

**MINNEAPOLIS COMMUNITY
DEVELOPMENT AGENCY**

**Modification No. 2
to the
West Side Milling District Tax
Increment Finance Plan**

April 18, 2003

Prepared by MCDA Project Planning and Finance Department
105 5th Avenue South, Minneapolis, Minnesota 55401

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Exhibits

Exhibit A.....Boundary Map

TAX INCREMENT FINANCE PLAN

I. **Tax Increment District Boundary - *Text Added***

This modification (No. 2) to the TIF Plan deletes certain property from the TIF district. The area to be deleted from the district is illustrated in Exhibit A and is described below.

That portion of PID # 23-029-24-34-0067 (currently owned by the Agency and exempt from property taxes) which is bounded by 2nd Street South, Washington Avenue South, vacated Park Avenue South and vacated Chicago Avenue South.

At the time this modification was prepared neither Park Avenue South nor Chicago Avenue South had been constructed between 2nd Street South and Washington Avenue South. It is currently anticipated that the construction of these two street segments will take place in 2003.

The area to be deleted from the TIF district is part of a larger area that is currently in the process of being replatted. Upon completion of this process and assignment of a distinct PID # for the area to be deleted from the TIF district, Hennepin County will delete such parcel and PID # from the TIF district.

II. **Statement of Objectives – *No Change***

III. **Development Program – *Text Changed***

A. **Description of Development Program – *Text Changed***

The purpose of this modification is to:

- (1) delete property from the TIF district
- (2) adjust the budget (including additional affordable housing)
- (3) adjust bonded indebtedness

Background

On February 6, 1998, the Minneapolis City Council approved the **West Side Milling District TIF and Hazardous Substance Subdistrict Plan** (the "Plan"). The Plan authorized public redevelopment activity and expenditures to assist the

West Side Milling District Project, and created a new tax increment financing district and hazardous substance subdistrict.

The Plan authorized the use of tax increment revenue and other public funds to pay for public redevelopment activity – including acquisition, demolition, pollution remediation, rehabilitation of historic buildings, public improvements, and other project related activities. The primary purpose of the Plan was to facilitate the rehabilitation and residential reuse of the historic North Star Woolen Mill, the Utility Building of the Washburn Crosby Mill complex, and new infill housing development on an adjacent property. The Plan also authorized possible additional public improvements and expenditures to assist with the stabilization and preservation of the remaining untreated historic structures in the Washburn Crosby Mill Complex, and to facilitate the implementation of the St. Anthony Falls Interpretive Plan, which includes the development of a major historic interpretive and orientation center within the Crosby Washburn Mill Complex. The Plan authorized public assistance to facilitate the housing development project, assisted with the implementation of the historic interpretive center plan, and leveraged further public and private redevelopment activities and expenditures that facilitated the preservation and reuse of the entire complex of historic properties and resources in a viable combination of public and private uses.

On February 2, 2001, the City Council approved **Modification No. 1** to the West Side Milling District TIF Plan. Modification No. 1 authorized the geographic enlargement of the TIF District by the addition of two parcels initially and subsequent addition of portions of three other parcels. The Modification also revised the budget to finance additional public redevelopment activities, and the maximum amount of bonded indebtedness that may be incurred.

The development plans included development of the lower three floors of the eight-story Washburn/Crosby A Mill for the Minnesota Historical Society's Mill City Museum, and development of the upper five floors by Brighton Development Corporation into approximately 62,315 square feet of office space. Brighton also redeveloped the Humboldt Building and adjacent land into 36 units of ownership housing.

A parking structure will be constructed on the property now being deleted from the TIF district across 2nd Street South and will contain approximately 300-400 public stalls. Future plans include development of the remaining portions of land lying around and adjacent to the public parking ramp. Public infrastructure for this development will include the extension of Chicago and Park Avenues from Washington Avenue South to 2nd Street South.

Total development completed, under construction or future construction includes:

		Ownership	Estimated Market Value (Millions)	Completion Date
Phase 1	Northstar Lofts	36	\$17	Nearly complete
	Stone Arch Lofts	36	23	Complete
	Washburn Lofts	22	19	Nearly complete
Phase 2A	Mill City Museum			In Process
	Stone Arch Plaza (Office)	--	5.2	In Process
	Humboldt	36	18	In Process
Phase 2B	Parcel D West:			
	Park Avenue Lofts West	38	19	Start April 2003
	Portland Condos	56	20	2004
	Washington Avenue Live/Work	28	7.5	2005
Infrastructure	Park Avenue between Washington and 2 nd Street			2003
	Chicago Avenue Plaza			2003

B. List of Property That May Be Acquired – *No Change*

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

The West Side milling District includes several projects that have been undertaken under redevelopment contracts with Brighton Development Corporation or related entities. The Northstar Lofts, Stone Arch Lofts and the Washburn Lofts have been completed and are occupied. The Humboldt Mill is under construction and scheduled for completion in early 2004. The MCDA contributed \$2,026,706 towards the rehabilitation of the historic Humboldt Mill building, which is being integrated with a new construction component of the Humboldt Mill Lofts. The remaining parcel included within the contract is Parcel D - West which will be done in three phases and is privately financed. Construction has not started, but is anticipated later this year. The construction of Park Avenue (Washington - Second St. S.) by the Public Works Department is contemplated to begin in late 2003 and carry over into 2004. Costs are estimated to be \$775,000. The new Chicago Plaza is under design, with first

phase construction scheduled to begin in the Spring of 2003 at an estimated cost of \$300,000.

D. Other Development Activity – No Change

IV. Description of Financing – Text Added

A. Project Costs – Text Changed

The following tax increment and hazardous substance subdistrict (HSS) budget provides an estimate of those costs that will be paid with tax increments and hazardous substance subdistrict revenues. This budget does not include costs paid with State funds, pollution grants, private donations or other sources not listed below.

Tax Increment & HSS Budget

	<u>Up-Front</u>	<u>Over Time</u>
<u>Sources</u>		
Par Amount of Bonds	\$18,500,000	---
Tax Increment ---	\$53,000,000	
Hazardous Substance Subdistrict (HSS)	---	300,000
Capitalized Interest	---	<u>2,700,000</u>
Total Sources \$18,500,000	\$56,000,000	
<u>Uses</u>		
Rehabilitation/ Historic Preservation	\$13,000,000	---
Public Improvements	2,500,000	---
Capitalized Interest	2,700,000	---
Underwriters Discount	150,000	---
Costs of Issuance	150,000	---
HSS Eligible Costs		\$300,000
Bond Principal Payments	---	18,500,000
Bond Interest Payments	---	18,650,000
Pooling Outside TIF District (15% of TI)	---	7,950,000
Pooling for Affordable Housing (10% of TI)	---	5,300,000
Administration (10% of TI)	---	<u>5,300,000</u>
Total Uses	\$18,500,000	\$56,000,000

B. Bonded Indebtedness to be Incurred – *Text Changed*

The MCDA may use one or a combination of financing methods to pay public costs and manage public risk. Financing methods may include, but are not limited to, the following:

1. Selling general obligation or revenue bonds,
2. Direct payment or reimbursement of public costs by the developer,
3. Pay-as-you-go financing in which the developer pays for public costs, but is reimbursed over time (with interest) from tax increment or other revenues, and
4. Internal financing using public funds of the MCDA or City.

It is currently anticipated that the City will issue general obligation tax increment bonds to fund most of the public costs listed in the tax increment budget. Debt service on such bonds would be primarily paid with tax increment and capitalized interest. The City and Agency reserve the right to issue such bonds in an amount not to exceed \$18,500,000.

C. Sources of Revenue – *No Change*

D. Original Net Tax Capacity – *Text Added*

A portion of the land area within the current boundaries of TIF district is being deleted by this modification to the TIF plan. See Section I (Tax Increment District Boundary) for details.

The Original Net Tax Capacity (ONTC) of the TIF district is currently \$4,970 (taxes payable in 2003). As previously described, the deleted land area encompasses portions of three PID #'s, all of which are currently tax-exempt. The deletion of this property will therefore not change the ONTC of the TIF district.

E. Estimated Captured Net Tax Capacity – *Text Added*

At the time this modification (No. 2) was prepared, the projection of captured net tax capacity and net tax increment upon full development (for taxes payable in

2007) was as follows:

	Projected Captured NTC	Projected Net Tax Increment
Phase 1	\$629,575	\$855,323
Northstar Lofts (home ownership)		
Stone Arch Lofts (home ownership)		
Washburn Condos (home ownership)		
Phase 2a		301,975
411,286		
Humboldt Condos (home ownership)		
Stone Arch Plaza (office)		
Phase 2b Parcel D West (home ownership)	<u>454,226</u>	<u>618,649</u>
	\$1,385,776	\$1,885,258

F. Duration of District – *No Change*

G. Fiscal Disparities Election – *No Change*

H. Original Tax Capacity Rate – *Text Added*

The original (frozen) tax capacity rate of the TIF district, as reported by Hennepin County, is 146.817%.

I. LGA/HACA Penalty Exemption – *No Change*

J. Affordable Housing and Expenditures Outside TIF District – *Section Added*

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

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

Tax increment expenditures for the qualifying affordable housing costs listed above are not restricted to the TIF district or project area, but may be spent anywhere in the city. However, the amount of tax increment used for such purposes is restricted.

Pursuant to M.S. Section 469.1763, Subd. 2, up to 25% of the tax increment from a redevelopment TIF district may be spent on activities located outside the boundaries of the TIF district. An authority may elect in the TIF plan to increase this amount by up to 10% (maximum total of 35%), provided that these additional expenditures meet the affordable housing requirement listed above. Administrative expenses are considered expenditures outside of the district.

Pursuant to the provisions, requirements and restrictions noted above, the Agency 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 25% of the increment collected from the district (over its lifetime) will be used for affordable housing purposes.

- V. Type of Tax Increment Financing District – *No Change***
- VI. Estimated Impact on Other Taxing Jurisdictions – *No Change***
- VII. Basis for Finding that Development Would Not Occur Without Tax Increment Financing Assistance – *No Change***
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