

Snelling Yards II Tax Increment Financing Plan

Draft for Public Review
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I. Introduction

The Snelling Yards II Tax Increment Financing Plan (the “TIF Plan”) has been prepared to help finance the construction of a new building that will provide 95 units of affordable housing. The project site is located south of 44th Street East, near Hiawatha Avenue and Snelling Avenue.

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 Snelling Yards II TIF District (the “TIF District”) is located at 3605 44th Street East in the Hiawatha neighborhood of South Minneapolis. The TIF District will consist of the tax parcel identified below by the current property identification (PID) number and current address.

PID	Property Address
07-028-23-34-0168	3605 44 th Street East

The 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 Snelling Yards II project meets the first test (20% at 50% AMI), because 66 apartment units or 69% of the total units will be affordable at or below 50% AMI.

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 transit-oriented and sustainable development.
- Increase the property tax base.

VI. Proposed Development Activity

A. Description of Proposed Development Activity

This Snelling Yards II proposal is for a new construction, 95-unit apartment building at 3605 44th Street East. The site is currently owned by the City of Minneapolis and will be sold to the developer prior to commencement of construction.

The project design includes one studio, 13 one-bedroom, 30 two-bedroom, and 51 three-bedroom apartments. The unit mix emphasizes family-sized housing with 81 units, or 85 percent of the units, proposed as two and three-bedroom apartments. The building will include a mix of affordability levels, with the majority of the apartments (66) renting at 30% or 50% of AMI. The project has secured additional assistance via vouchers for 25 units.

A site plan and renderings of the planned development are provided in Exhibit 2.

B. Property That May Be Acquired

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

C. Other Expected Development Activity

No additional development activity is 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 project costs to be paid with tax increment beyond the amounts listed in this TIF Plan, then a formal modification to the plan may become necessary. Such a modification would require the same review and approval process as the original approval of this TIF Plan.

A. Costs to be Paid with Tax Increment Revenue

The total cost of the project is currently estimated to be approximately \$33,000,000. The maximum amount of project costs that can be paid utilizing tax increment revenues generated by the TIF District is shown below.

Sources

Tax Increment Revenue	<u>\$1,871,000</u>
Total Sources	\$1,871,000

Uses

Construction of Affordable Housing	\$849,000	45%
Pay-As-You-Go Note Interest	835,000	45%
City Administrative Costs	<u>187,000</u>	<u>10%</u>
Total Uses	\$1,871,000	100%

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 Snelling Yards II project. It is anticipated that the City will issue the developer a pay-as-you-go TIF note in an amount not to exceed \$849,000. 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

For the purpose of estimating original net tax capacity (ONTC), it was modeled that the property in the TIF District has an estimated market value (EMV) of \$50,000. It is projected that the original net tax capacity (ONTC) of the TIF District will be approximately \$625.

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 2025, which is not yet available. For the purpose of calculating the hypothetical impact on other taxing jurisdictions, the total tax capacity rate for taxes payable in 2024 was used (see Section VIII).

For tax increment projection purposes, the total tax capacity rate of 118.0 percent was assumed (see Section VIII).

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/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 \$18,050,000, and the total net tax capacity (NTC) will be \$45,125. The captured net tax capacity of the TIF District at completion is therefore projected to be \$44,500.

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 2024 Tax Capacity Rate</u>	<u>Property Taxes Resulting From \$44,500 in Captured Net Tax Capacity</u>
City of Minneapolis	57.655%	\$ 25,656
Hennepin County	34.640%	15,415
Special School District #1	18.812%	8,371
Other	<u>6.605%</u>	<u>2,939</u>
Total	117.712%	\$52,381

Fiscal and Economic Implications of the TIF District

The estimated amount of total tax increment that would be generated over the maximum duration of the TIF District is \$1,871,000.

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 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 percent of the total tax rate, is \$299,373.

The projected amount of tax increment generated over the life of the TIF District that would be attributable to the County, assuming the County's tax rate remains at approximately 29.4 percent of the total tax rate, is \$550,098.

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 Snelling Yards II 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.

Snelling Yards II TIF District Boundary Map



Prepared by
Development Finance Division
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City of Minneapolis, Minnesota
February 2025



SNELLING YARDS AFFORDABLE FAMILY HOUSING

TIF APPLICATION SUPPORT MATERIALS



SITE PLAN

LANDSCAPING & AMENITIES

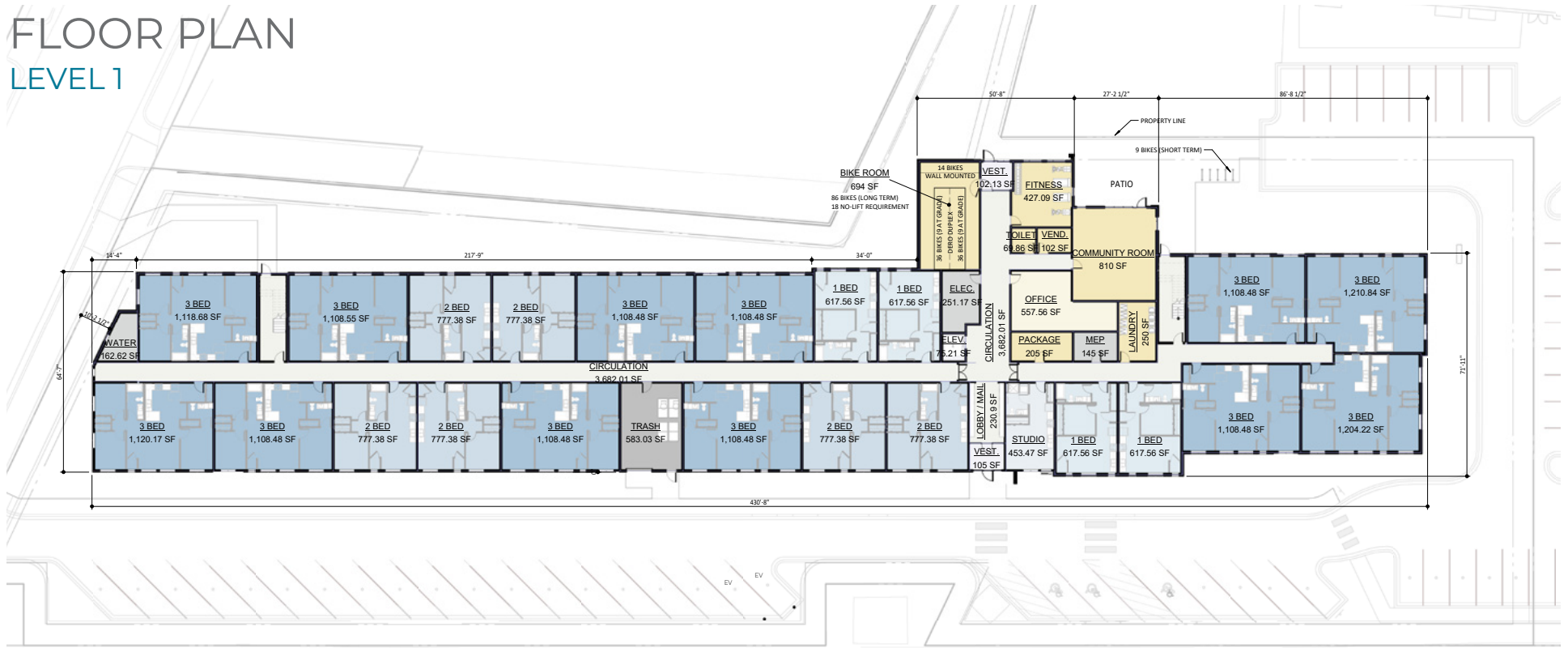


MASTER PLAN



FLOOR PLAN

LEVEL 1



LEVELS 2-4



ELEVATIONS

EAST



WEST



BUILDING AXIMETRIC

NORTHEAST AERIAL



NORTHWEST AERIAL



SOUTHWEST AERIAL



WESTERN AERIAL





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Assumptions Schedule

Snelling Yards II TIF Plan Model

Type of Tax Increment Financing District	Housing
Maximum Duration of TIF District	26 Years of Tax Increment Collection
Certification Request Date	08/01/25
Decertification Date	12/31/52 (Years of Increment = 26)

	Construction Year =	2024	2025	2026	2027
	Assessment Year =	2025	2026	2027	2028
	Taxes Payable Year =	2026	2027	2028	2029

Housing Property

EMV Upon Completion		\$18,050,000	\$18,050,000	\$18,050,000
Percent Complete		30%	90%	100%
Total Estimated Market Value		\$50,000	\$5,415,000	\$16,245,000
Percent of Housing Property - Class 4a		100%	0%	0%
Percent of Housing Property - Class 4d		0%	100%	100%
Class Rate - 4a		1.25%	1.25%	1.25%
Class Rate - 4d		0.25%	0.25%	0.25%
Net Tax Capacity (NTC)		\$625	\$13,538	\$40,613

	Assessment Year =	2024	2025	2026	2027	2028
	Taxes Payable Year =	2025	2026	2027	2028	2029

Original EMV	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Times: Class Rate	1.25%	1.25%	1.25%	1.25%	1.25%
Original Net Tax Capacity	NA	\$625	\$625	\$625	\$625

<u>Pay-As-You-Go Note</u>		Total Tax Capacity Rate	118.000%
Interest Start Date	02/01/26	City Administrative Fee	10.00%
Annual Interest Rate	5.00%	Annual TI Coverage Percent	100%
NTC Annual Growth Factor	3.00%	First Year of Annual Growth	2029

Notes

- (a) Post-development EMV based on 95 apartments with an average EMV of \$190,000/apartment.
 (b) Original EMV modeled at \$50,000.

Projected Tax Increment Schedule

Snelling Yards II TIF Plan Model

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)
12/31/27	13,538	625	12,913	118.000%	15,237	55	15,182	1,518	13,664
12/31/28	40,613	625	39,988	118.000%	47,186	170	47,016	4,702	42,314
12/31/29	45,125	625	44,500	118.000%	52,510	189	52,321	5,232	47,089
12/31/30	46,479	625	45,854	118.000%	54,107	195	53,912	5,391	48,521
12/31/31	47,873	625	47,248	118.000%	55,753	201	55,552	5,555	49,997
12/31/32	49,309	625	48,684	118.000%	57,447	207	57,240	5,724	51,516
12/31/33	50,789	625	50,164	118.000%	59,193	213	58,980	5,898	53,082
12/31/34	52,312	625	51,687	118.000%	60,991	220	60,771	6,077	54,694
12/31/35	53,882	625	53,257	118.000%	62,843	226	62,617	6,262	56,355
12/31/36	55,498	625	54,873	118.000%	64,750	233	64,517	6,452	58,065
12/31/37	57,163	625	56,538	118.000%	66,715	240	66,475	6,648	59,827
12/31/38	58,878	625	58,253	118.000%	68,738	247	68,491	6,849	61,642
12/31/39	60,644	625	60,019	118.000%	70,823	255	70,568	7,057	63,511
12/31/40	62,464	625	61,839	118.000%	72,969	263	72,706	7,271	65,435
12/31/41	64,337	625	63,712	118.000%	75,181	271	74,910	7,491	67,419
12/31/42	66,268	625	65,643	118.000%	77,458	279	77,179	7,718	69,461
12/31/43	68,256	625	67,631	118.000%	79,804	287	79,517	7,952	71,565
12/31/44	70,303	625	69,678	118.000%	82,220	296	81,924	8,192	73,732
12/31/45	72,412	625	71,787	118.000%	84,709	305	84,404	8,440	75,964
12/31/46	74,585	625	73,960	118.000%	87,273	314	86,959	8,696	78,263
12/31/47	76,822	625	76,197	118.000%	89,913	324	89,589	8,959	80,630
12/31/48	79,127	625	78,502	118.000%	92,632	333	92,299	9,230	83,069
12/31/49	81,501	625	80,876	118.000%	95,433	344	95,089	9,509	85,580
12/31/50	83,946	625	83,321	118.000%	98,319	354	97,965	9,797	88,168
12/31/51	86,464	625	85,839	118.000%	101,290	365	100,925	10,093	90,832
12/31/52	89,058	625	88,433	118.000%	104,351	376	103,975	10,398	93,577
					\$1,877,845	\$6,762	\$1,871,083	\$187,111	\$1,683,972