



550 West Lake Tax Increment Financing Plan

Draft for Public Review:
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I. Introduction

The 550 West Lake Tax Increment Financing Plan has been prepared to help finance the construction of a six-story apartment building containing 110 units of affordable housing. The project is located at the Northeast corner of West Lake Street and Garfield Avenue in the Whittier neighborhood of South Minneapolis.

The TIF Plan establishes a new housing TIF district to finance the costs of a qualified housing development and includes a budget for the use of tax increment revenue generated by the new TIF district.

II. TIF District Boundary

The 550 West Lake TIF District will consist of two parcels as listed below.

<u>PID</u>	<u>Property Address</u>
34-029-24-33-0212	550 West Lake Street
34-029-24-33-0124	2945 Garfield Avenue

This property is located within the Whittier neighborhood of Minneapolis.

A TIF District Boundary Map is attached as Exhibit 1.

III. Type of TIF District

The TIF District is a “housing district” as defined in the Minnesota Tax Increment Financing Act (the “TIF Act”, M.S. Sections 469.174-469.1799).

Pursuant to M.S. Section 469.174, Subd. 11, a "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. 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.

In order for a TIF district to qualify as a housing district, the development must comply with certain income restrictions. There is also a limit on the amount of space that can be occupied by non-residential uses.

In particular, for a 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. These income requirements specify that at least one of the following two income tests must be met:

- 1) 20@50 Test – Twenty percent or more of the residential units are occupied by individuals or families whose income is 50 percent or less of the area median gross income (AMI).
- 2) 40@60 Test – Forty percent or more of the residential units are occupied by individuals or families whose income is 60 percent or less of AMI.

The 550 West Lake project meets both tests since 66 of the 110 units are affordable at or below 50 percent AMI (60 percent of the total units), and 70 of the 110 units are affordable at or below 60% AMI (63 percent of the total units).

Additionally, no more than 20 percent of the square footage of any building that receives tax increment financing assistance may consist of commercial, retail, or other non-residential uses. There is no commercial, retail, or non-residential space proposed within this project.

IV. Maximum Duration of the TIF District

The maximum duration of the TIF District is that which is prescribed by the TIF Act for a housing district. At the time this document was prepared, the TIF Act allowed for a maximum of 26 years of tax increment collection from a housing district.

V. Statement of Objectives

The City of Minneapolis (the “City”) seeks to achieve the following objectives through the establishment of the TIF District:

- Increase the number of housing units and choices within the City.
- Provide housing units affordable to persons or families of low and moderate income.
- Support strong and diverse neighborhoods where people choose to live.
- Promote sustainable development.
- Increase the property tax base.

VI. Proposed Development Activity

A. Description of Proposed Development Activity

Lake Street Apartments West, LLC (an affiliate of Lupe Development Partners) proposes to develop the third phase of the Lake Street Apartments campus along West Lake Street, just east of the Lyn-Lake intersection and one block south of the Midtown Greenway. The proposed development will consist of a six-story apartment building on the northeast corner of West Lake Street and Garfield Avenue in the Whittier neighborhood of South Minneapolis.

The 550 West Lake apartment building will provide 110 apartments at several levels of affordability, with a focus on family units. It will contain 23 efficiency apartments, 29 two-bedroom apartments, 47 three-bedroom apartments and 11 four-bedroom apartments. The large number of apartments with three or four bedrooms addresses the needs of urban families living in the area. Affordability of the apartments will consist of 28 apartments affordable to and occupied by households at or below 30% AMI (Area Median Income), plus

38 apartments affordable to and occupied by households at or below 50% AMI, plus 4 apartments affordable to and occupied by households at or below 60% AMI, and 40 apartments affordable to and occupied by households at or below 80% AMI. The project was awarded 18 Project Based Vouchers from the MPHA and will have 6 units set aside for persons experiencing homelessness.

The building will have an underground parking structure that will contain 61 parking spaces. It will also house bike storage and a bike repair station. Other building amenities include a community room and an outdoor playground tot lot.

See Exhibit 2 for a site plan and renderings of the planned development.

B. Property That May Be Acquired

The City does not intend to acquire any property within the TIF District.

C. Other Anticipated Development Activity

No other development activity is currently anticipated within the TIF District.

VII. Description of Financing

The amount of tax increment financing identified in this TIF Plan is based on the best estimates and projections available at the time the plan was prepared. Slight changes can be expected. However, if significant changes occur that affect the structure or financial feasibility of the project or increase the total project costs to be paid with tax increment revenue beyond the amounts listed below, then a formal modification to this plan may be necessary. In this case, the modification would require the same review and approval process that was required with the original TIF Plan.

A. Costs to be Paid With Tax Increment Revenue

The total development cost of the project is currently estimated to be approximately \$40,445,000. The maximum amount of TIF-eligible project costs that can be paid with tax increment revenue generated by the TIF District is shown below.

Sources

Tax Increment Revenue	<u>\$1,786,000</u>
Total Sources	\$1,786,000

Uses

Construction of Affordable Housing	\$785,000	44.0%
Pay-As-You-Go Note Interest	822,400	46.0%
City Administrative Costs	<u>178,600</u>	<u>10.0%</u>
Total Uses	\$1,786,000	100.0%

The City reserves the right to administratively adjust the amount of any of the line items listed above, or to incorporate additional eligible uses, provided that the Total Uses amount is not increased.

B. Construction of Affordable Housing Outside the TIF District

Pursuant to M.S. Section 469.1763, Subd. 2(b), the expenditure of housing district TIF for a housing project, as defined in M.S. Section 469.174, Subd. 11, is deemed to be an in-district activity for pooling purposes. Accordingly, tax increment expenditures are not restricted to the TIF district or “project area” (as that term is defined in M.S. Section 469.174), but may be spent on housing projects meeting the qualifications of a housing district at M.S. Section 469.174, Subd. 11 anywhere within the City of Minneapolis.

C. Maximum Amount of Bonds to be Issued

The City does not currently anticipate issuing any tax increment bonds for the 550 West Lake Project. It is anticipated that the City will issue the developer a pay-as-you-go TIF revenue note in an amount not to exceed \$785,000. The City will semi-annually distribute net tax increment to the developer under the terms of the TIF note. The developer will use this tax increment revenue, along with net operating income from the housing development, to pay debt service on private debt (secured by the developer) that is used to finance the construction of the project.

As provided in M.S. Section 469.178, Subd. 7, the City may advance one or more interfund loans between the tax increment (“TI”) special revenue fund for the TIF District and the other TI special revenue funds of the City. Each such interfund loan to or from the TIF District shall be in the principal amount needed to offset a negative cash balance. The interest rate charged on each such interfund loan to or from the TIF District shall be equal to the average interest rate that revenue in the City’s TI special revenue funds earn at the time the loan is made, and such interest rate shall vary over time. In no event will the interest rate charged on any such interfund loan exceed the greater of the rates specified under Minnesota Statutes, Section 270C.40 or 549.09, as such statutory rates are adjusted from time to time. The maximum term of each such interfund loan to the TIF District shall be the earlier of 1) the date that all principal and accrued interest on the loan is repaid, and 2) the date the TIF District is decertified. The maximum term of each such interfund loan from the TIF District to another TIF district shall be the earlier of 1) the date that all principal and accrued interest on the loan is repaid, and 2) the date the other TIF district is decertified.

D. Original Net Tax Capacity

The TIF District is projected to have an original estimated market value (EMV) of \$1,337,000, and an original net tax capacity (ONTC) of \$16,713.

E. Original Tax Capacity Rate

The original tax capacity rate for the TIF District will be the total local tax capacity rate for all applicable taxing jurisdictions for taxes payable in 2024, which is not yet available. For the purpose of calculating the estimated impact on other taxing jurisdictions, the total tax capacity rate for taxes payable in 2023 was used (see Section VIII).

For tax increment projection purposes, a total tax capacity rate of 118.0 percent was assumed.

F. Fiscal Disparities Election

For the purpose of calculating tax increment, the City of Minneapolis elects that the fiscal disparity contribution that is required for all commercial and industrial property located within the TIF District will be made from “outside” the TIF District (M.S. Section 469.177, Subd. 3, Paragraph (a)).

G. Projected Captured Net Tax Capacity and Tax Increment

Upon project completion, it is projected that the total EMV of the property in the TIF District will be \$24,750,000 and the total net tax capacity (NTC) will be \$61,875. The captured NTC of the TIF District is therefore projected to be \$45,162.

The Assumptions Schedule (Exhibit 3) shows the various assumptions used in projecting net tax increment from the TIF District.

The Projected Tax Increment Schedule (Exhibit 4) shows how tax increment was projected over the life of the TIF district.

VIII. Estimated Impact on Other Taxing Jurisdictions

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

Nevertheless, it has been assumed in the analysis below that the proposed development would occur without TIF assistance. Under this assumption the projected captured net tax capacity at project completion would be immediately available to the applicable taxing jurisdictions, and the resulting property taxes would be as follows:

<u>Taxing Jurisdiction</u>	<u>Pay 2023 Tax Capacity Rate</u>	<u>Property Taxes Resulting From \$45,162 in Captured Net Tax Capacity</u>
City of Minneapolis	58.068%	\$26,225
Hennepin County	34.499%	15,580
Mpls. Special School Dist. No. 1	19.083%	8,618
Other	<u>5.895%</u>	<u>2,662</u>
Total	117.545%	\$53,086

Fiscal and Economic Implications of the TIF District

The projected amount of tax increment revenue that would be distributed to the City over the maximum duration of the TIF District is \$1,785,934.

The probable impact of the TIF District on City-provided services such as police and fire protection, public infrastructure, and borrowing costs attributable to the TIF District is projected to be very minor due to the small size of the project in comparison to the size of the City budget and tax base.

The projected amount of tax increment revenue generated over the life of the TIF District that would be attributable to the School District, assuming the School District's tax rate remains at approximately 16.2 percent of the total tax rate, is \$289,321.

The projected amount of tax increment revenue generated over the life of the TIF District that would be attributable to the County, assuming the County's tax rate remains at approximately 29.3 percent of the total tax rate, is \$523,279.

IX. Basis for Finding That Development Would Not Occur Without TIF Assistance

M.S. Section 469.175, Subd. 3 provides that, prior to 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 TIF is deemed necessary.

After thorough financial analysis, it is the position of the City of Minneapolis that the proposed private development to be constructed in the 550 West Lake TIF District would not occur within the reasonably foreseeable future without public financial assistance. This analysis indicates that projected development costs exceed available funding sources, and that a significant upfront funding gap exists. This funding gap is in large part due to the inclusion of the affordable rental housing units in the project. The amount of TIF assistance that has been requested is reasonable when compared to the overall cost of developing the project, and TIF assistance is therefore deemed necessary and appropriate to close this funding gap.



550 West Lake
TIF District



MIDTOWN GREENWAY W

29TH ST W

GARFIELD AVE

HARRIET AVE

GRAND AVE S

LYNDALE AVE S

LAKE ST W

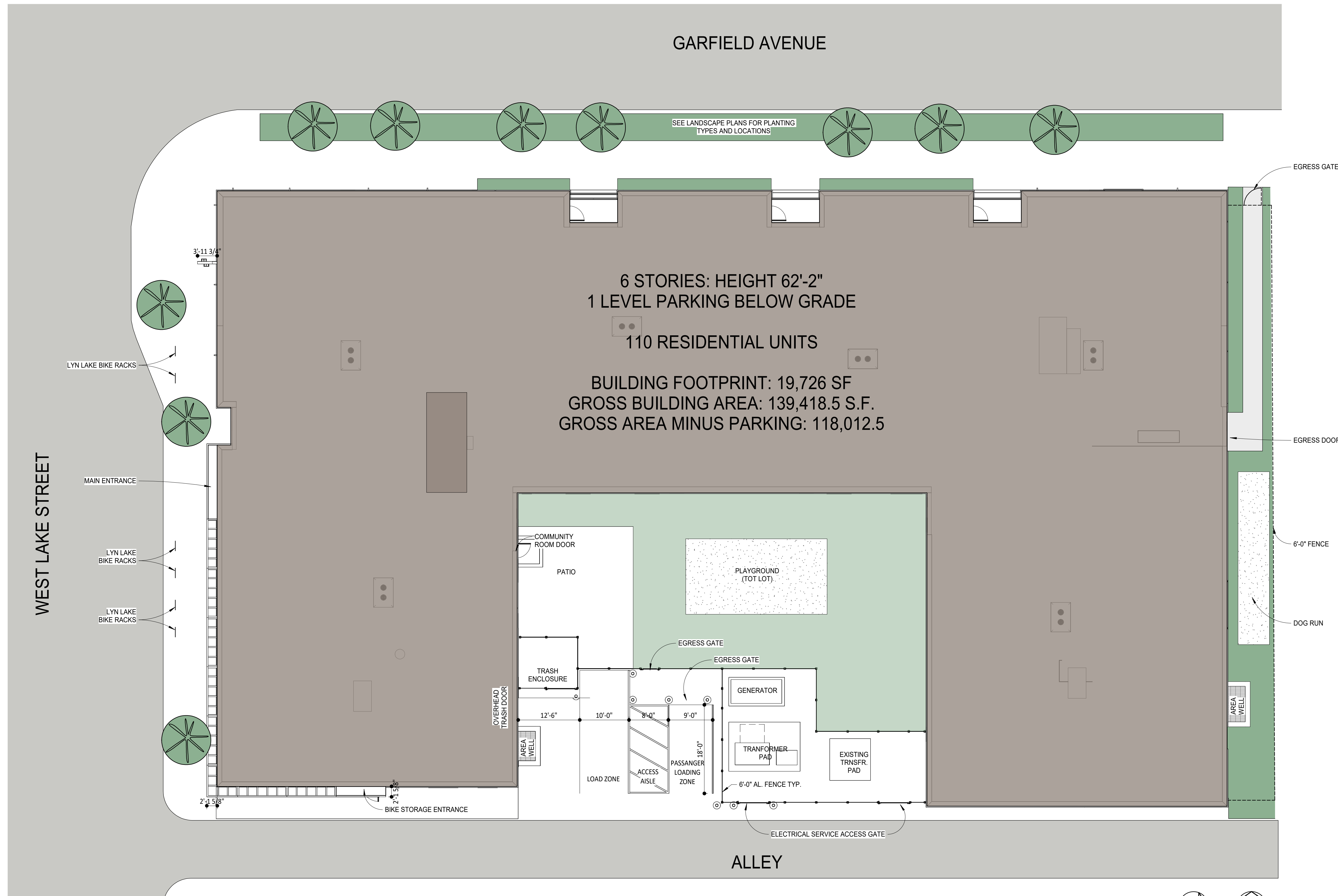
31ST ST W

TIF District Boundary

0 225 450 Feet

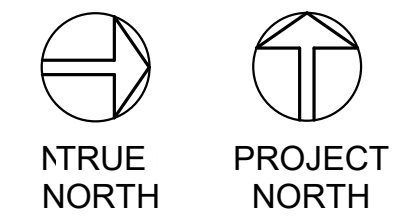
Prepared by
Development Finance Division
Finance & Property Services Department
City of Minneapolis, Minnesota
September 2023

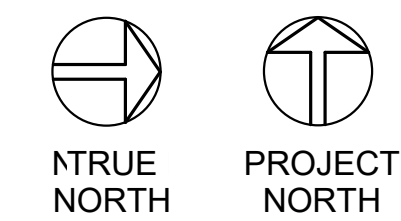
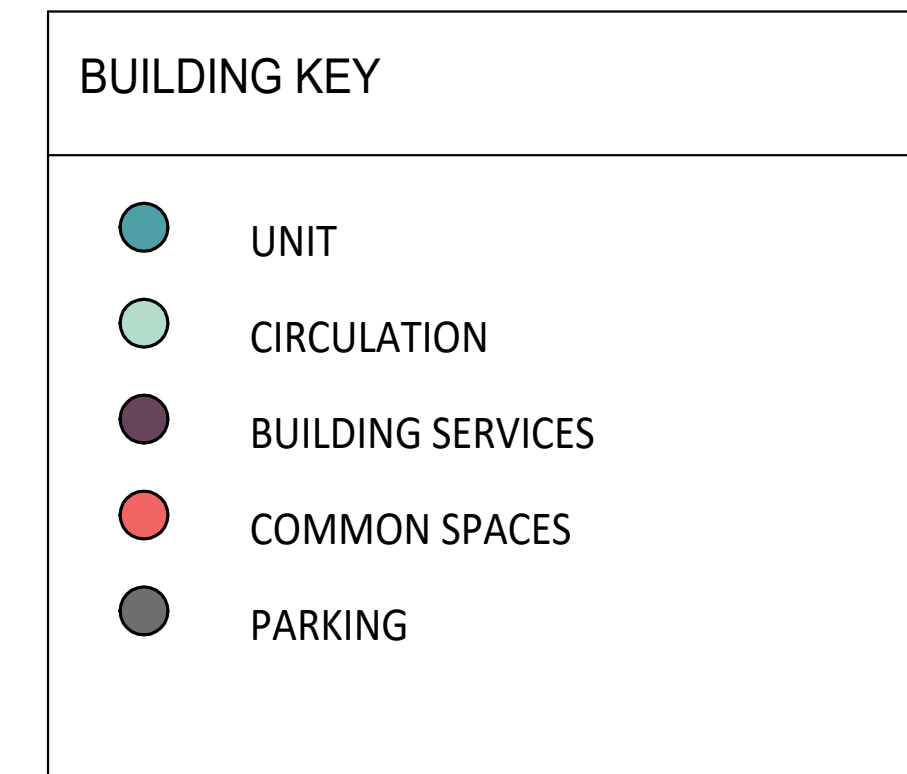




KEY	
	GRASS
	STORMWATER & POND
	BUILDING
	PARKING & ROADS
	SIDEWALK

SITE PLAN
3/32" = 1'-0"

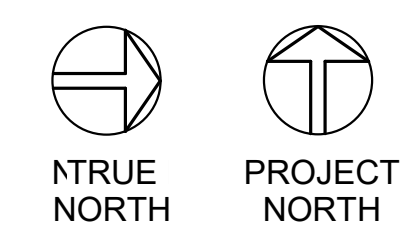






BUILDING KEY

- UNIT
- CIRCULATION
- BUILDING SERVICES
- COMMON SPACES
- PARKING



Assumptions Schedule

550 West Lake TIF Plan

Type of Tax Increment Financing District	Housing
Maximum Duration of TIF District	26 Years of Tax Increment Collection
Certification Request Date	10/01/23
Decertification Date	12/31/50 (Years of Increment = 26)

Construction Year =	2022	2023	2024	2025
Assessment Year =	2023	2024	2025	2026
Taxes Payable Year =	2024	2025	2026	2027

Housing Property

EMV Upon Completion	\$24,750,000	\$24,750,000	\$24,750,000	\$24,750,000
Percent Complete	30%	85%	100%	100%
Total Estimated Market Value	\$1,337,000	\$7,425,000	\$21,037,500	\$24,750,000
Percent of Housing Property - Class 4a	0%	0%	0%	0%
Percent of Housing Property - Class 4d (a)	100%	100%	100%	100%
Class Rate - 4a	1.25%	1.25%	1.25%	1.25%
Class Rate - 4d	0.25%	0.25%	0.25%	0.25%
Net Tax Capacity (NTC)	\$3,343	\$18,563	\$52,594	\$61,875

Assessment Year =	2022	2023	2024	2025	2026
Taxes Payable Year =	2023	2024	2025	2026	2027
Original EMV	\$1,337,000	\$1,337,000	\$1,337,000	\$1,337,000	\$1,337,000
Times: Class Rate	1.25%	1.25%	1.25%	1.25%	1.25%
Original Net Tax Capacity	NA	\$16,713	\$16,713	\$16,713	\$16,713

Pay-As-You-Go Note

Interest Start Date	02/01/24	Total Tax Capacity Rate	118.000%
Annual Interest Rate	5.80%	City Administrative Fee	10.00%
NTC Annual Growth Factor (b)	2.00%	Annual TI Coverage Percent	100%

Notes

- (a) The 4d rate is applied to 100% of the project, anticipating potential 4d updates to acknowledge income-averaging.
 (b) Net Tax Capacity annual growth of 2% modeled, with 2026 as the first year of annual growth.

Projected Tax Increment Schedule

550 West Lake TIF Plan

Year Ending (1)	Total Net Tax Capacity (2)	<u>Less:</u> Original Net Tax Capacity (3)	<u>Equals:</u> Retained Captured NTC (4)	<u>Times:</u> Total Tax Capacity Rate (5)	<u>Equals:</u> Annual Gross Tax Increment (6)	<u>Less:</u> State Aud. Fee @ 0.36% (7)	<u>Equals:</u> Increment Distributed to City (8)	<u>Less:</u> City Adm. Fee @ 10.00% (9)	<u>Equals:</u> Available Tax Increment (10)	<u>Less:</u> Pay-Go Note Payments (11)
12/31/25	18,563	16,713	1,850	118.000%	2,183	8	2,175	218	1,957	1,957
12/31/26	52,594	16,713	35,881	118.000%	42,340	152	42,188	4,219	37,969	37,969
12/31/27	61,875	16,713	45,162	118.000%	53,291	192	53,099	5,310	47,789	47,789
12/31/28	63,113	16,713	46,400	118.000%	54,751	197	54,554	5,455	49,099	49,099
12/31/29	64,375	16,713	47,662	118.000%	56,241	202	56,039	5,604	50,435	50,435
12/31/30	65,662	16,713	48,949	118.000%	57,760	208	57,552	5,755	51,797	51,797
12/31/31	66,975	16,713	50,262	118.000%	59,310	214	59,096	5,910	53,186	53,186
12/31/32	68,315	16,713	51,602	118.000%	60,890	219	60,671	6,067	54,604	54,604
12/31/33	69,681	16,713	52,968	118.000%	62,503	225	62,278	6,228	56,050	56,050
12/31/34	71,075	16,713	54,362	118.000%	64,147	231	63,916	6,392	57,524	57,524
12/31/35	72,496	16,713	55,783	118.000%	65,824	237	65,587	6,559	59,028	59,028
12/31/36	73,946	16,713	57,233	118.000%	67,535	243	67,292	6,729	60,563	60,563
12/31/37	75,425	16,713	58,712	118.000%	69,280	249	69,031	6,903	62,128	62,128
12/31/38	76,934	16,713	60,221	118.000%	71,061	256	70,805	7,081	63,724	63,724
12/31/39	78,472	16,713	61,759	118.000%	72,876	262	72,614	7,261	65,353	65,353
12/31/40	80,042	16,713	63,329	118.000%	74,728	269	74,459	7,446	67,013	67,013
12/31/41	81,643	16,713	64,930	118.000%	76,617	276	76,341	7,634	68,707	68,707
12/31/42	83,276	16,713	66,563	118.000%	78,544	283	78,261	7,826	70,435	70,435
12/31/43	84,941	16,713	68,228	118.000%	80,509	290	80,219	8,022	72,197	72,197
12/31/44	86,640	16,713	69,927	118.000%	82,514	297	82,217	8,222	73,995	73,995
12/31/45	88,373	16,713	71,660	118.000%	84,558	304	84,254	8,425	75,829	75,829
12/31/46	90,140	16,713	73,427	118.000%	86,644	312	86,332	8,633	77,699	77,699
12/31/47	91,943	16,713	75,230	118.000%	88,771	320	88,451	8,845	79,606	79,606
12/31/48	93,782	16,713	77,069	118.000%	90,941	327	90,614	9,061	81,553	81,553
12/31/49	95,657	16,713	78,944	118.000%	93,155	335	92,820	9,282	83,538	83,538
12/31/50	97,571	16,713	80,858	118.000%	95,412	343	95,069	9,507	85,562	85,562
					\$1,792,385	\$6,451	\$1,785,934	\$178,594	\$1,607,340	\$1,607,340