

1301 West Lake Tax Increment Financing Plan

Draft for Public Review:
February 9, 2023

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I. Introduction

The 1301 West Lake Tax Increment Financing Plan has been prepared to help finance the construction of an apartment building containing approximately 120 units of affordable housing at the southwest corner of the intersection of West Lake Street and Fremont Avenue South.

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 1301 West Lake TIF District will consist of three parcels. The third parcel listed below is being created through a re-platting process and is a portion of the parcel that currently holds the address 3001 Hennepin Avenue and the PID 04-028-24-12-0216. This third parcel is located at the corner of Hennepin Avenue and 31st Street and is the southwest area shown in the map in Exhibit 1.

<u>PID</u>	<u>Property Address</u>
04-028-24-12-0210	1301 West Lake Street
04-028-24-12-0215	1409 West Lake Street
PID to be determined	TBD – Corner of Hennepin and 31 st Street

This property is located within the South Uptown 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.

“Project” as defined in M.S. Section 469.174, subd. 8, materially includes a redevelopment project, a housing development project or a housing project or any combination of those projects.

A “Housing Development Project” as defined in M.S. Section 469.002, subd. 15 means any work or undertaking to provide housing for persons of moderate income and their families. This work or undertaking may include the planning of building and improvements, the acquisition of real property which may be needed immediately or in the future for housing purposes, the construction, reconstruction, alteration and repair of new or existing buildings and the

provisions of all equipment, facilities and other real or personal property for necessary, convenient or desirable appurtenances, streets, sewers, water service, utilities, site preparation, landscaping, administrative, community health, recreation or welfare or other purposes. The entire development on the three parcels to be included in the proposed TIF District qualifies as a Housing Development Project as defined in M.S. Section 469.002, subd. 15.

In accordance with M.S. Section 469.1761, the property receiving assistance from the Housing TIF District 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) as adjusted for family size.
- 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 as adjusted for family size.

The portion of the Project located at 1301 West Lake, which is the portion of the project that will be receiving the TIF assistance, meets both tests since approximately 71 units (59 percent of 120 units) will be affordable at or below 50 percent AMI, and all 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. The portion of the Project located at 1301 West Lake meets this test because it includes up to 6,000 square feet of commercial space on the first floor, which represents less than five percent of the total project square footage.

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

Proposed by CommonBond Communities (CBC), 1301 West Lake is a new apartment development in Minneapolis consisting of approximately 120-units within a six-story building on a vacant 1-acre parcel. The development is located south of Lake Street between Girard and Fremont Avenue South. This development creates new apartments on a parcel that has been vacant for approximately 15 years.

The development will include approximately 12 studios, 58 one-bedroom, 35 two-bedrooms and 15 three-bedroom units. The development will provide a mix of 30%, 50% & 60% AMI restricted units. It is currently proposed that 24 of the 30% AMI units will serve formerly homeless households.

The 1301 West Lake development is proposed in conjunction with part of the redevelopment of the Seven Points Mall and associated properties (the “Seven Points Project”). The Seven Points Project includes demolishing a portion of the commercial space and replacing it with a mixed-use building with 267 market-rate apartments and approximately 11,000 square feet of commercial space.

NorthPond Partners currently owns the Seven Points Mall block including the 1301 West Lake parcel. NorthPond is partnering with Doran Companies on the Mall renovation and market-rate development and collaborating with CBC on the affordable building.

All tax increment generated by the market rate apartment building will be allocated to the 1301 West Lake property. The market rate building will not receive any financial benefit from being located within the proposed TIF District.

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 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 qualified housing development is currently estimated to be approximately \$48,000,000. 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>\$32,985,000</u>
Total Sources	\$32,985,000

Uses

Construction of Affordable Housing	\$14,072,000	42.7%
Pay-As-You-Go Note Interest	15,615,000	47.3%
City Administrative Costs	<u>3,298,000</u>	<u>10.0%</u>
Total Uses	\$32,985,000	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 Seven Points Project or the 1301 West Lake development. It is anticipated that the City will issue the developer of the 1301 West Lake development pay-as-you-go TIF revenue notes in a combined amount not to exceed \$14,072,000. The City will semi-annually distribute net tax increment to the developer under the terms of the TIF notes. 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 1301 West Lake development.

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 \$8,200,000, and an original net tax capacity (ONTC) of \$102,500.

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 2023, 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 2022 was used (see Section VIII).

For tax increment projection purposes, a total tax capacity rate of 118 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 \$100,750,000 and the total net tax capacity (NTC) will be \$1,029,350. The captured NTC of the TIF District is therefore projected to be \$926,850.

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 project included in this TIF District including the 1301 West Lake development 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 2022 Tax Capacity Rate</u>	<u>Property Taxes Resulting From \$926,850 in Captured Net Tax Capacity</u>
City of Minneapolis	59.351%	\$550,095
Hennepin County	38.466%	356,522
Mpls. Special School Dist. No. 1	20.527%	190,254
Other	<u>6.784 %</u>	<u>62,878</u>
Total	125.128%	\$1,159,749

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 \$32,985,139.

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.

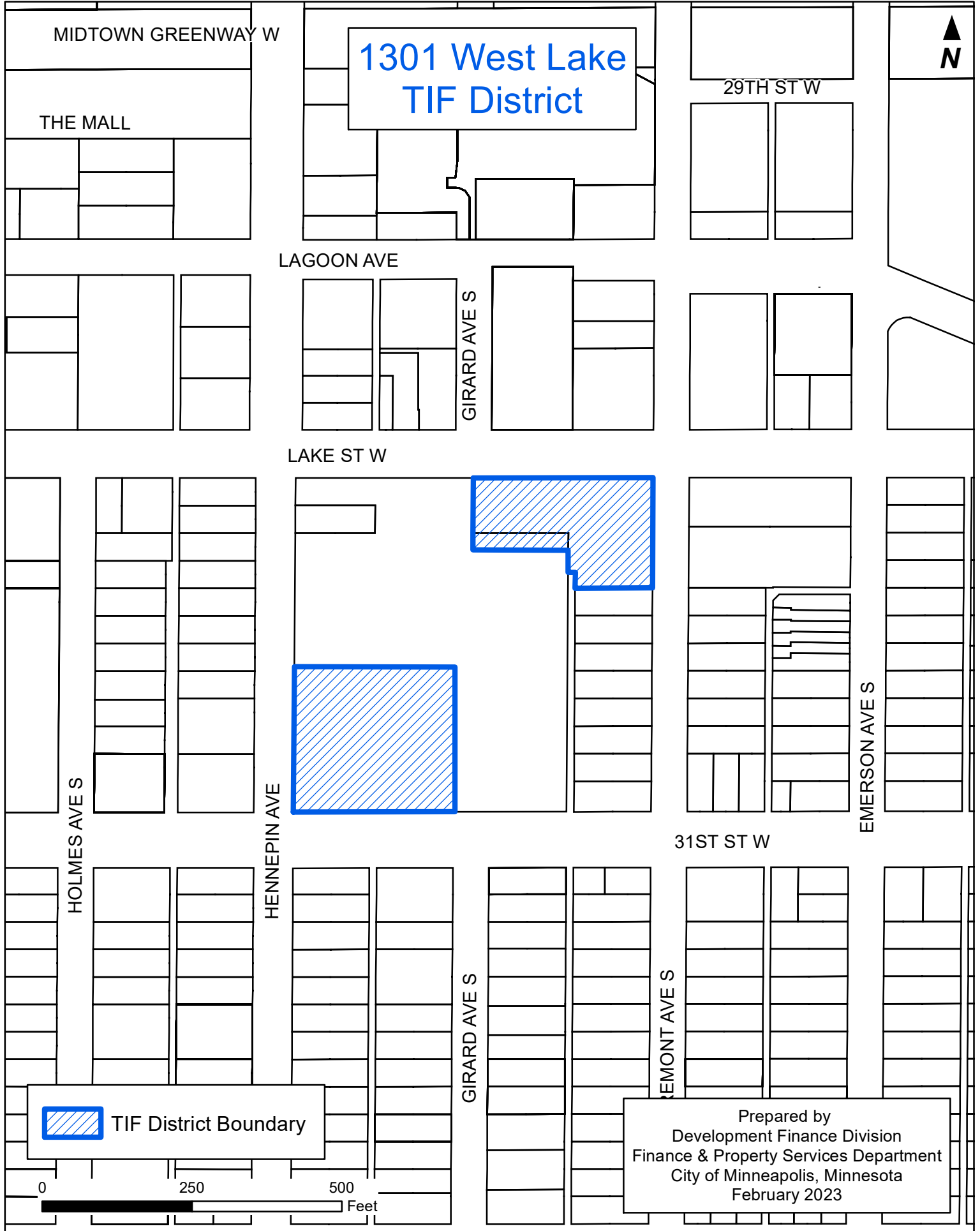
The projected amount of tax increment revenue generated over the life of the TIF District that would be attributable to the School District, assuming the School District’s tax rate remains at approximately 16.4 percent of the total tax rate, is \$5,409,563.

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 30.7 percent of the total tax rate, is \$10,126,438.

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.

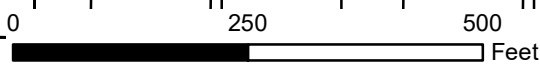
After thorough financial analysis, it is the position of the City of Minneapolis that the proposed private development to be constructed in the 1301 West Lake TIF District would not occur within the reasonably foreseeable future without public financial assistance. This analysis indicates that projected 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.



1301 West Lake
TIF District



TIF District Boundary

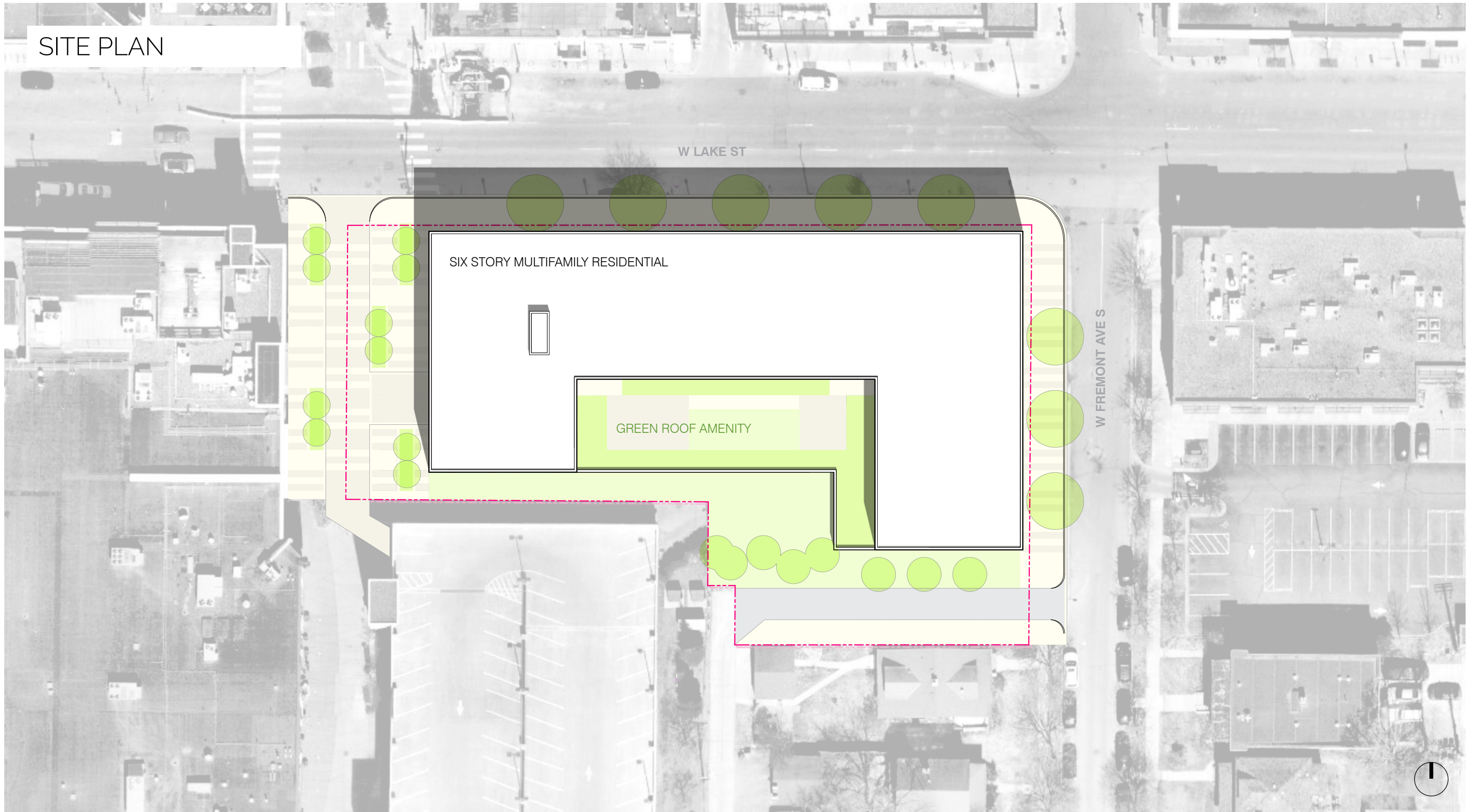


Prepared by
 Development Finance Division
 Finance & Property Services Department
 City of Minneapolis, Minnesota
 February 2023

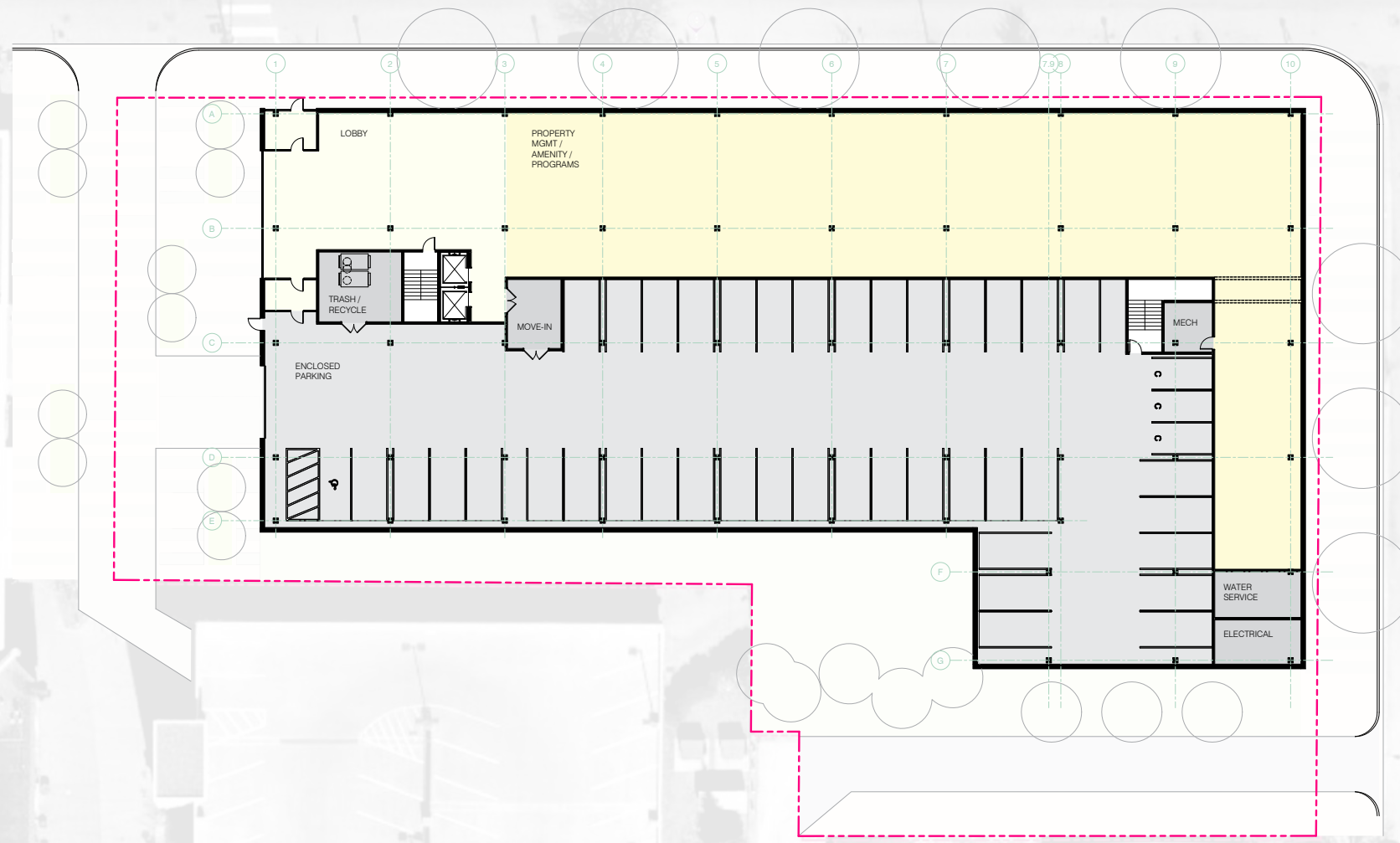
MASSING



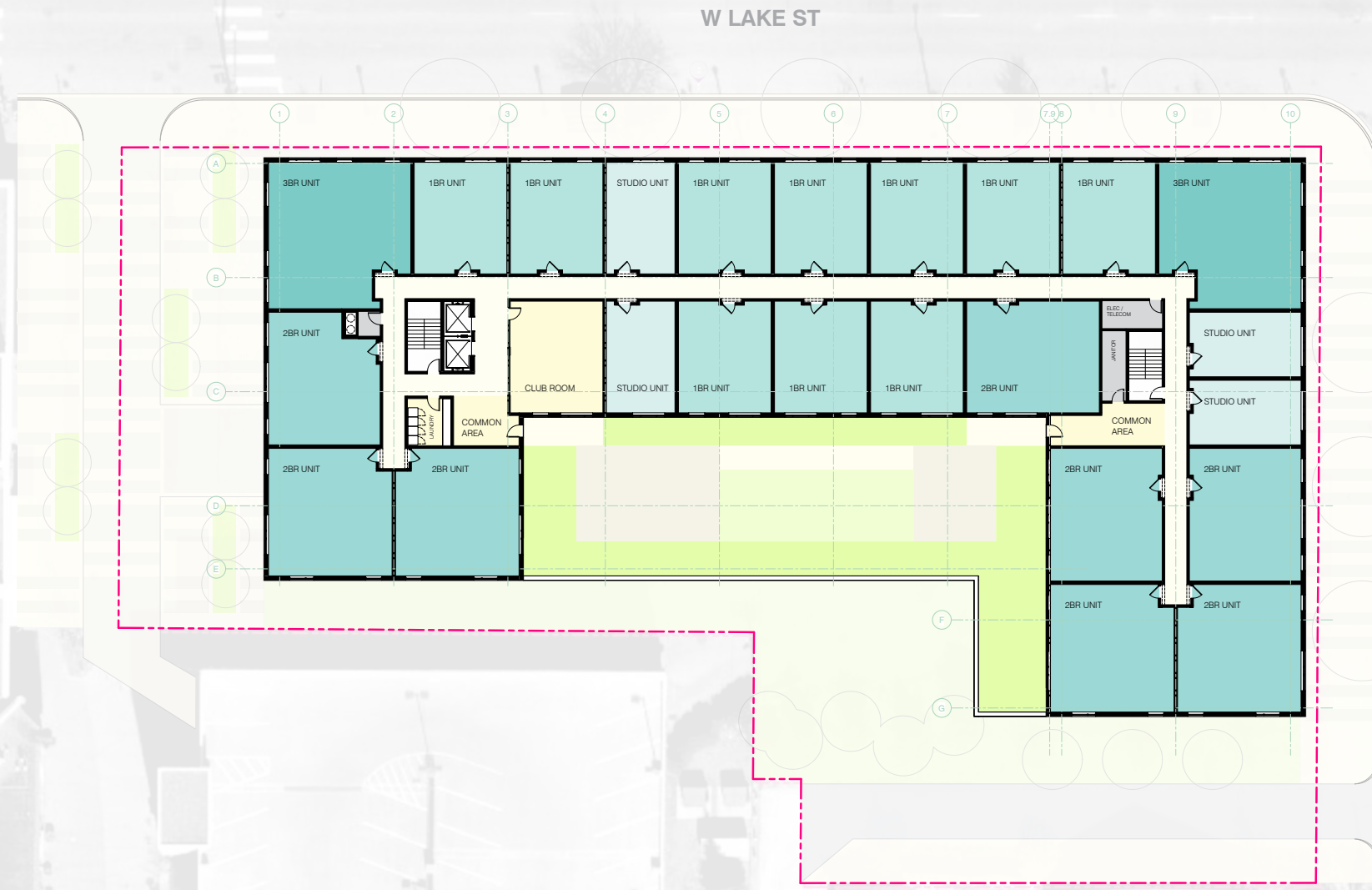
SITE PLAN



LEVEL 1



LEVEL 2 (Levels 3-6 Similar)







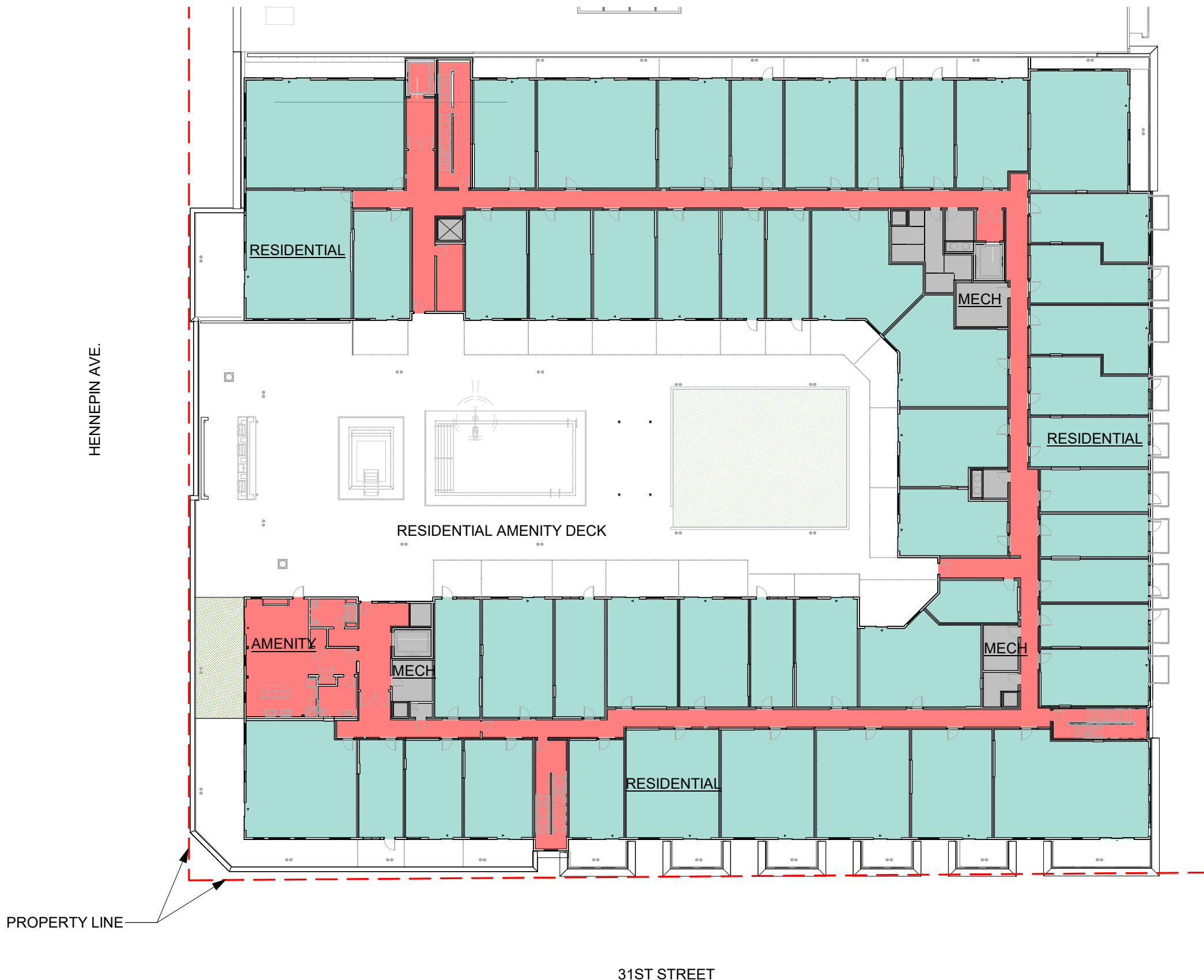
1 LEVEL 1 FLOOR PLAN
1/32" = 1'-0"

STREET LEVEL FLOOR PLAN



① LEVEL 2 FLOOR PLAN
1/32" = 1'-0"

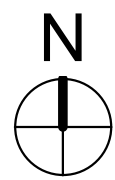
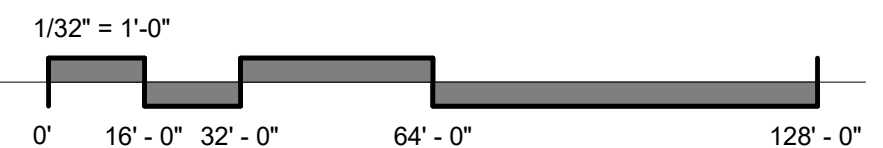
LEVEL 2 FLOOR PLAN



GIRARD AVE.

HENNEPIN AVE.

① LEVEL 3 FLOOR PLAN (Level 4-7 Similar)
1/32" = 1'-0"



31ST STREET

Assumptions Schedule

1301 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	08/01/23
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 (a)		\$98,000,000	\$98,000,000	\$98,000,000
Percent Complete		25%	90%	100%
Total Estimated Market Value	\$8,200,000	\$24,500,000	\$88,200,000	\$98,000,000
Percent of Housing Property - Class 4a	100%	100%	66%	66%
Percent of Housing Property - Class 4d	0%	0%	34%	34%
Class Rate - 4a	1.25%	1.25%	1.25%	1.25%
Class Rate - 4d	0.75%	0.75%	0.50%	0.50%
Net Tax Capacity (NTC)	\$102,500	\$306,250	\$877,590	\$975,100

Commercial/Industrial Property

EMV Upon Completion		\$2,750,000	\$2,750,000	\$2,750,000
Percent Complete		25%	90%	100%
Total Estimated Market Value	\$0	\$687,500	\$2,475,000	\$2,750,000
Times: First	\$150,000	1.50%	0	2,250
Excess		2.00%	0	10,750
Net Tax Capacity (NTC)		\$0	\$13,000	\$48,750
Total Net Tax Capacity (NTC)		\$102,500	\$319,250	\$926,340

Assessment Year =	2022	2023	2024	2025	2026
Taxes Payable Year =	2023	2024	2025	2026	2027
Original EMV (c)	\$8,200,000	\$8,200,000	\$8,200,000	\$8,200,000	\$8,200,000
Times: Class Rate	1.25%	1.25%	1.25%	1.25%	1.25%
Original Net Tax Capacity	NA	\$102,500	\$102,500	\$102,500	\$102,500

Pay-As-You-Go Note

Interest Start Date	02/01/24	Total Tax Capacity Rate	118.000%
Annual Interest Rate	5.35%	City Administrative Fee	10.00%
NTC Annual Growth Factor	1.50%	Annual TI Coverage Percent	100%

Notes

- (a) Residential EMV based on 387 Apartments with an average per-unit EMV of \$253,230
- (b) Commercial EMV based on 11,000 square feet at \$250/sq.ft.
- (c) Original EMV based on 113,161 sq. ft. of land at approximately \$72/sq.ft.

Projected Tax Increment Schedule

1301 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)
12/31/25	319,250	102,500	216,750	118.000%	255,765	921	254,844	25,484	229,360
12/31/26	926,340	102,500	823,840	118.000%	972,131	3,500	968,631	96,863	871,768
12/31/27	1,029,350	102,500	926,850	118.000%	1,093,683	3,937	1,089,746	108,975	980,771
12/31/28	1,044,790	102,500	942,290	118.000%	1,111,902	4,003	1,107,899	110,790	997,109
12/31/29	1,060,462	102,500	957,962	118.000%	1,130,395	4,069	1,126,326	112,633	1,013,693
12/31/30	1,076,369	102,500	973,869	118.000%	1,149,165	4,137	1,145,028	114,503	1,030,525
12/31/31	1,092,515	102,500	990,015	118.000%	1,168,217	4,206	1,164,011	116,401	1,047,610
12/31/32	1,108,902	102,500	1,006,402	118.000%	1,187,555	4,275	1,183,280	118,328	1,064,952
12/31/33	1,125,536	102,500	1,023,036	118.000%	1,207,182	4,346	1,202,836	120,284	1,082,552
12/31/34	1,142,419	102,500	1,039,919	118.000%	1,227,104	4,418	1,222,686	122,269	1,100,417
12/31/35	1,159,555	102,500	1,057,055	118.000%	1,247,325	4,490	1,242,835	124,284	1,118,551
12/31/36	1,176,948	102,500	1,074,448	118.000%	1,267,849	4,564	1,263,285	126,329	1,136,956
12/31/37	1,194,603	102,500	1,092,103	118.000%	1,288,681	4,639	1,284,042	128,404	1,155,638
12/31/38	1,212,522	102,500	1,110,022	118.000%	1,309,826	4,715	1,305,111	130,511	1,174,600
12/31/39	1,230,710	102,500	1,128,210	118.000%	1,331,287	4,793	1,326,494	132,649	1,193,845
12/31/40	1,249,170	102,500	1,146,670	118.000%	1,353,071	4,871	1,348,200	134,820	1,213,380
12/31/41	1,267,908	102,500	1,165,408	118.000%	1,375,181	4,951	1,370,230	137,023	1,233,207
12/31/42	1,286,926	102,500	1,184,426	118.000%	1,397,623	5,031	1,392,592	139,259	1,253,333
12/31/43	1,306,230	102,500	1,203,730	118.000%	1,420,402	5,113	1,415,289	141,529	1,273,760
12/31/44	1,325,824	102,500	1,223,324	118.000%	1,443,522	5,197	1,438,325	143,833	1,294,492
12/31/45	1,345,711	102,500	1,243,211	118.000%	1,466,989	5,281	1,461,708	146,171	1,315,537
12/31/46	1,365,897	102,500	1,263,397	118.000%	1,490,808	5,367	1,485,441	148,544	1,336,897
12/31/47	1,386,385	102,500	1,283,885	118.000%	1,514,985	5,454	1,509,531	150,953	1,358,578
12/31/48	1,407,181	102,500	1,304,681	118.000%	1,539,524	5,542	1,533,982	153,398	1,380,584
12/31/49	1,428,289	102,500	1,325,789	118.000%	1,564,431	5,632	1,558,799	155,880	1,402,919
12/31/50	1,449,713	102,500	1,347,213	118.000%	1,589,711	5,723	1,583,988	158,399	1,425,589
					\$33,104,314	\$119,175	\$32,985,139	\$3,298,516	\$29,686,623