

# Inclusionary Zoning

## Revenue Loss Offset Assistance (Inclusionary Zoning TIF) Fact Sheet



### BACKGROUND

The City of Minneapolis has recognized the need to increase the number of housing units in the City that are affordable to low and moderate-income households. In December 2019, pursuant to Minneapolis Code of Ordinances, Title 20, Article XIV (the "Inclusionary Zoning Ordinance"), the Minneapolis City Council adopted an Inclusionary Zoning Code Text Amendment.

### APPLICABILITY

Effective January 1, 2020 developers submitting new land use applications for residential projects with 20 or more units is subject to the City's Inclusionary Zoning requirements. These development projects must either 1) provide 8% of units affordable at or below 60% Area Median Income (AMI) for 20 years or 2) provide 4% of units affordable at or below 30% AMI for 20 years or 3) pay an in-lieu fee. Alternatively, a developer subject to Inclusionary Zoning may elect to provide at least 20% of the total dwelling units as affordable to and occupied by households at or below 50% of area median income, in which case financial assistance to offset the revenue loss resulting from the affordable units (Revenue Loss Offset assistance) would be available from the City. The Revenue Loss Offset assistance will be made available in the form of IZ Tax Increment Financing Assistance (IZ TIF). In the event a project is subject to both Inclusionary Zoning requirements and affordability requirements related to City financing/City land sales, the project is subject to all associated requirements. In most cases, the more restrictive standard for City land sale/financing will fulfill both requirements. However, if a project receives a waiver from City Council of the affordability requirements related to City land financing/land sale, then the Inclusionary Zoning requirements still apply.

### MAXIMUM AMOUNT OF REVENUE LOSS OFFSET ASSISTANCE

The Revenue Loss Offset assistance is not intended to make an IZ Assisted Development "whole" or fully compensate an IZ Assisted Development for the cost of adding affordable units to their projects. The Revenue Loss Offset assistance is intended to ensure projects remain financially feasible. Sizing of the Revenue Loss Offset assistance will depend upon specifics of each project. The maximum amount of annual tax increment revenue that will be disbursed by the City to the developer each year as Revenue Loss Offset assistance, will be determined upfront and will be the lesser of the following amounts:

- (A) The projected amount of "available TI" in the first full year of TI collection, divided by a coverage factor (e.g. 1.15) as required by the developer's tax increment lender. Available TI is equal to the TI revenue the City receives from Hennepin County less a 10% City administrative fee;
- (B) Available TI revenue needed to offset all or a portion of the lost rental revenue resulting from including the affordable units, thereby restoring the project's financial feasibility. Financial feasibility will be determined by City staff using generally accepted industry standards, methodologies, and levels (e.g. yield on cost, return on equity, etc.); and
- (C) The projected amount of Available TI revenue that amortizes a TIF loan equal to the combined decrease in the first mortgage loan and equity that results from including the affordable units.

### USE OF REVENUE LOSS OFFSET ASSISTANCE

All TI revenue distributed by the City to the developer must be used solely to pay debt service on loans or other debt that was incurred to construct the building(s) containing the affordable housing units.

## PROCESS SUMMARY

Developers electing to provide at least 8% of the total dwelling units at or below 60% AMI or 4% of the total dwelling units at or below 30% AMI without Revenue Loss Offset assistance from the City will be responsible for filing/recording an affordable housing declaration prior to, and as a condition of, receiving a Certificate of Occupancy.

Developers electing to provide at least 20% of the total dwelling units at or below 50% AMI and requesting Revenue Loss Offset assistance from the City of Minneapolis, must complete the following process. A \$15,000 TIF note origination fee will be payable to the City at the end of this process.

- Step 1: Developer submits a completed IZ TIF Revenue Loss Offset application to CPED staff.
- Step 2: CPED and FPS staff perform a preliminary financial analysis, determine the Revenue Loss Offset amount, and inform the developer of the results of the financial analysis.
- Step 3: Developer verifies the 20% election and informs CPED staff.
- Step 4: CPED Director and Finance Officer authorize staff to begin the TIF approval process for the development.
- Step 5: FPS staff prepare the TIF Plan and begin the statutory TIF approval process.
- Step 6: City Council votes on approval of the TIF Plan, establishment of the TIF District, and the amount of TIF assistance to the development (a.k.a. Revenue Loss Offset assistance).
- Step 7: City and developer execute a development agreement specifying the terms of the TIF assistance.
- Step 8: Developer records affordable housing declaration, City issues a TIF Note in accordance with the terms of the development agreement, and developer pays the TIF note origination fee.

Once the developer has submitted a completed application (Step 1), it is estimated that Steps 2-8 will take approximately 5-6 months.

Note: Revenue Loss Offset assistance is distinct from other forms of TIF assistance provided by the City of Minneapolis and is covered under the provisions of the City's Tax Increment Financing Policy for Revenue Loss Offset Assistance. Projects electing Revenue Loss Offset assistance must comply with the Prevailing Wage Policy for real estate developments assisted by CPED.

For information on maximum allowable affordable rent and income limits, see the "Rent and Income Limits" link in the Supporting Materials and Documentation section of the CPED Inclusionary Zoning page:

<http://www.ci.minneapolis.mn.us/cped/inclusionaryhousing>

For more information, contact staff at [inclusionaryzoning@minneapolismn.gov](mailto:inclusionaryzoning@minneapolismn.gov) of 612-673-5175.