

Agra Tax Increment Financing Plan

Draft for Public Review:
August 24, 2023

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I. Introduction

The Agra Tax Increment Financing Plan has been prepared to help finance the construction of a new building on 27th Avenue South, consisting of 155 units of affordable housing and approximately 800 square feet of ground-floor commercial space. The project site is located on the east side of 27th Avenue South, between Riverside Avenue and Franklin Avenue East.

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 Agra TIF District will consist of two parcels, as listed below. The second parcel is currently owned by the Minneapolis Public Housing Agency(MPHA), which will sell only that portion of the parcel which is west of the alley that divides the Agra site from the adjacent MPHA apartment site.

<u>PID</u>	<u>Property Address</u>
25-029-24-43-0133	901 27 th Ave. S.
Partial: 25-029-24-44-0049	2728 Franklin Ave. E.

This property is located within the Seward 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

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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 Agra project meets both tests, because 93 apartments will be affordable at or below 50 percent of AMI (60 percent of the total units), and all 155 apartment units will be affordable at or below 60 percent of 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 Agra project will have approximately 800 square feet of commercial space, which is less than one percent of the total space in the building (approximately 160,000 square feet.)

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

The Agra proposal is for a new construction, 155-unit six story apartment at 901 27th Ave. S. The building will be six stories tall and will include ground floor retail space facing Franklin Avenue East.

The project designs include one studio, 56 one-bedroom, 48 two-bedroom, 44 three-bedroom and six four-bedroom apartments. Agra’s unit mix emphasizes family-sized housing with 98 units, or 63 percent of the units, as two, three, and four-bedroom units. Residents will have access to amenities that include two community rooms, indoor kids play area, outdoor playground, and a third-floor terrace with community garden space.

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The Agra’s rent levels consist of 62 units for households at or below 60 percent of Area Median Income (AMI), 47 units will be reserved for households at or below 50 percent of AMI and 46 units will be reserved for households with incomes at or below 30 percent of AMI.

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 project is currently estimated to be approximately \$54,000,000. The maximum amount of TIF-eligible project costs that can be paid with tax increment revenue generated by the TIF District is shown below.

<u>Sources</u>		
Tax Increment Revenue	<u>\$2,419,000</u>	
Total Sources	\$2,419,000	
 <u>Uses</u>		
Construction of Affordable Housing	\$1,088,600	45%
Pay-As-You-Go Note Interest	1,089,400	45%
City Administrative Costs	<u>241,000</u>	<u>10%</u>
Total Uses	\$2,419,000	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

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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 Agra 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 \$1,088,600. 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 \$1,368,400, and an original net tax capacity (ONTC) of \$17,105.

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)).

Tax Increment Financing Plan

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 \$31,000,000 and the total net tax capacity (NTC) will be \$79,375. The captured NTC of the TIF District is therefore projected to be \$62,270.

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 \$62,270 in Captured Net Tax Capacity</u>
City of Minneapolis	58.068%	\$36,159
Hennepin County	34.499%	21,483
Mpls. Special School Dist. No. 1	19.083%	11,883
Other	<u>6.062%</u>	<u>3,775</u>
Total	117.712%	\$73,299

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 \$2,418,897.

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 \$391,861.

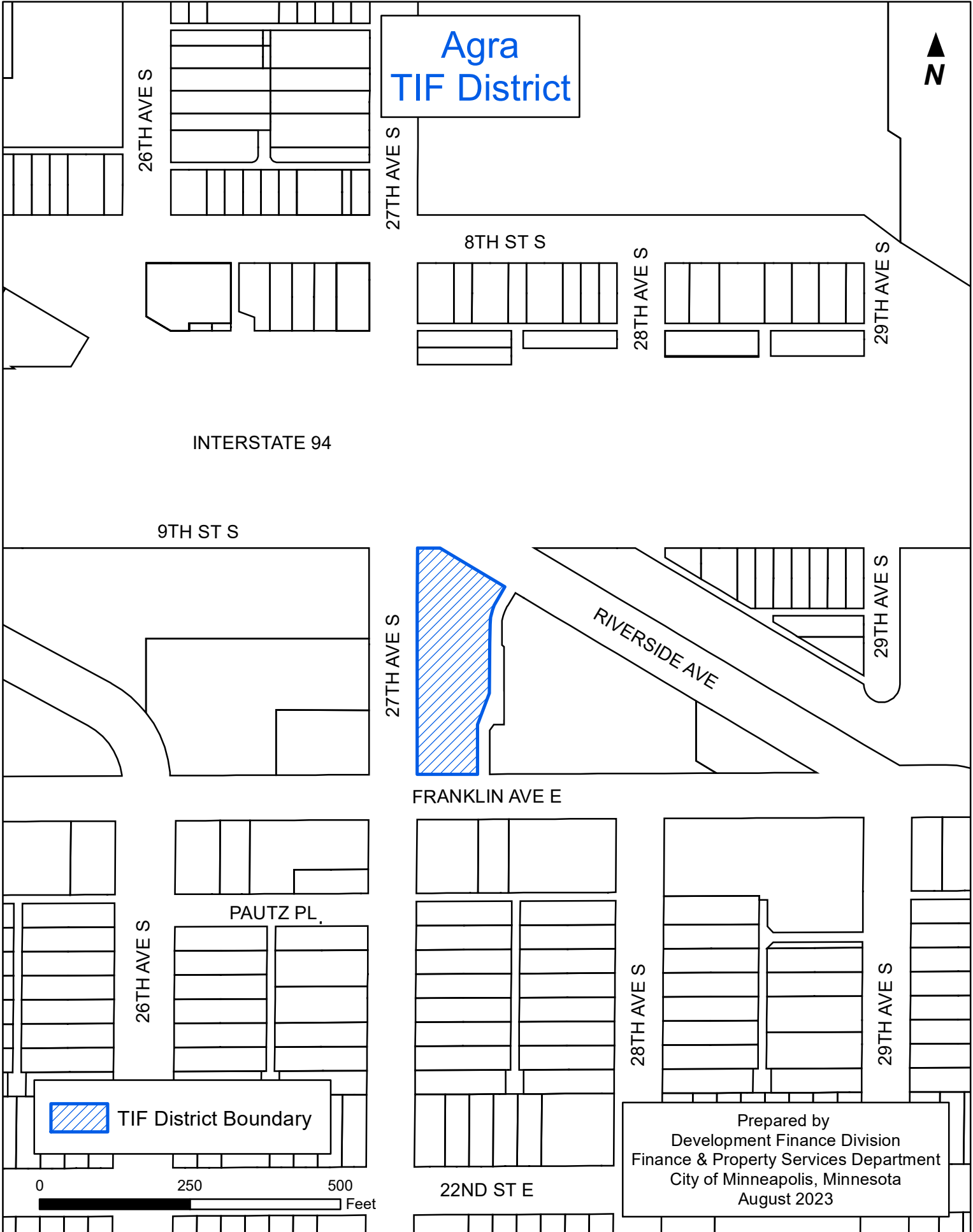
The projected amount of tax increment revenue generated over the life of the TIF District that would be attributable to the County, assuming the County's tax rate remains at approximately 29.3 percent of the total tax rate, is \$708,737.

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 Agra 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.

Agra TIF District



INTERSTATE 94

9TH ST S

27TH AVE S

FRANKLIN AVE E


26TH AVE S

PAUTZ PL

28TH AVE S

29TH AVE S

22ND ST E

 TIF District Boundary

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

0 250 500 Feet

EXHIBIT



NORTHEAST CORNER



NORTHWEST CORNER



SOUTHEAST CORNER

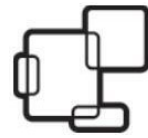


SOUTHWEST CORNER

EXHIBIT



1" = 30' - 0"



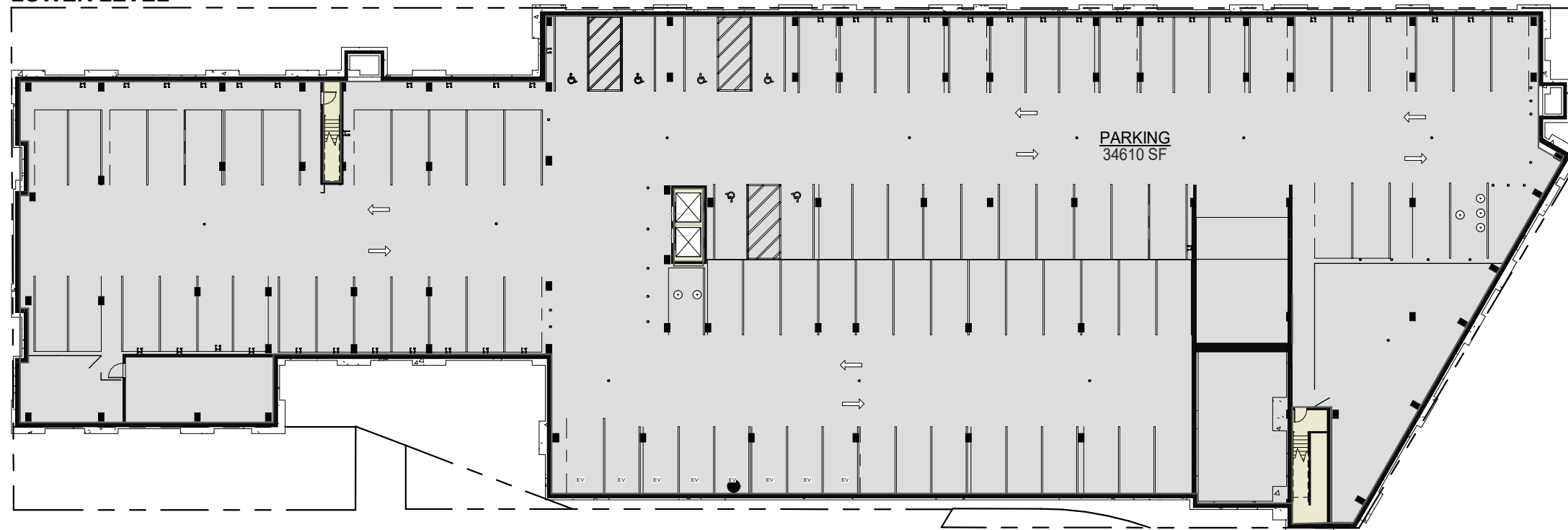
Collage | architects

Agra

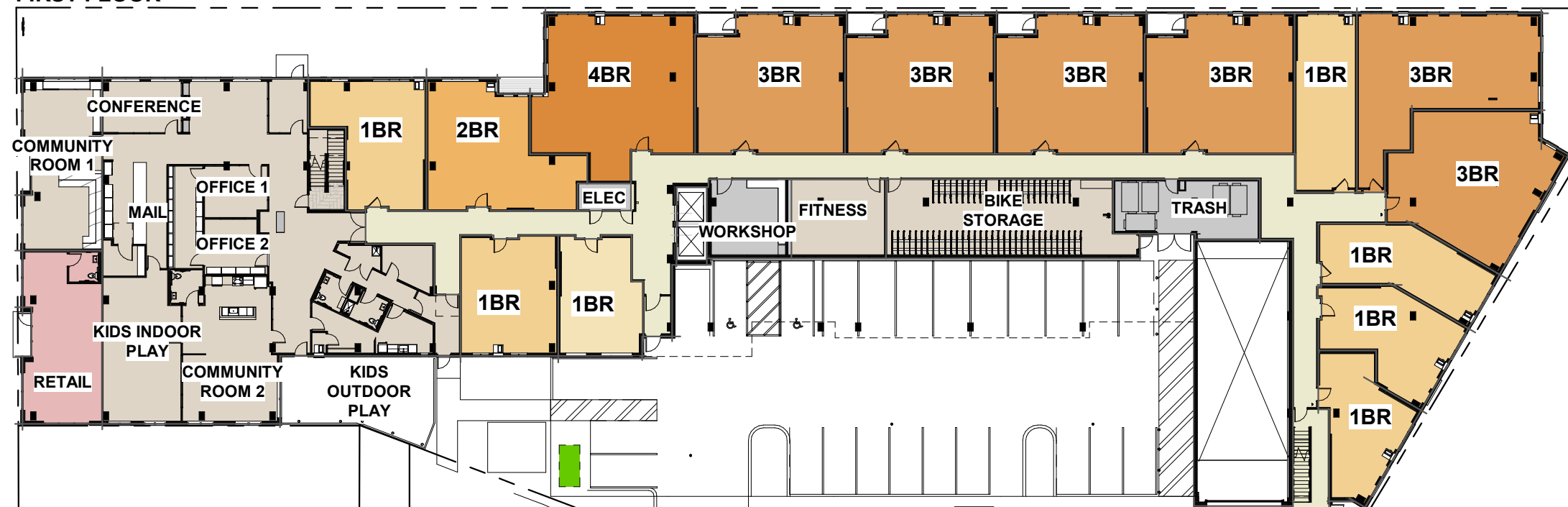
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EXHIBIT

LOWER LEVEL



FIRST FLOOR



1" = 30' - 0"

Assumptions Schedule

Agra TIF Plan Model

Type of Tax Increment Financing District	Housing
Maximum Duration of TIF District	26 Years of Tax Increment Collection
Certification Request Date	11/01/23
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)		\$30,850,000	\$30,850,000	\$30,850,000
Percent Complete		25%	85%	100%
Total Estimated Market Value	\$1,368,400	\$7,712,500	\$26,222,500	\$30,850,000
Percent of Housing Property - Class 4a	100%	0%	0%	0%
Percent of Housing Property - Class 4d	0%	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)	\$17,105	\$19,281	\$65,556	\$77,125

Commercial/Industrial Property

EMV Upon Completion		\$150,000	\$150,000	\$150,000
Percent Complete		25%	85%	100%
Total Estimated Market Value	\$0	\$37,500	\$127,500	\$150,000
Times: First	\$150,000	1.50%	0	563
Excess		2.00%	0	0
Net Tax Capacity (NTC)		\$0	\$563	\$1,913
Total Net Tax Capacity (NTC)		\$17,105	\$19,844	\$67,469

Assessment Year =	2022	2023	2024	2025	2026
Taxes Payable Year =	2023	2024	2025	2026	2027
Original EMV (b)	\$1,368,400	\$1,368,400	\$1,368,400	\$1,368,400	\$1,368,400
Times: Class Rate	1.25%	1.25%	1.25%	1.25%	1.25%
Original Net Tax Capacity	NA	\$17,105	\$17,105	\$17,105	\$17,105

Pay-As-You-Go Note

Interest Start Date	02/01/24	Total Tax Capacity Rate	118.000%
Annual Interest Rate	5.60%	City Administrative Fee	10.00%
NTC Annual Growth Factor	2.00%	First Year of Annual Growth	2026

Notes

- (a) Post-development Estimated Market Value based on 155 apartments at approximately \$199,000 per unit.
 (b) Original EMV based on pay-2024 assessed value.

Projected Tax Increment Schedule

Agra 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)
12/31/25	19,844	17,105	2,739	118.000%	3,232	12	3,220	322	2,898
12/31/26	67,469	17,105	50,364	118.000%	59,430	214	59,216	5,922	53,294
12/31/27	79,375	17,105	62,270	118.000%	73,479	265	73,214	7,321	65,893
12/31/28	80,963	17,105	63,858	118.000%	75,352	271	75,081	7,508	67,573
12/31/29	82,582	17,105	65,477	118.000%	77,263	278	76,985	7,699	69,286
12/31/30	84,233	17,105	67,128	118.000%	79,211	285	78,926	7,893	71,033
12/31/31	85,918	17,105	68,813	118.000%	81,199	292	80,907	8,091	72,816
12/31/32	87,636	17,105	70,531	118.000%	83,227	300	82,927	8,293	74,634
12/31/33	89,389	17,105	72,284	118.000%	85,295	307	84,988	8,499	76,489
12/31/34	91,177	17,105	74,072	118.000%	87,405	315	87,090	8,709	78,381
12/31/35	93,000	17,105	75,895	118.000%	89,557	322	89,235	8,924	80,311
12/31/36	94,860	17,105	77,755	118.000%	91,751	330	91,421	9,142	82,279
12/31/37	96,758	17,105	79,653	118.000%	93,990	338	93,652	9,365	84,287
12/31/38	98,693	17,105	81,588	118.000%	96,274	347	95,927	9,593	86,334
12/31/39	100,667	17,105	83,562	118.000%	98,603	355	98,248	9,825	88,423
12/31/40	102,680	17,105	85,575	118.000%	100,979	364	100,615	10,062	90,553
12/31/41	104,734	17,105	87,629	118.000%	103,402	372	103,030	10,303	92,727
12/31/42	106,828	17,105	89,723	118.000%	105,873	381	105,492	10,549	94,943
12/31/43	108,965	17,105	91,860	118.000%	108,395	390	108,005	10,801	97,204
12/31/44	111,144	17,105	94,039	118.000%	110,966	399	110,567	11,057	99,510
12/31/45	113,367	17,105	96,262	118.000%	113,589	409	113,180	11,318	101,862
12/31/46	115,634	17,105	98,529	118.000%	116,265	419	115,846	11,585	104,261
12/31/47	117,947	17,105	100,842	118.000%	118,994	428	118,566	11,857	106,709
12/31/48	120,306	17,105	103,201	118.000%	121,777	438	121,339	12,134	109,205
12/31/49	122,712	17,105	105,607	118.000%	124,616	449	124,167	12,417	111,750
12/31/50	125,166	17,105	108,061	118.000%	127,512	459	127,053	12,705	114,348
					\$2,427,636	\$8,739	\$2,418,897	\$241,894	\$2,177,003