



## Housing Replacement District III Plan

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## **I. Introduction**

This Housing Replacement District III Plan (the “Plan”) establishes Housing Replacement District III (the “District”) in the City of Minneapolis.

A Housing Replacement District is a type of tax increment financing (TIF) district authorized by special legislation originally enacted by the Minnesota Legislature in 1995 and amended in 1996, 1997, 2002 and 2008 (see Exhibit 1). Housing Replacement Districts have as their sole purpose the acquisition and preparation of parcels for sale for the development of market rate housing, which is defined as housing that has a market value that does not exceed 150 percent of the average market value of single-family housing in the city.

This Plan identifies parcels that currently consist of vacant land, vacant housing or substandard housing, and authorizes acquisition, demolition, occupant relocation, site preparation and pollution remediation, as necessary, in order to sell the parcels for development of new or rehabilitated market rate housing.

The Plan identifies the initial group of parcels to be included in the District, establishes the criteria for adding parcels to the District, states the City’s objectives in undertaking the proposed development activity, establishes a budget, and identifies the fiscal impacts on local taxing jurisdictions.

In accordance with Laws of Minnesota 1995, Chapter 264, Article 5, Section 46, Subdivision 2, as amended in 2008, the Plan also authorizes the use of the District’s tax increment revenues for acquisition and preparation of vacant land, vacant housing or substandard housing parcels located outside the District, for redevelopment as market rate housing.

The City of Minneapolis may designate not more than 400 parcels to be included in Housing Replacement Districts over the life of the districts. Housing Replacement Districts I and II, established in 1997 and 2003, respectively, contain 100 parcels each. Because the existing districts have reached the five-year limit on expansion, Housing Replacement District III is being created at this time.

## **II. Type of TIF District**

Housing Replacement District III is a “housing replacement district” as authorized in Laws of Minnesota 1995, Chapter 264, Article 5, Sections 44 to 47 and as amended in 1996, 1997, 2002 and 2008 (see Exhibit 1). The City of Minneapolis is the project area within which the District is established.

## **III. Maximum Duration of the District**

The maximum duration of Housing Replacement District III is that which is prescribed in Laws of Minnesota 1995, Chapter 264, Article 5, Sections 44 to 47, as amended. At the time of preparation of this Plan, the law allowed a maximum of 16 years of tax increment collection from each parcel.

**IV. Parcels Included in the District**

A maximum of 200 parcels may be placed in the District, over a period not to exceed five years from the date of certification of the District. This is in addition to the 200 parcels that have already been placed within Housing Replacement Districts I and II. The ability to add parcels to Housing Replacement Districts I and II has now expired. To the extent that parcels that have not generated any tax increment are removed from Housing Replacement District I or II, more than 200 parcels may be included in Housing Replacement District III, provided the total number of parcels in all Minneapolis Housing Replacement Districts is 400 or less.

The City will either draw upon its existing inventory of eligible parcels, designate and acquire other suitable privately owned parcels that meet the statutory requirements for inclusion within a Housing Replacement District, or designate eligible parcels owned or to be acquired by non-profit developers. All included parcels must be either vacant land or parcels containing vacant or substandard houses.

Parcels included in the District will be prepared and sold for the development or rehabilitation of market rate housing. Following certification, some of the parcels included in the District may be subdivided and result in construction of more than one housing unit.

**A. List of Parcels to be Included in the District**

The following 20 parcels are to be included in the District at the time of approval of this Plan.

<b>Property Identification Number</b>	<b>Address</b>
03 029 24 44 0133	3010 California Street Northeast
04 029 24 13 0165	4114 Fremont Avenue North
04 029 24 43 0117	3635 Girard Avenue North
04 029 24 43 0177	3627 Emerson Avenue North
05 029 24 13 0141	4150 Upton Avenue North
09 029 24 22 0009	3427 Logan Avenue North
09 029 24 23 0026	3246 Penn Avenue North
09 029 24 41 0061	2945 Bryant Avenue North
10 029 24 32 0020	409 31 <sup>st</sup> Avenue North
10 029 24 32 0153	419 30 <sup>th</sup> Avenue North
12 118 21 34 0021	4626 Aldrich Avenue North
13 029 24 32 0075	655 Taylor Street Northeast
14 029 24 24 0091	1322 Washington Street Northeast
16 029 24 21 0056	1625 26 <sup>th</sup> Avenue North
16 029 24 22 0126	2313 James Avenue North
17 029 24 41 0032	2319 Golden Valley Road
20 029 24 14 0007	823 Penn Avenue North
35 029 24 13 0171	2518 14 <sup>th</sup> Avenue South
35 029 24 21 0239	2215 Chicago Avenue
35 029 24 42 0116	1407 East 26 <sup>th</sup> Street

Records documenting the original site conditions and eligibility of each parcel listed above are on file in the offices of the City of Minneapolis Community Planning and Economic Development Department, Crown Roller Mill, 105 5th Avenue South, Minneapolis, Minnesota.

A map showing the location of the initial group of parcels to be included in the District is attached as Exhibit 2 to this Plan.

**B. Criteria for Adding Parcels to the District**

This Plan identifies the first 20 parcels to be included within the new District. Parcels may be added to the District, beginning one year after the date of publication of the City Council resolution approving this Plan. Parcels may not be added to the District after five years following the date of certification of the District.

Parcels added to the District must be a vacant site, contain a vacant house, or contain a house determined to be structurally substandard pursuant to Minnesota Statutes Section 469.174, Subdivision 10.

**C. Procedure for Adding Parcels to the District**

Following adoption of this Plan by the City and certification by Hennepin County of the parcels listed herein, and within the time limitations identified in section IV B of this Plan, the City Council may identify by resolution additional parcels to be added to the District. These parcels may be added without formal modification of this Plan, provided the designated parcels meet the criteria listed in section IV B.

The total number of parcels within Housing Replacement Districts I, II and III may not exceed 400 over the life of the districts.

**D. Procedure for Deleting Parcels from the District**

If for any reason parcels identified in this Plan, or added to this District in the future, are not redeveloped or rehabilitated for market rate housing, such parcels may be deleted from the District. Examples of circumstances that may result in the deletion of a parcel from the District include polluted soils, excessive site preparation costs, the City's inability to acquire the property, limitations on the marketability of the property, or changes in approved City land use plans. Under such circumstances, parcels may be deleted from the District by resolution of the City Council. If the parcels that are deleted from the District have not generated any tax increment subsequent to their initial certification, they may be replaced by other eligible parcels.

**V. Statement of Objectives**

The cost to acquire and remove severely deteriorated housing far exceeds what can be recovered by selling the land for new development. With limited federal, state and local resources for these types of activities, the City faces constraints on the total number of

properties it can treat. The creation of Housing Replacement District III provides an added mechanism for financing the cost of acquiring property and removing or rehabilitating substandard housing, and thus expands the City's capacity to address vacant and substandard properties.

The objective of this Plan is to facilitate the acquisition of vacant parcels or parcels with vacant or substandard houses for purposes of preparing the parcels to be sold for development or redevelopment as market rate housing.

Additional public purpose goals that may be accomplished include:

- Removal of substandard residential structures, as defined in Minnesota Statutes Section 469.174, Subdivision 10.
- Encouragement of infill housing development that is compatible in use and scale with surrounding neighborhoods.
- Rehabilitation of existing housing stock when feasible.
- Elimination of code violations and nuisance conditions that adversely affect neighborhoods.
- Restoration and improvement of the residential tax base.
- Accomplishment of comprehensive planning goals.
- Revitalization of property to improve the livability of Minneapolis neighborhoods.
- Creation and maintenance of a healthy and safe environment.
- Stimulation of private activity and investment to stabilize and balance the city's housing supply.

## **VI. Proposed Development Activity**

Public redevelopment activity may include property acquisition and disposition, demolition, relocation, pollution testing and remediation, public improvements, property management, project administration, and other related activities. The objective of these activities is to facilitate the development or redevelopment of market rate housing.

Revenues derived from tax increments generated by parcels in the District may be used for acquisition and preparation of vacant land, vacant housing or substandard housing parcels located outside the District, for redevelopment as market rate housing.

The anticipated market value of the proposed new or rehabilitated housing units constructed on parcels included within or outside the District cannot exceed 150 percent of the average market value of single-family housing in the city. According to the City Assessor's Office, for 2009 assessments, the median market value of single-family housing in Minneapolis is \$190,100. This means that the sales price for new or rehabilitated housing units developed in 2009 shall not exceed \$285,150 (150 percent of \$190,100).

Development and redevelopment activities will conform to the following policies of the City's comprehensive plan, The Minneapolis Plan for Sustainable Growth:

- Policy 3.1: Grow by increasing the supply of housing.
- Policy 3.3: Increase housing that is affordable to low and moderate income households.
- Policy 3.7: Maintain the quality, safety and unique character of the city's housing stock.

The City Planning Commission will review this Plan for consistency with the comprehensive plan.

## **VII. Description of Financing**

The financial projections included in this Plan are based on the assumption that the District will include 200 parcels, even though to the extent parcels are removed from Housing Replacement District I or II, or legislation authorizes additional parcels, more than 200 parcels may eventually be placed in Housing Replacement District III. It is anticipated that the entire 200 or more parcels to be certified for inclusion in the District will be identified over a period of approximately five years.

Most of the parcels that will be included within the District are single-family residential lots that are currently either vacant land or are occupied by vacant or substandard houses. These parcels will likely be redeveloped with a single new housing unit. However, some vacant parcels to be included in the District may be larger. Larger parcels may be subdivided and redeveloped with more than one new market rate housing unit. For purposes of this analysis, however, it is estimated that a total of 200 new or rehabilitated market rate housing units will be produced on 200 parcels included in the District. The average market value of the completed new or rehabilitated housing units is currently estimated to be approximately \$210,000.

For the purposes of this Plan, it is assumed that the average cost to acquire and prepare each parcel will be \$50,967. A project budget identifying the sources and uses of project funds is provided below.

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

**A. Total Project Costs**

The cost to acquire and prepare for redevelopment parcels located in the District and qualifying parcels outside the District will vary significantly from parcel to parcel. For the purposes of this Plan, it is assumed that the average cost to acquire and prepare each parcel will be approximately \$50,967. This will result in a total project budget for 200 parcels of \$10,193,480. An estimated breakdown of these public costs is shown below:

**Project Budget – Minneapolis Housing Replacement District III**

	Tax Increment	Local Contribution	Total
Acquisition	\$4,725,210	\$1,575,070	\$6,300,280
Demolition	1,883,805	627,935	2,511,740
Relocation	31,395	10,465	41,860
Pollution Cleanup, Public Improvements, Site Preparation, Property Management	313,970	104,655	418,625
Administrative Expense	690,730	230,245	920,975
<b>Total Project Costs</b>	<b>\$7,645,110</b>	<b>\$2,548,370</b>	<b>\$10,193,480</b>

**B. Sources of Revenue**

Sources of funds to pay project costs may include tax increment revenue, federal Neighborhood Stabilization Program (NSP) funds, Community Development Block Grant (CDBG) program funds, other available state or federal funds, grant funds, land sale proceeds, and other City housing or redevelopment funds.

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

To the extent that a local contribution is required by State law, such contribution must come from a source other than tax increment revenue, and may include the City’s general fund, a property tax levy, or other unrestricted money. At the time of preparation of this Plan, the required local contribution is 25 percent of the project costs. For purposes of this Plan, a 25 percent local contribution is assumed. If in the future the local contribution requirement is changed by legislation, the source of funding may be direct payment or reimbursement from tax increment revenue.

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

**Sources of Funding– Minneapolis Housing Replacement District III**

Direct Payment or Reimbursement from Tax Increment Revenue	\$7,645,110
Qualifying Local Contribution Funds	2,548,370
<b>Total Sources of Funding</b>	<b>\$10,193,480</b>

**C. Maximum Bonds to be Issued**

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

**D. Eligible Uses of District Funds**

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

All revenues derived from tax increments must be used in accordance with the Plan, for the purpose of the development of market rate housing. The revenues must be used solely to pay the costs of site acquisition, relocation, demolition of existing structures, site preparation, and pollution abatement on parcels identified in the Plan or on any qualified parcel outside the District, as well as public improvements, property management, interest expense and administrative costs directly related to those parcels.

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

Qualified parcels are those that are vacant sites, contain a vacant house, or contain a house that is structurally substandard as defined in Minnesota Statutes, Section 469.174, Subdivision 10.

**E. Estimated Market Value of Completed Development**

It is anticipated that 200 new or rehabilitated housing units will be developed in the District. The average estimated market value of the completed new or rehabilitated housing units will be approximately \$210,000.

Therefore, the total estimated market value of all parcels included within the District upon completion of redevelopment will be approximately \$42,000,000.

This will result in a net tax capacity upon completion of approximately \$420,000 for the entire District.

**F. Original Net Tax Capacity**

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

In those cases where the parcel included in the District is tax exempt because of public ownership by the City, and the property has been in public ownership for greater than one year, the original net tax capacity of the property shall be zero. However, the original net tax capacity is annually adjusted, and therefore after sale of a property to a private entity, the original net tax capacity would be adjusted upward to match the value of the land (excluding building value).

For purposes of this analysis, it is assumed that 95 percent of the parcels to be included in the District will be tax exempt parcels, with an original net tax capacity of zero.

It is assumed that the land value for the other five percent of the parcels to be included in the District will be approximately \$250,000 (\$25,000 per parcel).

Therefore, the estimated original tax capacity for the entire District will initially be approximately \$2,500. However, because net tax capacity is annually adjusted to include land value for parcels that have become taxable, it is assumed that the original net tax capacity of the District will be approximately \$50,000 for purposes of the calculations below.

**G. Original Tax Capacity Rate**

The Original Tax Capacity Rate for each parcel placed in the District in 2009 will be its total tax rate for taxes payable in 2010. As an example, the preliminary estimate for the Original Tax Capacity Rate of a parcel located in the Middle Mississippi Watershed is 129.607 percent. For a parcel added to the District in subsequent years, the Original Tax Capacity Rate will be the current rate in the year of certification of the parcel.

**H. Projected Captured Net Tax Capacity and Tax Increment**

After certification of all tax parcels to be included in the District, and the redevelopment of these properties into new or rehabilitated housing units, the estimated captured tax capacity for the District will be about \$370,000.

The amount of tax increment that will be generated each year by the fully redeveloped District will be approximately \$477,820 (after the State Auditor fee is paid).

Therefore, the total future value of the tax increment collected over the life of the District will be approximately \$7,645,110.

Any tax increment revenue generated by this District that is in excess of the actual eligible District costs will be identified as excess tax increment, and distributed by the

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County Auditor to the original taxing jurisdictions, pursuant to Minnesota Statutes, Section 469.177, Subdivision 9.

### VIII. Estimated Impact on Other Taxing Jurisdictions

It is the position of the City that the redevelopment of the parcels within the District as new or rehabilitated market rate housing is not reasonably expected to occur solely through private investment within the reasonably foreseeable future and that tax increment financing assistance is therefore necessary.

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

	Preliminary Tax Capacity Rate Payable 2010	Property Tax Revenues Resulting from \$370,000 Captured Tax Capacity
City of Minneapolis	60.838%	\$225,100
Hennepin County	41.686%	\$154,240
Special School District #1	20.017%	\$74,065
Other Taxing Jurisdictions	7.066%	\$26,145
<b>Total</b>	<b>129.607%</b>	<b>\$479,550</b>