

West Broadway Curve Tax Increment Financing Plan

Draft for Public Review:
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I. Introduction

The West Broadway Curve Tax Increment Financing (TIF) Plan has been prepared to help finance the construction of a 72-unit affordable apartment building and 20 rental townhomes on a vacant site near the intersection of Ilion Avenue North and West Broadway Avenue. The apartment building will be constructed on the western portion of the site and the townhomes will be constructed on the eastern portion. The development will include a mix of apartments affordable at 50%, 60%, and 80% of Area Median Income (AMI).

The West Broadway Curve TIF Plan establishes a new housing TIF district to help finance various public project costs and includes a budget for the use of tax increment revenue generated by the new TIF district.

II. TIF District Boundary

The West Broadway Curve TIF District (the “TIF District”) will consist of the 20 parcels listed below.

<u>PID</u>	<u>Property Address</u>
16-029-24-23-0041	2009 Ilion Avenue North
16-029-24-24-0151	1706 West Broadway Avenue
16-029-24-24-0152	1710 West Broadway Avenue
16-029-24-24-0153	1714 West Broadway Avenue
16-029-24-24-0154	1716 West Broadway Avenue
16-029-24-24-0155	1720 West Broadway Avenue
16-029-24-24-0156	1726 West Broadway Avenue
16-029-24-23-0038	1800 West Broadway Avenue
16-029-24-23-0039	1804 West Broadway Avenue
16-029-24-23-0040	1808 West Broadway Avenue
16-029-24-23-0042	1818 West Broadway Avenue
16-029-24-23-0043	1820 West Broadway Avenue
16-029-24-23-0044	1826 West Broadway Avenue
16-029-24-23-0045	1900 West Broadway Avenue
16-029-24-23-0046	1904 West Broadway Avenue
16-029-24-23-0047	1910 West Broadway Avenue
16-029-24-23-0048	1914 West Broadway Avenue
16-029-24-23-0049	1918 West Broadway Avenue
16-029-24-23-0050	1920 West Broadway Avenue
16-029-24-23-0037	2109 James Avenue North

These properties are located within the Jordan 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 West Broadway Curve project meets both income tests. It meets the first test because 40 (43 percent) of the 92 housing units will be affordable at or below 50 percent AMI. It meets the second test because 72 (78 percent) of the units will be affordable at or below 60 percent AMI.

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. This project contains no commercial space.

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

Sherman Associates, Inc. has proposed the construction of a 72-unit apartment building and 20 rental townhomes on a vacant City-owned site near the intersection of Ilion Avenue North and West Broadway Avenue. The apartment building will contain 15 one-bedroom units, 29 two-bedroom units, and 28 three-bedroom units, along with 79 underground parking spaces and 10 surface stalls. All 20 townhomes will be three-bedroom units with an attached one-stall garage. There will be 20 surface stalls for the townhouse development.

Exterior amenities include an integrated bus shelter, enhanced streetscape and greenery, bike parking and pedestrian connections to Cottage Park.

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

B. Property That May Be Acquired

All of the property within the TIF District is currently owned by the City and will be conveyed to the developer. There will be no additional acquisition of 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 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 \$32 million. 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>\$2,638,000</u>
Total Sources	\$2,638,000

Uses

Construction of Affordable Housing	\$1,516,000	57.5%
Pay-As-You-Go Note Interest	858,200	32.5%
City Administrative Costs	<u>263,800</u>	<u>10%</u>
Total Uses	\$2,638,000	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 West Broadway Curve 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 \$1,516,000. 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 \$600,000, and an original net tax capacity (ONTC) of \$7,500.

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 2021, 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 2020 was used (see Section VIII).

For tax increment projection purposes, a total tax capacity rate of 120 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 \$14,240,000 and the total net tax capacity (NTC) will be \$122,279. The captured NTC of the TIF District is therefore projected to be \$114,779.

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:

West Broadway Curve Tax Increment Financing Plan

<u>Taxing Jurisdiction</u>	<u>Pay 2020 Tax Capacity Rate</u>	<u>Property Taxes Resulting From [\$114,779] in Captured Net Tax Capacity</u>
City of Minneapolis	57.918%	\$66,478
Hennepin County	40.980%	47,036
Minneapolis Special School District No. 1	21.197%	24,330
Other	<u>7.146%</u>	<u>8,202</u>
Total	127.241%	\$146,046

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 \$3,460,593.

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 16.7 percent of the total tax rate, is \$577,919.

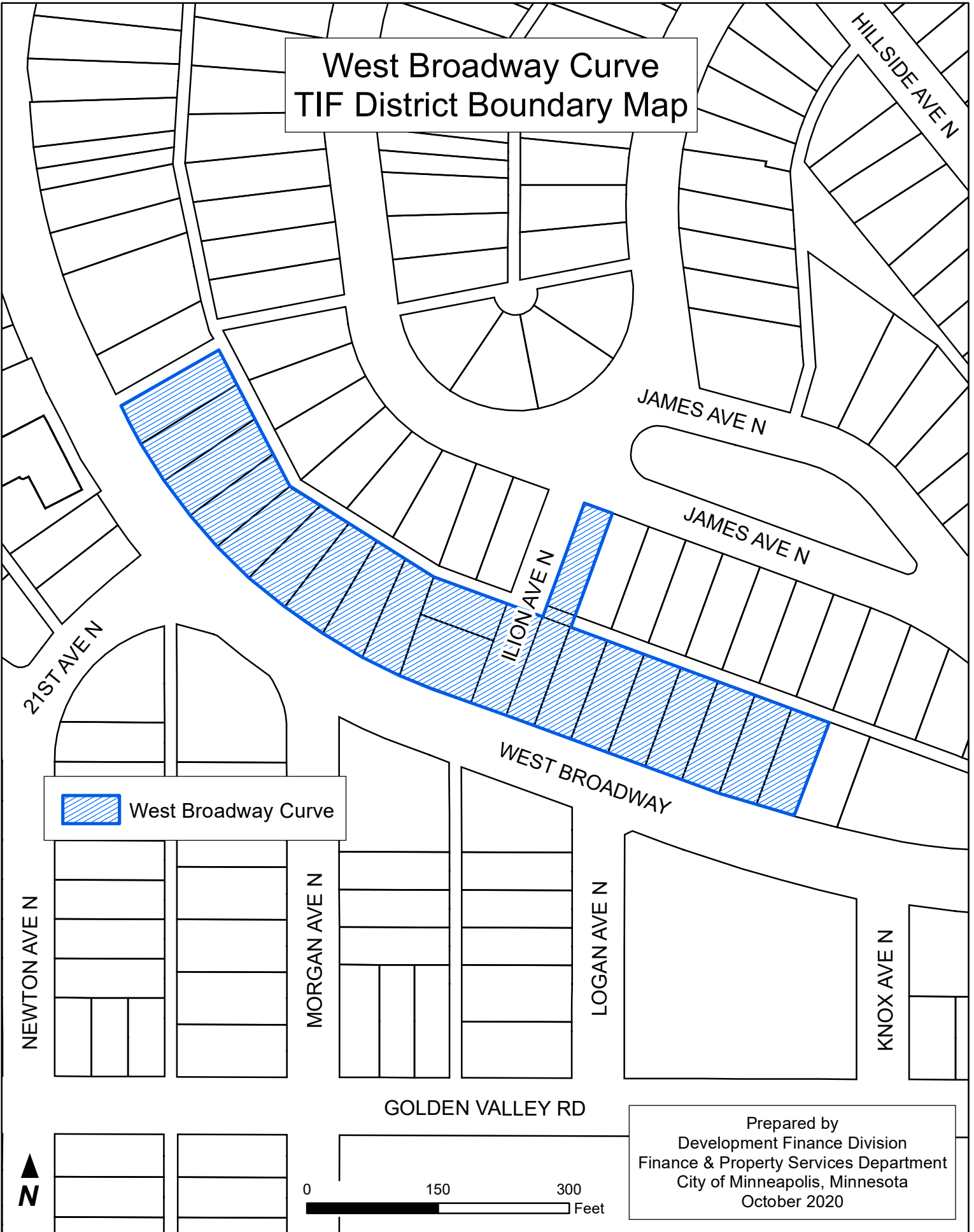
The projected amount of tax increment revenue generated over the life of the TIF District that would be attributable to the County, assuming the County's tax rate remains at approximately 32.2 percent of the total tax rate, is \$1,114,311.


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.

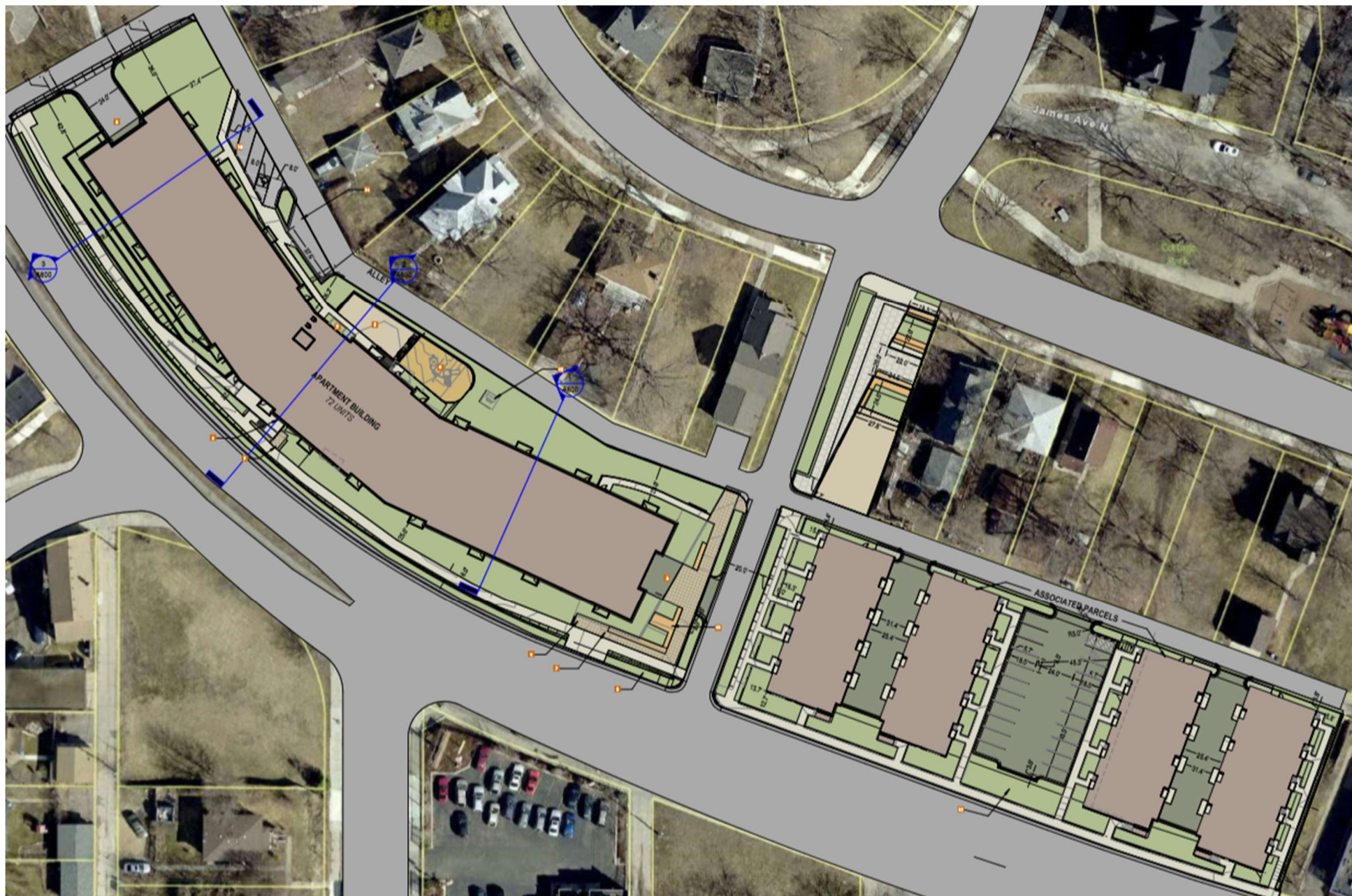
After thorough financial analysis, it is the position of the City of Minneapolis that the proposed private development to be constructed in the West Broadway Curve TIF District would not occur within the reasonably foreseeable future without public financial assistance. This analysis indicates that projected 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.

West Broadway Curve TIF District Boundary Map



 West Broadway Curve

Prepared by
Development Finance Division
Finance & Property Services Department
City of Minneapolis, Minnesota
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EXTERIOR RENDERING - BROADWAY AVE SOUTH END



EXTERIOR RENDERING - BROADWAY AND ILION AVE CORNER

Assumptions Schedule

West Broadway Curve TIF Plan

Type of Tax Increment Financing District	Housing
Maximum Duration of TIF District	26 Years of Tax Increment Collection
Certification Request Date	01/15/21
Projected Decertification Date	12/31/42 (Years of Increment = 20)

Construction Year =	2020	2021	2022	2023
Assessment Year =	2021	2022	2023	2024
Taxes Payable Year =	2022	2023	2024	2025

Housing Property

EMV Upon Completion (a)		\$14,240,000	\$14,240,000	\$14,240,000
Percent Complete		25%	90%	100%
Total Estimated Market Value	\$500,000	\$3,560,000	\$12,816,000	\$14,240,000
Percent of Housing Property - Class 4a	100%	100%	22%	22%
Percent of Housing Property - Class 4d	0%	0%	78%	78%
Class Rate - 4a	1.25%	1.25%	1.25%	1.25%
Class Rate - 4d	0.75%	0.75%	0.75%	0.75%
Net Tax Capacity (NTC)	\$6,250	\$44,500	\$110,050	\$122,279

Assessment Year =	2020	2021	2022	2023	2024
Taxes Payable Year =	2021	2022	2023	2024	2025
Original EMV (b)	\$600,000	\$600,000	\$600,000	\$600,000	\$600,000
Times: Class Rate	1.25%	1.25%	1.25%	1.25%	1.25%
Original Net Tax Capacity	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500

Pay-As-You-Go Note

Interest Start Date	05/01/21	Total Tax Capacity Rate	120.000%
Annual Interest Rate	3.75%	City Administrative Fee	10.00%

Notes

- (a) Post-Development EMV based on average EMV of \$155,000 per unit.
- (b) Original EMV based on approximately \$6/square foot.

Projected Tax Increment Schedule

West Broadway Curve 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)
12/31/22	6,250	7,500	0	120.000%	0	0	0	0	0
12/31/23	44,500	7,500	37,000	120.000%	44,400	160	44,240	4,424	39,816
12/31/24	110,050	7,500	102,550	120.000%	123,060	443	122,617	12,262	110,355
12/31/25	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/26	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/27	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/28	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/29	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/30	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/31	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/32	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/33	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/34	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/35	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/36	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/37	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/38	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/39	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/40	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/41	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
12/31/42	122,279	7,500	114,779	120.000%	137,735	496	137,239	13,724	123,515
					\$2,646,690	\$9,531	\$2,637,159	\$263,718	\$2,373,441