANCE PLAN

I. Tax Increment District Boundary

The Hiawatha Commons TIF District is being established within and under the authority of the Seward South Urban Renewal Plan. The proposed TIF district consists of portions of 2 existing tax parcels² at the northwest corner of Minnehaha Mall located at East Lake Street and Hiawatha Avenue. The boundary is shown on the boundary map (Exhibit #1). The existing tax parcels to be subdivided and portions of the following tax parcels to be included in the TIF District are:

<i>Property Identification Number</i>	<i>Address</i>
36-029-24-43-0087	2510 E Lake St
36-029-24-34-0062	2520 E Lake St

A lot split/division has been proposed and the portions of the above tax parcels that will be included in the Hiawatha Commons TIF district and removed from the Seward South TIF District No. 10 include that property described below:

PROPOSED PROPERTY DESCRIPTION

That part of the following described property:

The Southeast Quarter of the Southwest Quarter and the Southwest Quarter of the Southeast Quarter of Section 36, Township 29, Range 24;

Lots 1, 2 and 3, AUDITOR'S SUBDIVISION NO. 119, files of the County Recorder;

Outlot A, MINNEHAHA INDUSTRIAL PARK, according to the recorded plat thereof;

Vacated Minnehaha Avenue and vacated East 28th Street;

² The two parcels will be subdivided and new property identification numbers will be assigned.

All in Hennepin County, Minnesota.

Described as beginning at the most westerly corner of said Outlot A; thence on an assumed bearing of North 71 degrees 47 minutes 06 seconds East, along the southeast line of said Outlot A and the north line of said AUDITOR'S SUBDIVISION NO. 119, a distance of 102.29 feet to a point 386.63 feet easterly of the most westerly corner of said AUDITOR'S SUBDIVISION NO. 119, as measured along said north line of AUDITOR'S SUBDIVISION NO. 119; thence South 64 degrees 11 minutes 06 seconds West a distance of 191.39 feet; thence South 27 degrees 05 minutes 11 seconds East a distance of 60.77 feet; thence South 89 degrees 10 minutes 51 seconds East a distance of 260.23 feet; thence North 64 degrees 27 minutes 55 seconds East a distance of 188.12 feet; thence North 0 degrees 08 minutes 10 seconds East a distance of 160.36 feet; thence northeasterly a distance of 32.33 feet along a tangential curve concave to the southeast, having a radius of 40.00 feet and a central angle of 46 degrees 18 minutes 32 seconds; thence North 46 degrees 26 minutes 42 seconds East, tangent to said curve, a distance of 61.72 feet to the northeast line of said Outlot A; thence northwesterly a distance of 62.30 feet, along said northeast line of Outlot A, being a non-tangential curve concave to the northeast, having a radius of 850.00 feet, a central angle of 4 degrees 11 minutes 57 seconds and a chord which bears North 65 degrees 01 minute 20 seconds West to the most northerly corner of said Outlot A; thence southwesterly a distance of 209.92 feet, along the northwest line of said Outlot A, being a non-tangential curve concave to the northwest, having a radius of 622.96 feet, a central angle of 19 degrees 18 minutes 24 seconds and a chord which bears South 53 degrees 53 minutes 44 seconds West to a point of tangency in said northwest line of Outlot A; thence South 63 degrees 32 minutes 56 seconds West, tangent to said curve and along said northwest line of Outlot A, a distance of 239.90 feet to the point of beginning. EXCEPT that part of the Southeast Quarter of the Southwest Quarter and that part of the Southwest Quarter of the Southeast Quarter, Section 36, Township 29, Range 24, described as follows: Beginning at the angle point on the Northerly line of Lot 3, Auditor's Subdivision Number One Hundred and Nineteen Hennepin County Minnesota, said angle point being 31.96 feet Easterly from the most Westerly corner of said Lot 3; thence on an assumed bearing of South 46 degrees 40 minutes 31 seconds East along the Northerly line of said Lot 3, a distance of 31.68 feet, more or less, to an angle point on said Northerly line; thence North 62 degrees 45 minutes East, along the Northerly line of said Lot 3 and its extension a distance of 171.9 feet to the center line of vacated Minnehaha Avenue, as said avenue is shown on the plat of South Side Addition to the City of Minneapolis; thence North 27 degrees 15 minutes West, along said center line, a distance of 14.15 feet, to an intersection with the Westerly extension of the center line of vacated East 28th Street, as said street is shown on the plat of South Side Addition to the City of Minneapolis; thence South 67 degrees 40 minutes 37 seconds West, a distance of 183.11 feet to the point of beginning, according to the government survey

thereof.

AND

That part of the Southeast Quarter of the Southwest Quarter and that part of the Southwest Quarter of the Southeast Quarter, Section 36, Township 29, Range 24, described as follows: Beginning at the angle point on the Northerly line of Lot 3, Auditor's Subdivision Number One Hundred and Nineteen Hennepin County Minnesota, said angle point being 31.96 feet Easterly from the most Westerly corner of said Lot 3; thence on an assumed bearing of South 46 degrees 40 minutes 31 seconds East along the Northerly line of said Lot 3, a distance of 31.68 feet, more or less, to an angle point on said Northerly line; thence North 62 degrees 45 minutes East, along the Northerly line of said Lot 3 and its extension a distance of 171.9 feet to the center line of vacated Minnehaha Avenue, as said avenue is shown on the plat of South Side Addition to the City of Minneapolis; thence North 27 degrees 15 minutes West, along said center line, a distance of 14.15 feet, to an intersection with the Westerly extension of the center line of vacated East 28th Street, as said street is shown on the plat of South Side Addition to the City of Minneapolis; thence South 67 degrees 40 minutes 37 seconds West, a distance of 183.11 feet to the point of beginning, according to the government survey thereof.

NOTE: A portion of the above described property contains Torrens property.

The Project Area Report, which documents the eligibility of this site for the establishment of a Housing TIF district, is appended as Exhibit #2 to this TIF Plan.

II. Statement of Objectives

The objectives for this TIF Plan are described in Section B.2. Objectives of the Redevelopment Plan – in the Seward South Urban Renewal Plan, dated April 19, 1966, as updated in subsequent modifications.

The development proposes to use tax increment financing to accomplish these major objectives, which are consistent with City development objectives:

- Provide affordable housing to low income individuals and families.
- Meet the needs of low wage workers for affordable housing at a location close to light rail transit, and serve the housing needs of higher income households.
- 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 redevelopment efforts that enhance and preserve unique urban features

and amenities.

- Provide commercial space that will improve retail opportunities by providing approximately 8-10 retail units.
- Increase the City's property tax base and maintain its population diversity.

III. Development Program

A. Description of Development Program

Background

Alliance Housing, Inc. (AHI) proposes to develop 80 units of rental housing over a floor of commercial space at the northwest corner of the Minnehaha Mall located at East Lake Street and Hiawatha Avenue. AHI's mission has been to create and operate affordable housing for homeless and low income people. The housing mix will be 40 efficiencies, 24 one-bedroom units, and 16 two-bedroom units. Sixteen units will be affordable to individuals and families at or below 30% of the Metropolitan Median Income (MMI), forty-eight units will be affordable to individuals and families at or below 60% of MMI, and 16 units will be market rate. AHI has applied for 20 project-based Section 8 units. There will be approximately 14,000 sq. ft. of ground floor commercial space, 44 garage level parking spaces, and 60 surface parking spaces.

The project represents one of the first workforce housing projects in Minneapolis and Hennepin County. The proposed project is consistent with the recent Hennepin County/Minneapolis Task Force on Homeless Single Adults calling for the development of 925 workforce units, half of which are to be built in Minneapolis. Hiawatha Commons provides 60 such units, in an area with plenty of entry level jobs and on transit lines, particularly the light rail line, which can connect workers quickly to jobs in downtown Minneapolis, the Veterans Medical Center, the Twin Cities International Airport, and the Mall of America.

Hennepin County has approved Transit Oriented Development funds to purchase the property. Funding has also been sought from the Hennepin County Environmental Response Fund. Phase I Environmental Site Assessment and Phase II Investigation Reports were prepared by STS Consultants in 1998, 1999, and 2002. Phase II concluded that there were no significant impacts to groundwater by metals, volatile organic compounds or other potential contaminants of concern. STS noted that petroleum related compounds impacted soils at the site. However, the observed impacts, particularly by diesel range organize compounds were characterized as consistent with impacts found in the Hiawatha Corridor. Phase II also identified a few exceedances of MPCA residential soil standards, as well as exceedances of Minnesota Department of Heath standards in groundwater samples. STS did not recommend any remedial actions with regard to the soil or groundwater. Instead, STS recommended

that future construction activities at the site involving soil excavation should be performed under an MPCA-approved contingency plan, which would likely require the screening and segregation of soils that exceed applicable standards.

Development Proposal

Hiawatha Commons is a mixed-use, mixed income project, combining four floors of rental housing over first floor retail and underground parking at the northwest corner of Minnehaha Mall located at East Lake Street and Hiawatha Avenue. Alliance Housing Incorporated (AHI) is proposing to develop 80 units of rental housing that will provide housing for low-income, single, working adults and low-to-moderate income families looking for housing close to transit, retail, and employment. This will be the first project in the Hiawatha Corridor to provide expanded neighborhood retail and mixed-income housing. The project will include underground and surface parking for 104 vehicles, a ground floor of commercial space plus apartments' entry and office area, and four floors of affordable and 16 market rate apartments. Hiawatha Commons will be located near the Seward Industrial Park, retail stores such as Target, Cub Foods, and Rainbow Foods, as well as other smaller retailers and services. The core tenant base will be people currently working in the area as well as future employees.

The proposed project will be situated on nearly two acres of land located directly north of Minnehaha Mall and west of the Cub Foods store along Lake Street east of Hiawatha Avenue. The site is currently part of the parking lot shared by Minnehaha Mall and Cub Foods. The northern border of the site is the railroad track corridor that is slated to become part of Midtown Greenway.

AHI has signed an agreement to purchase approximately 79,000 square feet of underutilized land from the current owners of the Minnehaha Mall. AHI and current owners will then form a condo association with AHI owning the land and the to-be-built underground parking, four floors of housing, and the apartment entry and office area. Current owners will own and operate the first floor commercial space and pay for the raw construction and build-out of the commercial space. The commercial space will be subdivided into approximately 8-10 retail units.

- Four floors of housing. Each floor will have 20 units and a total of 14,283 gsf per floor. Total number of housing units is 80. Total building area is 92,312 gsf, of which 14,593 gsf is commercial and 16,431 gsf is for underground parking.
- Building amenities: underground parking, community space for meetings and employment counseling, laundry on each residential floor, two-bedroom units have two baths
- Utilities included with rent: heat and water
- Market study conclusions: Market study was prepared for 16 market rate

- units and projected that these units will fill within 8-10 months of opening.
- Garage, first floor and second floor to be concrete masonry walls, precast plank floors with steel columns. Wood frame walls, floors and roof above third floor line. Brick veneer at 50% of exterior wall surface, stucco finish at remaining wall area. Heavy commercial grade aluminum windows. Single ply membrane roofing.

The site's proximity to the Hiawatha Light Rail Transit (LRT) provides the additional benefit to the tenant population of convenient access to downtown Minneapolis, Mall of America, and the airport. Supportive services will also be provided in all likelihood through agencies like Employment Action Center and Goodwill/Easter Seals – both of which have offices nearby. This project is located in both impacted and non-impacted census tracts.

A copy of the proposed Site Plan for the Hiawatha Commons project is attached as Exhibit #3.

Unit Breakdown/Affordability

Hiawatha Commons will feature 16 units at or below 30% of MMI, 48 units at or below 60% of MMI and 16 market rate units. Since there will be 64 units at or below 60% of MMI for a total of 64 affordable units, the project complies with the City's Affordable Housing Policy, which requires that at least 16 units are affordable to low or moderate income households (i.e. 20% of 80 units). Eighty (80) percent of the units will be affordable units.

<i>Unit Composition</i>	<i>Quantity</i>	<i>Unit Affordability</i>	<i><30% of MMI</i>	<i><60% of MMI</i>	<i>Market Rate Units</i>
0 bedroom	40		16	24	0
1 bedroom	24		0	15	9
2 bedroom	16		0	9	7
Total	80		16	48	16

Need for Affordable Housing

The Minneapolis housing market experienced dramatic fluctuations in recent years³. Owners of apartment buildings reported that average rent levels rose 42% from 1998 to 2003 – a pace that far outstripped gains in household incomes. Over the same period the vacancy rate in Minneapolis increased from 1% to 7%. It was easier in 2003 to find a vacant rental unit, but it cost quite a bit more to rent it.

³ State of the City Report, 2003

Average Rent/Vacancy Rate

GVA Marquette compiles metro-wide rental market data based on a survey of rental property owners and managers. Survey participants represent approximately one quarter of Minneapolis rental units; they are self-selected and tend to own or manage larger multi-unit rental properties. Because this is a non-random sample, reported rent levels and vacancy rates will differ to some degree from the true levels reflecting the entire rental housing stock. However, the direction and general magnitude of changes in GVA Marquette-reported rents and vacancies would be expected to mirror similar trends in the overall rental market.

In GVA Marquette-sampled housing developments, the Twin Cities apartment occupancy rate showed slow, steady improvement during the second quarter. The reported vacancy rate of 7.1 % was down slightly from first quarter's 7.4%. However, it is still higher than the second quarter 2003 figure of 6.7%. The average asking rent inched up slightly from \$847 to \$850.

Studies show that rent levels appreciated for all unit types in 2003. Over a five year period from 1998 to 2003, average rents increased between 31% for studio apartments and 56% for 3+ bedrooms.

Minneapolis Housing Policy

In 2002, modifications were made to the City's Comprehensive Plan ("The Minneapolis Plan") that strengthened the City's commitment to policies of housing growth and to increasing the supply of affordable housing. 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. Please see Exhibit #3, Project Area Report and Eligibility Documentation, for excerpts from these documents.

Additional strategic policy documents include the Affordable Housing Resolution which established the city's "Affordable Housing Initiative" directing the activity of City staff in the development of housing affordable to low income households.

B. Property That May Be Acquired

Alliance Housing Incorporated has signed a Purchase Agreement and a Development Agreement with Minnehaha Center LLC.

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

The City is currently negotiating a development agreement with Hiawatha

Housing Limited Partnership.

D. Other Development Activity

No additional development activity is anticipated at the time of this writing.

IV. Description of Financing

A. Project Costs

Total development costs for the Hiawatha Commons project is currently estimated at approximately \$12,043,781. Tax increment financing assistance in an amount not to exceed \$910,000 may be provided for affordable housing construction. This TIF assistance will be provided to Hiawatha Housing Limited Partnership through the issuance of a pay-as-you-go tax increment revenue note (the "TIF Note"). The TIF Note will be issued to Hiawatha Housing Limited Partnership by the City and will have a stated interest rate.

As tax increment is generated by the project in future years, a portion of the tax increment collected by the City will be paid to the noteholder (twice a year) as payment of principal and interest on the TIF Note. A portion of the tax increment collected by the City may also be used for administrative purposes or other affordable housing purposes as allowed by Minnesota State Statutes and stated in the tax increment budget. The tax increment budget for the TIF district is shown below:

Hiawatha Commons TIF District Budget		
Sources	Up Front	Over Time
Developer Funds	\$ 910,000	---
Tax Increment	---	\$ 2,742,857
Other	---	0
Total Sources	\$ 910,000	\$ 2,742,857
Uses		
Affordable Housing Construction	\$ 910,000	---
Pay-As-You-Go Note Principal	---	\$910,000
Pay-As-You-Go Note Interest	---	1,010,000
Affordable Housing Outside TIF District (20%)	---	548,571
City of Minneapolis Administration (10%)	---	274,286
Total Uses	\$ 910,000	\$ 2,742,857

The figures, sources and methods of financing identified in this TIF Plan are based on the best estimates available at the time of writing. Slight changes in these figures can be expected. However, in the event that significant changes affect the structure or feasibility of this TIF Plan, or result in an increase in the public redevelopment costs or indebtedness beyond the amounts listed herein, a modification to the TIF Plan will be necessary. Such a modification would require the same approval process as the original approval of this TIF Plan. The actual public commitment to pay public redevelopment costs to be incurred within this Project Area is established in each redevelopment agreement entered into by the City and each developer, not by the TIF Plan, which establishes a permissive rather than proscriptive ceiling on public expenditures.

B. Bonded Indebtedness to be Incurred

It is anticipated that public redevelopment costs will be financed through the City's issuance to Hiawatha Housing Limited Partnership 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 Hiawatha Commons project.

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 Hiawatha Commons Project. Other sources of funds to pay public redevelopment costs may include charitable contributions, FHLB, MHFA, Empowerment Zone, Hennepin County ARIF, Syndication Proceeds, MHFA 1st Mortgage funds, NRP funds, Hennepin County TOD Funds, Owners Equity, Family Housing Funds.

D. Original Net Tax Capacity

It is currently projected that the Estimated Market Value of taxable property in the TIF District (upon street vacation and parcel reconfiguration) will be approximately \$250,000. The Original Net Tax Capacity of the TIF District is therefore projected to be approximately \$4,010.

E. Estimated Captured Net Tax Capacity at Completion

Upon completion of the redevelopment it is anticipated that the estimated market value of taxable property in the District will increase from \$250,000 to approximately \$5,375,000. This represents an increase of \$5,125,000, and will generate a total net tax capacity of approximately \$74,688, and an estimated captured net tax capacity of \$70,678.

Based upon a projected total local tax rate of 147.000%, this will generate an estimated annual gross tax increment payment of \$103,897, excluding deduction for State Auditor fee.

F. Duration of District

The Hiawatha Commons TIF District is a housing TIF district. Tax increment can be paid to the City for up to twenty-six years of increment collection, or such period as is authorized by law and is necessary to complete financing of the eligible project costs.

G. Fiscal Disparities Election

It is the intent of the City of Minneapolis that the entire fiscal disparity taken from outside the TIF District. The option provided in Minnesota Statutes Section 469.177, Subdivision 3, Paragraph (a) of the Minnesota Tax Increment Financing Act is elected.

H. Original Tax Capacity Rate

The Original Tax Capacity Rate for this district will be the local tax capacity rate for taxes payable (TP) 2005, which was not known at the time this TIF Plan was prepared. For tax increment projection purposes, a tax rate of 147.000% has been used. For impact purposes (see Section VI), the tax rate for taxes payable in 2004 (147.756%) has been used.

I. Permit Activity and Prior Planned Improvements

The 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.

J. Affordable Housing and Expenditures Outside TIF District

Pursuant to M.S. Section 469.176, Subd. 4k, tax increment may be spent to assist affordable housing meeting the requirements of M.S. Section 469.173, Subd. 2, paragraph (d), which states that such expenditures must:

- 1) be used exclusively to assist housing that meets the requirements for a

- qualified low income building (as defined in Section 42 of the IRC);
- 2) not exceed the qualified basis of the housing (as defined in Section 42c of the IRC) less the amount of any credit allowed under Section 42; and
- 3) be used to:
 - acquire and prepare the site of the housing;
 - acquire, construct, or rehabilitate the housing; or
 - make public improvements directly relating to the housing.

Tax increment expenditures for the qualifying affordable housing costs listed above are not restricted to the TIF district or "project area" (as that term is defined in Minnesota Statutes, Section 469.174), but may be spent anywhere in the city. However, the amount of tax increment used for such purposes is restricted.

Pursuant to Minnesota Statutes Section 469.1763, Subd. 2, up to 20% of the tax increment from a housing TIF district may be spent on activities located outside the boundaries of the TIF district. An authority may elect in the TIF plan to increase this amount by up to 10% (maximum total of 30%), provided that these additional expenditures meet the affordable housing requirement listed above. Administrative expenditures are normally considered outside of the TIF district. However, if the only other expenditures outside of the TIF district are for affordable housing purposes as described above, the administrative expenditures are then considered spent within the TIF district.

Pursuant to the provisions, requirements and restrictions noted above, the City elects to increase by 10% the amount of tax increment that may be expended outside the boundaries of the TIF district. It currently anticipates that up to 10% of the increment collected from the district (over its lifetime) may be used for administrative purposes, and up to 30% of the increment collected from the district (over its lifetime) will be used for affordable housing purposes as described above.

V. Type of Tax Increment Financing District

The proposed TIF District is a "housing district" as defined in Minnesota Statutes 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.

VI. Estimated Impact on Other Taxing Jurisdictions

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

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

Taxing Jurisdictions	Tax Capacity Rate Payable 2004	Property Tax Revenues Resulting from \$70,678 Captured Tax Capacity
City of Minneapolis	64.538%	\$ 45,614
Hennepin County	41.932	29,637
Special School District #1	32.373	22,880
Other Taxing Jurisdictions	<u>8.913</u>	<u>6,300</u>
Total	147.756%	\$ 104,431

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

Minnesota Statutes, Section 469.175, Subdivision 3, provides that prior to the approval of a tax increment financing plan, the City Council must find that the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and therefore the use of tax increment financing is deemed necessary.

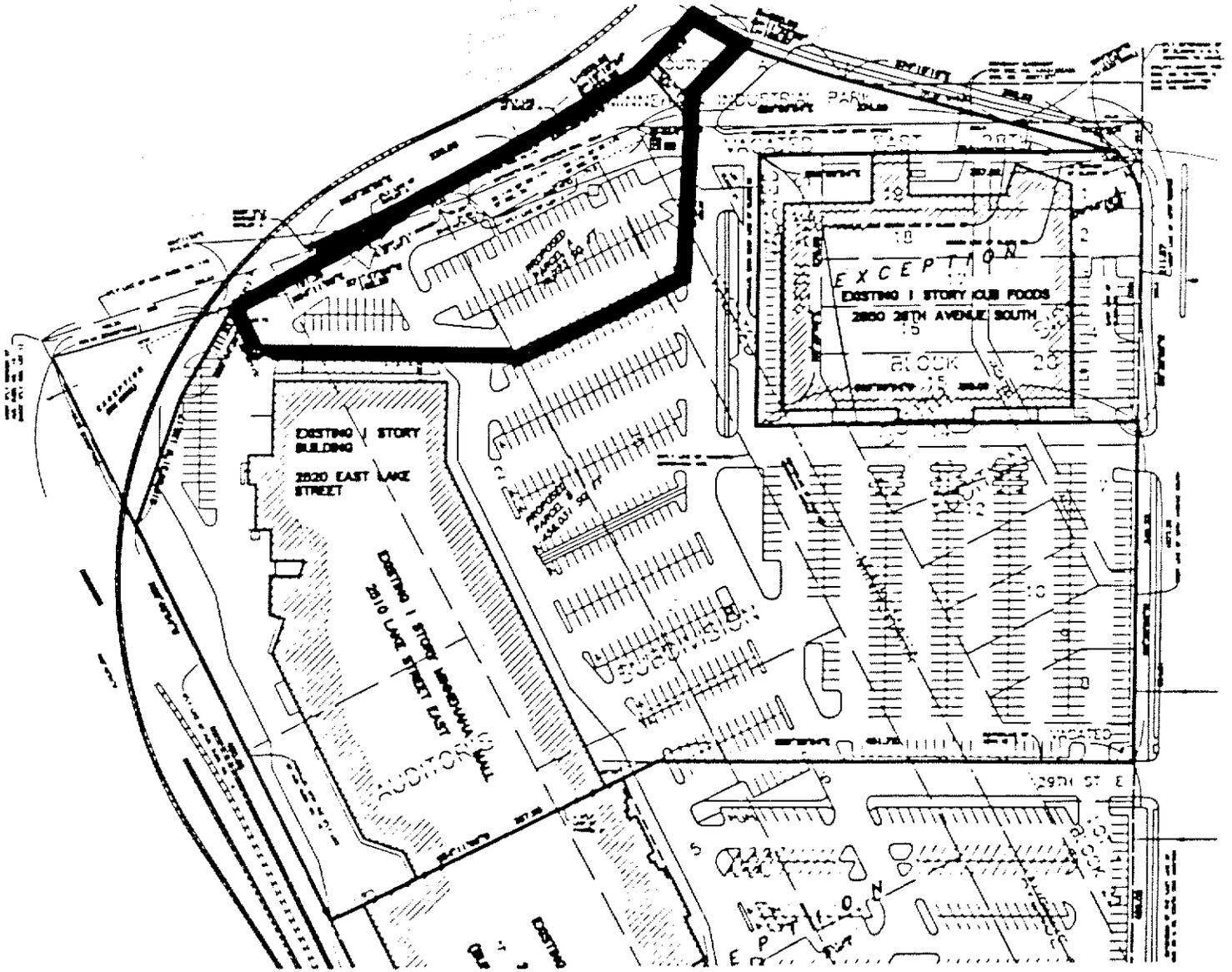
It is the position of the City of Minneapolis that the private redevelopment of the property included in the TIF District could not occur without public participation and

Hiawatha Commons TIF District

Valuation and Tax Increment Assumptions

	Pay 2005	Pay 2006	Pay 2007
Total Estimated Market Value (EMV)	\$1,343,750	\$5,375,000	\$5,375,000
Less: Original EMV	250,500	250,500	250,500
Captured EMV	<u>\$1,093,250</u>	<u>\$5,124,500</u>	<u>\$5,124,500</u>
Total Net Tax Capacity (NTC)	\$18,109	\$74,688	\$74,688
Less: Original NTC	4,010	4,010	4,010
Captured NTC	<u>\$14,099</u>	<u>\$70,678</u>	<u>\$70,678</u>
Times: Projected Total Tax Rate	147.000%	147.000%	147.000%
Gross Tax Increment	<u>\$20,726</u>	<u>\$103,897</u>	<u>\$103,897</u>
Less: State Auditor's Fee (.5%)	75	374	374
Tax Increment Distributed to CPED	<u>\$20,651</u>	<u>\$103,523</u>	<u>\$103,523</u>

26 Years of TI Collection			Market Value Test	
Years of TIF Collection	Tax Payable Year	Tax Increment Distributed To The City	Analysis Required by M.S. Section 469.175, Subd. 3 (2)	
---	2003	\$0	(1) "... the increased market value of the site that could reasonably be expected to occur without the use of tax increment ...":	
---	2004	0	(a) Projected estimated market value without the use of tax increment	\$250,500
1	2005	20,651	(b) Original estimated market value	<u>250,500</u>
2	2006	103,523	(c) Increased estimated market value without the use of tax increment = (a) - (b)	\$0
3	2007	103,523	(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":	
4	2008	103,523	(d) Increase in the estimated market value of the completed development	\$5,375,000
5	2009	103,523	(e) Present value of the projected tax increments for the maximum duration of the district	1,342,130
6	2010	103,523	(f) Difference = (d) - (e)	<u>\$4,032,870</u>
7	2011	103,523	(3) Since (c) is less than (f), the proposed development or redevelopment passes the test.	
8	2012	103,523		
9	2013	103,523		
10	2014	103,523		
11	2015	103,523		
12	2016	103,523		
13	2017	103,523		
14	2018	103,523		
15	2019	103,523		
16	2020	103,523		
17	2021	103,523		
18	2022	103,523		
19	2023	103,523		
20	2024	103,523		
21	2025	103,523		
22	2026	103,523		
23	2027	103,523		
24	2028	103,523		
25	2029	103,523		
26	2030	103,523		
		<u>\$2,608,726</u>		
P.V. @	5.00%	\$1,342,130		



Hiawatha Commons Tax Increment Finance Plan
Boundary Map
November 12, 2004

BOUNDARY 

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

**PROJECT AREA REPORT
AND ELIGIBILITY CRITERIA**

**Hiawatha Commons Tax Increment Finance Plan
August 13, 2004**

Alliance Housing, Inc. (AHI) proposes to develop 80 units of rental housing over a floor of commercial space at the northwest corner of the Minnehaha Mall located at East Lake Street and Hiawatha Avenue. The housing mix will be 40 efficiencies, 24 one-bedrooms, and 16 two-bedroom units. Sixty-four units will be affordable units and 16 units will be market rate. Alliance Housing, Inc. has applied for 20 project-based Section 8 units.

This Project Area Report and Documentation of Eligibility describes the conditions that qualify the Hiawatha Commons site as a redevelopment project and a housing tax increment finance district.

The Hiawatha Commons TIF District will remain within the Seward South Urban Renewal Project Area (the "Redevelopment Project") which 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."

The deterioration of the vacant parcels undermines the value of adjacent property. Vacant parcels may 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.

Tax Increment Finance District Eligibility Findings

The Hiawatha Commons TIF District is to be a housing TIF District as defined in the Minnesota Statutes, Section 469.174, Subdivision 11, which states:

"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.

A district does not qualify as a housing district under this subdivision if the fair market value of the improvements which are constructed in the district for commercial uses or for uses other than low and moderate income housing consists of more than 20 percent of the total fair market value of the planned improvements in the development plan or agreement. The fair market value of the improvements may be determined using the cost of construction, capitalized income, or other appropriate method of estimating market value. Housing project means a project, or a portion of a project, that meets all of the qualifications of a housing district under this subdivision, whether or not actually established as a housing district.

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 Hiawatha Commons Project.

- 1) Does the project comply with the income restrictions for rental housing projects identified in Minnesota Statutes, Section 469.1761, Subdivision 2 and 3?
- 2) Does the fair market value of the low and moderate income housing project constitute at least 80% of the total valuation of the improvements constructed in the district?

Income Restrictions^{7, 8}

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 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 2 and 3). Subdivision 2 states that for owner-occupied housing, 95% of the housing units must be initially purchased and occupied by individuals whose family income is less than or equal to the income requirement for qualified mortgage bond projects under Section 143 (f) of the Internal Revenue Code. Section 143 (f) states that the income requirement for 1-2 person households is 100% of the area median income, and for 3+ person households, is 115% of area median income. **Subdivision 3 states that rental housing must meet one of the following tests in order to qualify as a Housing Tax Increment District:**

⁷ The FY2004 Median Family Income Metro Area, State of Minnesota is \$73,300 as estimated by HUD

⁸ The MMI for Tax Credit Income Limits for 2004 is \$76,400 effective date 1/28/04

1. At least 20 percent (16) of the units must be occupied by individuals whose income is 50 percent or less of the Metropolitan area median gross income (16 units of 80 units are available at or below 30%); or
2. At least 40 percent (32) of the units must be occupied by individuals whose income is 60 percent or less of the area median gross income (48 units are available at or below 60%); or
3. At least 50 percent (40) of the units must be occupied by individuals whose income is 80 percent or less of the area median gross income (64 units are available below 80% of MMI).

The proposed project meets all 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 district.

Valuation Test

In addition to the rental apartments, the project will include about 14,071 sq. ft. of commercial space on the main level. According to Minnesota Statutes, Section 469.174, Subdivision 11, in order to establish a housing TIF district, the fair market value of the low and moderate income housing project must constitute at least 80% of the total valuation of the improvements constructed in the district.

It has been calculated that the estimated development cost of the completed project will be about \$12,043,781. Approximately \$11,155,633 of the valuation is attributable to the apartments, and \$888,148 is attributable to the commercial value. Other costs include administrative, community, and shared underground parking. This means that about 7.4% of the total development cost of the complete development is attributable to the commercial space of 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.

"The Minneapolis Plan" includes 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.

- 4.15 Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.
- 4.16 Minneapolis will work closely with NRP planning and implementation to ensure that NRP plans are consistent with the City's Housing Policy.

Each of these policies is associated with a set of related implementation steps, which are accomplished through a variety of mechanisms that include regulatory requirements and enforcement, and the financial and staff resources of the City, NRP, and Empowerment Zone. These steps include:

The variety of housing types throughout the city, its communities and the metropolitan area shall be increased giving prospective buyers and renters greater choice in where they live.

- Develop/provide incentives for placing new housing on transportation corridors
- Up to 20 percent of the units in new multifamily housing developments should be affordable at 50% of metropolitan median income.

Minneapolis will improve the range of housing options for those with few or constrained choices.

Another way to describe the city's policy objectives in influencing the housing market is to target the variety of residents' housing choices. The ability to provide residents from all walks of life with increased housing choices, in a variety of housing types, ages, (newly constructed and renovated older buildings) and affordability levels will hugely influence the pattern of future prosperity and vitality in the city. Tools have been developed to assist the city and its partners in implementing expanded choice in housing. These tools define terms such as affordability, medium and high density housing. They also relate the city's efforts at expanding housing choice to metropolitan initiatives, and include the Livable Communities Act guidelines, the Consolidated Plan for Housing and Community Development, tax credit programs for affordable housing developments and CPED-sponsored programs for housing redevelopment and new construction. Implementation steps include:

- Increase the variety of housing types (affordability, style, location) throughout the city, giving greater choice
- Encourage new housing production as a way to increase resident choices throughout the city.
- Promote mixed income housing development as a method of providing more choices to residents
- Promote mixed income housing as part of mixed use development so that the likelihood of affordable housing is increased

Minneapolis will both assume its appropriate responsibility for improving housing options among those with few or constrained choices, and collaborate with partners at the regional, state, federal and local level to assure that appropriate solutions are pursued throughout the region.

The "Zoning Code"

A modification to the Code provides an incentive to the development of affordable housing units, providing a 20% bonus in the number of units that can be built if at least 20% of the development's units are affordable to low-income households.

Eligibility Findings

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

The proposed TIF district includes new construction of 80 units, 64 of which will be affordable to individuals and families earning at or below 60% MMI. Forty of the 80 rental units will have project-based Section 8 assistance affordable at or below 30% of MII, and 16 units will be market rate units.

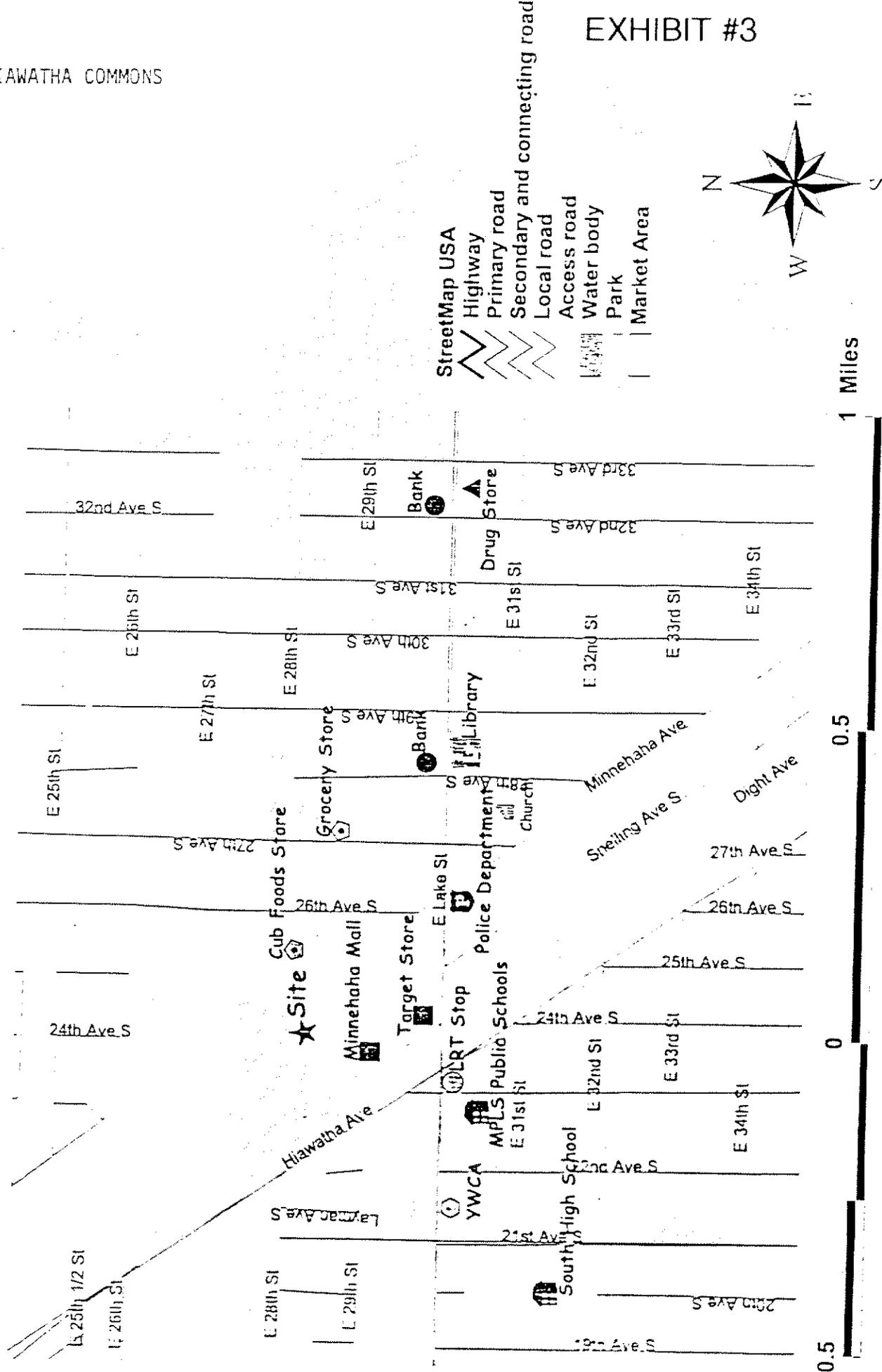
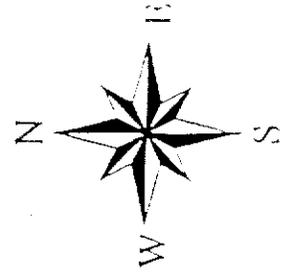
Since there will be 64 units at or below 60% of MMI, the project complies with the City Affordable Housing Policy, which would require at least 16 units (20% of the total) of 80 units.

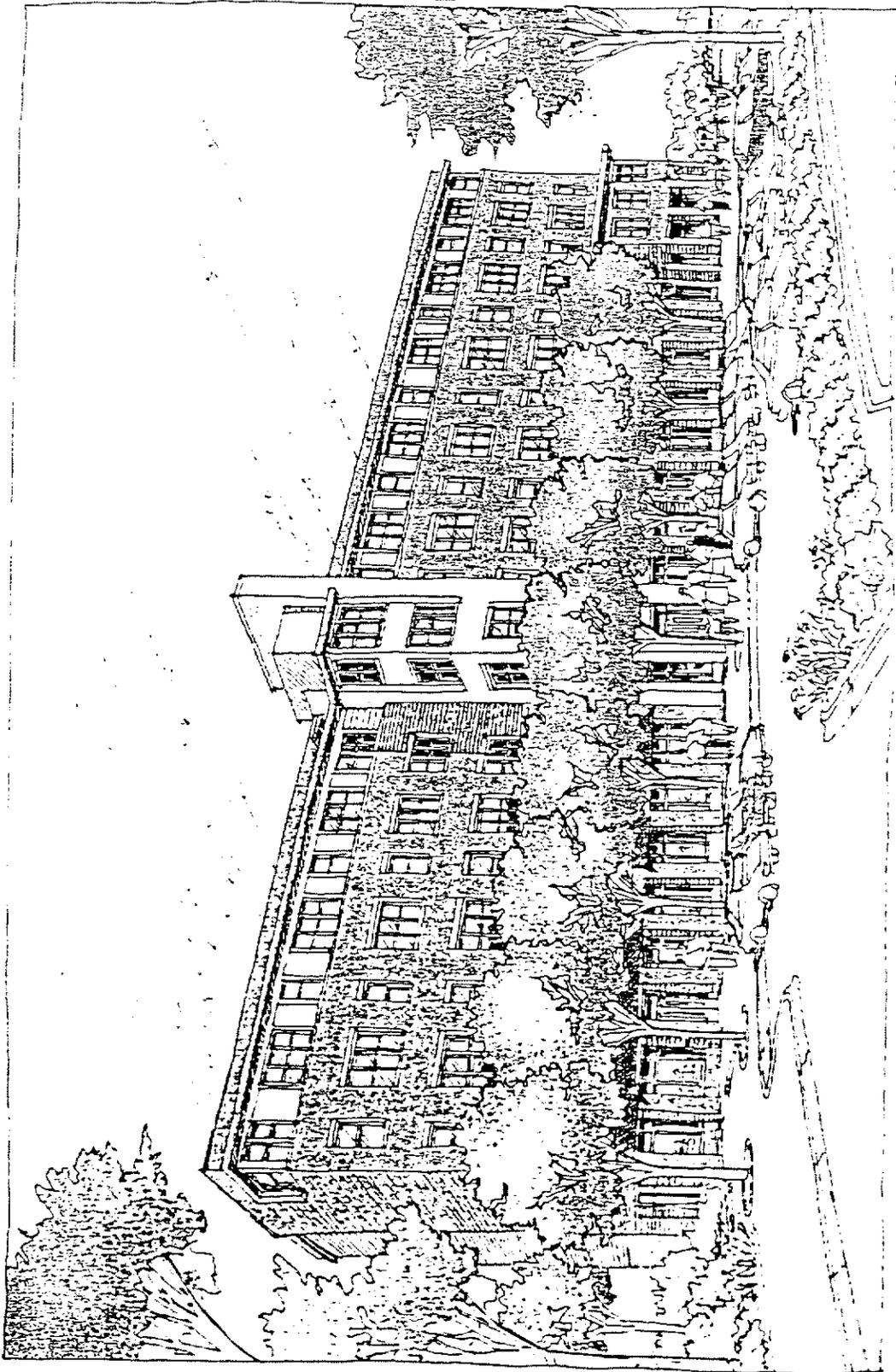
The proposed TIF District is located within the Seward South Redevelopment Project, in accordance with the provisions of Minnesota Statutes Sections 469.001 through 469.047.

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.

SITE MAP

- StreetMap USA
- Highway
- Primary road
- Secondary and connecting road
- Local road
- Access road
- Water body
- Park
- Market Area





Hiawatha Commons
Alliance Housing, Inc. 7/16/03