

*As of May 27, 2015  
Draft for Public Hearing*

**Tax Increment Financing Plan**  
**for the establishment of**  
**the Point of Rocks Tax Increment Financing District**  
**(a housing district)**  
**within**  
**Project Area No. 1**

Housing and Redevelopment Authority of Duluth  
City of Duluth  
St. Louis County  
State of Minnesota

Public Hearing: June 1, 2015  
Adopted:



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**(for reference purposes only)**

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## **Section 1 - Tax Increment Financing Plan for the Point of Rocks Tax Increment Financing District**

### **Subsection 1-1. Foreword**

The Housing and Redevelopment Authority of Duluth (the "HRA"), staff and consultants have prepared the following information to expedite the establishment of the Point of Rocks Tax Increment Financing District (the "District"), a housing tax increment financing district, located in Project Area No. 1.

### **Subsection 1-2. Statutory Authority**

Within the City of Duluth (the "City"), there exist areas where public involvement is necessary to cause development or redevelopment to occur. To this end, the HRA and City have certain statutory powers pursuant to *Minnesota Statutes ("M.S.")*, Sections 469.001 to 469.047, inclusive, as amended, and *M.S.*, Sections 469.174 to 469.1794, inclusive, as amended (the "Tax Increment Financing Act" or "TIF Act"), to assist in financing public costs related to this project.

This section contains the Tax Increment Financing Plan (the "TIF Plan") for the District. Other relevant information is contained in the Modification to the Redevelopment Plan for Project Area No. 1.

### **Subsection 1-3. Statement of Objectives**

The District currently consists of one parcel of land and adjacent and internal rights-of-way. The District is being created to facilitate the construction of 114 units of multi-family rental housing in the City. At least 40% of the units will be occupied by people with incomes less than 60% of median area income. Development is expected to commence in 2015. Please see Appendix A for further District information. The HRA will enter into an agreement with SDH&M LLC (A.K.A. Augusta Housing) and has designated them as the developer for the site. This TIF Plan is expected to achieve many of the objectives outlined in the Redevelopment Plan for Project Area No. 1.

The activities contemplated in the Modification to the Redevelopment Plan and the TIF Plan do not preclude the undertaking of other qualified development or redevelopment activities. These activities are anticipated to occur over the life of Project Area No. 1 and the District.

### **Subsection 1-4. Redevelopment Plan Overview**

1. Property to be Acquired - Selected property located within the District may be acquired by the HRA and is further described in this TIF Plan.
2. Relocation - Relocation services, to the extent required by law, are available pursuant to *M.S., Chapter 117* and other relevant state and federal laws.
3. Upon approval of a developer's plan relating to the project and completion of the necessary legal requirements, the HRA may sell to a developer selected properties that it may acquire within the District or may lease land or facilities to a developer.
4. The HRA may perform or provide for some or all necessary acquisition, construction, relocation, demolition, and required utilities and public street work within the District.

### **Subsection 1-5. Description of Property in the District and Property To Be Acquired**

The District encompasses all property and adjacent rights-of-way and abutting roadways identified by the parcel listed in Appendix C of this TIF Plan. Please also see the map in Appendix B for further information on the location of the District.

The HRA may acquire any parcel within the District including interior and adjacent street rights of way. Any properties identified for acquisition will be acquired by the HRA only in order to accomplish one or more of the following: storm sewer improvements; provide land for needed public streets, utilities and facilities; carry out land acquisition, site improvements, clearance and/or development to accomplish the uses and objectives set forth in this plan. The HRA may acquire property by gift, dedication, condemnation or direct purchase from willing sellers in order to achieve the objectives of this TIF Plan. Such acquisitions will be undertaken only when there is assurance of funding to finance the acquisition and related costs.

### **Subsection 1-6. Classification of the District**

The HRA and City, in determining the need to create a tax increment financing district in accordance with *M.S., Sections 469.174 to 469.1794*, as amended, inclusive, find that the District, to be established, is a housing district pursuant to *M.S., Section 469.174, Subd. 11 and M.S., Section 469.1761* as defined below:

*M.S., Section 469.174, Subd.11:*

*"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 M.S., Section 469.1761. Housing project means a project, or portion of a project, that meets all the qualifications of a housing district under this subdivision, whether or not actually established as a housing district.*

*M.S., Section 469.1761:*

*Subd. 1. Requirement imposed.*

*(a) In order for a tax increment financing district to qualify as a housing district:*

*(1) the income limitations provided in this section must be satisfied; and*

*(2) no more than 20 percent of the square footage of buildings that receive assistance from tax increments may consist of commercial, retail, or other nonresidential uses.*

*(b) The requirements imposed by this section apply to property receiving assistance financed with tax increments, including interest reduction, land transfers at less than the Authority's cost of acquisition, utility service or connections, roads, parking facilities, or other subsidies. The provisions of this section do not apply to districts located within a targeted area as defined in Section 462C.02 Subd 9, clause (e).*

*(c) For purposes of the requirements of paragraph (a), the authority may elect to treat an addition*

*to an existing structure as a separate building if:*

- (1) construction of the addition begins more than three years after construction of the existing structure was completed; and*
- (2) for an addition that does not meet the requirements of paragraph (a), clause (2), if it is treated as a separate building, the addition was not contemplated by the tax increment financing plan which includes the existing structure.*

*Subd. 2. Owner occupied housing.*

*For owner occupied residential property, 95 percent of the housing units must be initially purchased and occupied by individuals whose family income is less than or equal to the income requirements for qualified mortgage bond projects under section 143(f) of the Internal Revenue Code.*

*Subd. 3. Rental property.*

*For 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. The requirements of this subdivision apply for the duration of the tax increment financing district.*

*Subd. 4. Noncompliance; enforcement.*

*Failure to comply with the requirements of this section is subject to M.S., Section 469.1771.*

In meeting the statutory criteria the HRA and City rely on the following facts and findings:

- The District consists of one parcel.
- The development will consist of 114 units of multi-family rental housing
- 40% of the units will be occupied by person with incomes less than 60% of median income

Pursuant to *M.S., Section 469.176, Subd. 7*, the District does not contain any parcel or part of a parcel that qualified under the provisions of *M.S., Sections 273.111 or 273.112 or Chapter 473H* for taxes payable in any of the five calendar years before the filing of the request for certification of the District.

### **Subsection 1-7. Duration and First Year of Tax Increment of the District**

Pursuant to *M.S., Section 469.175, Subd. 1, and Section 469.176, Subd. 1*, the duration and first year of tax increment of the District must be indicated within the TIF Plan. Pursuant to *M.S., Section 469.176, Subd. 1b.*, the duration of the District will be 25 years after receipt of the first increment by the HRA (a total of 26 years of tax increment). The HRA elects to receive the first tax increment in 2017, which is no later than four years following the year of approval of the District. Thus, it is estimated that the District, including any modifications of the TIF Plan for subsequent phases or other changes, would terminate after 2042, or when the TIF Plan is satisfied. The HRA reserves the right to decertify the District prior to the legally required date.

**Subsection 1-8. Original Tax Capacity, Tax Rate and Estimated Captured Net Tax Capacity Value/Increment and Notification of Prior Planned Improvements**

Pursuant to *M.S., Section 469.174, Subd. 7 and M.S., Section 469.177, Subd. 1*, the Original Net Tax Capacity (ONTC) as certified for the District will be based on the market values placed on the property by the assessor in 2015 for taxes payable 2016.

Pursuant to *M.S., Section 469.177, Subds. 1 and 2*, the County Auditor shall certify in each year (beginning in the payment year 2017) the amount by which the original value has increased or decreased as a result of:

1. Change in tax exempt status of property;
2. Reduction or enlargement of the geographic boundaries of the district;
3. Change due to adjustments, negotiated or court-ordered abatements;
4. Change in the use of the property and classification;
5. Change in state law governing class rates; or
6. Change in previously issued building permits.

In any year in which the current Net Tax Capacity (NTC) value of the District declines below the ONTC, no value will be captured and no tax increment will be payable to the HRA.

The original local tax rate for the District will be the local tax rate for taxes payable 2016, assuming the request for certification is made before June 30, 2016. The ONTC and the Original Local Tax Rate for the District appear in the table below.

Pursuant to *M.S., Section 469.174 Subd. 4 and M.S., Section 469.177, Subd. 1, 2, and 4*, the estimated Captured Net Tax Capacity (CTC) of the District, within Project Area No. 1, upon completion of the projects within the District, will annually approximate tax increment revenues as shown in the table below. The HRA requests 100 percent of the available increase in tax capacity for repayment of its obligations and current expenditures, beginning in the tax year payable 2017. The Project Tax Capacity (PTC) listed is an estimate of values when the projects within the District are completed.

<b>Project Estimated Tax Capacity upon Completion (PTC)</b>	<b>\$246,222</b>	
<b>Original Estimated Net Tax Capacity (ONTC)</b>	<b>\$2,836</b>	
<b>Estimated Captured Tax Capacity (CTC)</b>	<b>\$243,386</b>	
<b>Original Local Tax Rate</b>	<b>1.37407</b>	Pay 2015
<b>Estimated Annual Tax Increment (CTC x Local Tax Rate)</b>	<b>\$334,429</b>	
<b>Percent Retained by the HRA</b>	<b>100%</b>	

Tax capacity includes a 3% inflation factor for the duration of the District. The tax capacity included in this chart is the estimated tax capacity of the District in year 25. The tax capacity of the District in year one is estimated to be \$60,563.

Pursuant to *M.S., Section 469.177, Subd. 4*, the HRA shall, after a due and diligent search, accompany its request for certification to the County Auditor or its notice of the District enlargement pursuant to *M.S., Section 469.175, Subd. 4*, with a listing of all properties within the District or area of enlargement for which building permits have been issued during the eighteen (18) months immediately preceding approval of the TIF Plan by the municipality pursuant to *M.S., Section 469.175, Subd. 3*. The County Auditor shall increase the original net tax capacity of the District by the net tax capacity of improvements for which a building

permit was issued.

**The HRA has reviewed the area to be included in the District and found no parcels for which building permits have been issued during the 18 months immediately preceding approval of the TIF Plan by the City.**

#### **Subsection 1-9. Sources of Revenue/Bonds to be Issued**

The costs outlined in the Uses of Funds will be financed primarily through the annual collection of tax increments. The HRA reserves the right to incur bonds or other indebtedness as a result of the TIF Plan. As presently proposed, the projects within the District will be financed by a pay-as-you-go note/interfund loan. Any refunding amounts will be deemed a budgeted cost without a formal TIF Plan Modification. This provision does not obligate the HRA to incur debt. The HRA will issue bonds or incur other debt only upon the determination that such action is in the best interest of the City.

The total estimated tax increment revenues for the District are shown in the table below:

<u>SOURCES OF FUNDS</u>	<u>TOTAL</u>
Tax Increment	\$6,028,179
<u>Interest</u>	<u>\$602,818</u>
<b>TOTAL</b>	<b>\$6,630,997</b>

The HRA may issue bonds (as defined in the TIF Act) secured in whole or in part with tax increments from the District in a maximum principal amount of \$4,062,375. Such bonds may be in the form of pay-as-you-go notes, revenue bonds or notes, general obligation bonds, or interfund loans. This estimate of total bonded indebtedness is a cumulative statement of authority under this TIF Plan as of the date of approval.

#### **Subsection 1-10. Uses of Funds**

Currently under consideration for the District is a proposal to facilitate the construction of 114 units of multi-family rental housing. At least 40% of the units will be occupied by people with incomes less than 60% of median area income. Development is expected to commence in 2015. The HRA and City have determined that it will be necessary to provide assistance to the project(s) for certain District costs, as described. The HRA has studied the feasibility of the development or redevelopment of property in and around the District. To facilitate the establishment and development or redevelopment of the District, this TIF Plan authorizes the use of tax increment financing to pay for the cost of certain eligible expenses. The estimate of public costs and uses of funds associated with the District is outlined in the table on the following page.

<u>USES OF TAX INCREMENT FUNDS</u>	<u>TOTAL</u>
Land/Building Acquisition	\$100,000
Site Improvements/Preparation	\$800,000
Utilities	\$400,000
Affordable Housing	\$2,000,000
Other Qualifying Improvements	\$159,557
<u>Administrative Costs (up to 10%)</u>	<u>\$602,818</u>
PROJECT COST TOTAL	\$4,062,375
<u>Interest</u>	<u>\$2,568,622</u>
<b>PROJECT AND INTEREST COSTS TOTAL</b>	<b>\$6,630,997</b>

The total project cost, including financing costs (interest) listed in the table above does not exceed the total projected tax increments for the District as shown in Subsection 2-9.

Estimated costs associated with the District are subject to change among categories without a modification to this TIF Plan. The cost of all activities to be considered for tax increment financing will not exceed, without formal modification, the budget above pursuant to the applicable statutory requirements. The HRA may expend funds for qualified housing activities outside of the District boundaries.

#### **Subsection 1-11. Business Subsidies**

Pursuant to *M.S., Section 116J.993, Subd. 3*, the following forms of financial assistance are not considered a business subsidy:

- (1) A business subsidy of less than \$150,000;
- (2) Assistance that is generally available to all businesses or to a general class of similar businesses, such as a line of business, size, location, or similar general criteria;
- (3) Public improvements to buildings or lands owned by the state or local government that serve a public purpose and do not principally benefit a single business or defined group of businesses at the time the improvements are made;
- (4) Redevelopment property polluted by contaminants as defined in *M.S., Section 116J.552, Subd. 3*;
- (5) Assistance provided for the sole purpose of renovating old or decaying building stock or bringing it up to code and assistance provided for designated historic preservation districts, provided that the assistance is equal to or less than 50% of the total cost;
- (6) Assistance to provide job readiness and training services if the sole purpose of the assistance is to provide those services;
- (7) Assistance for housing;
- (8) Assistance for pollution control or abatement, including assistance for a tax increment financing hazardous substance subdistrict as defined under *M.S., Section 469.174, Subd. 23*;
- (9) Assistance for energy conservation;
- (10) Tax reductions resulting from conformity with federal tax law;



- (11) Workers' compensation and unemployment compensation;
- (12) Benefits derived from regulation;
- (13) Indirect benefits derived from assistance to educational institutions;
- (14) Funds from bonds allocated under chapter 474A, bonds issued to refund outstanding bonds, and bonds issued for the benefit of an organization described in section 501 (c) (3) of the Internal Revenue Code of 1986, as amended through December 31, 1999;
- (15) Assistance for a collaboration between a Minnesota higher education institution and a business;
- (16) Assistance for a tax increment financing soils condition district as defined under *M.S., Section 469.174, Subd. 19*;
- (17) Redevelopment when the recipient's investment in the purchase of the site and in site preparation is 70 percent or more of the assessor's current year's estimated market value;
- (18) General changes in tax increment financing law and other general tax law changes of a principally technical nature;
- (19) Federal assistance until the assistance has been repaid to, and reinvested by, the state or local government agency;
- (20) Funds from dock and wharf bonds issued by a seaway port authority;
- (21) Business loans and loan guarantees of \$150,000 or less;
- (22) Federal loan funds provided through the United States Department of Commerce, Economic Development Administration; and
- (23) Property tax abatements granted under *M.S., Section 469.1813* to property that is subject to valuation under Minnesota Rules, chapter 8100.

The HRA will comply with *M.S., Sections 116J.993 to 116J.995* to the extent the tax increment assistance under this TIF Plan does not fall under any of the above exemptions.

#### **Subsection 1-12. County Road Costs**

Pursuant to *M.S., Section 469.175, Subd. 1a*, the county board may require the HRA to pay for all or part of the cost of county road improvements if the proposed development to be assisted by tax increment will, in the judgment of the county, substantially increase the use of county roads requiring construction of road improvements or other road costs and if the road improvements are not scheduled within the next five years under a capital improvement plan or within five years under another county plan.

If the county elects to use increments to improve county roads, it must notify the HRA within forty-five days of receipt of this TIF Plan. In the opinion of the HRA and consultants, the proposed development outlined in this TIF Plan will have little or no impact upon county roads, therefore the TIF Plan was not forwarded to the county 45 days prior to the public hearing. The HRA is aware that the county could claim that tax increment should be used for county roads, even after the public hearing.

#### **Subsection 1-13. Estimated Impact on Other Taxing Jurisdictions**

The estimated impact on other taxing jurisdictions assumes that the redevelopment contemplated by the TIF Plan would occur without the creation of the District. However, the HRA has determined that such development or redevelopment would not occur "but for" tax increment financing and that, therefore, the fiscal impact on other taxing jurisdictions is \$0. The estimated fiscal impact of the District would be as follows if the "but for" test was not met:

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**IMPACT ON TAX BASE**

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	<b>2014/Pay 2015 Total Net Tax Capacity</b>	<b>Estimated Captured Tax Capacity (CTC) Upon Completion</b>	<b>Percent of CTC to Entity Total</b>
St. Louis County	170,649,416	243,386	0.1426%
City of Duluth	60,722,566	243,386	0.4008%
Duluth Schools ISD No. 709	69,448,834	243,386	0.3505%

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**IMPACT ON TAX RATES**

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	<b>Pay 2015 Extension Rates</b>	<b>Percent of Total</b>	<b>CTC</b>	<b>Potential Taxes</b>
St. Louis County	0.644440	46.90%	243,386	156,848
City of Duluth	0.325090	23.66%	243,386	79,122
Duluth Schools ISD No. 709	0.342380	24.92%	243,386	83,330
Other	0.062160	4.52%	243,386	15,129
<b>Total</b>	1.374070	100.00%		334,429

The estimates listed above display the captured tax capacity when all construction is completed. The tax rate used for calculations is the actual Pay 2015 rate. The total net capacity for the entities listed above are based on actual Pay 2015 figures. The District will be certified with Pay 2016 rates and figures.

Pursuant to *M.S. Section 469.175 Subd. 2(b)*:

- (1) Estimate of total tax increment. It is estimated that the total amount of tax increment that will be generated over the life of the District is \$6,028,179;
- (2) Probable impact of the District on city provided services and ability to issue debt. An impact of the District on police protection is expected to be minimal. With any addition of new residents or businesses, police calls for service will be increased. New developments add an increase in traffic, and additional overall demands to the call load. The HRA does not expect that the proposed development, in and of itself, will necessitate new capital investment.

The probable impact of the District on fire protection is not expected to be significant. Typically new buildings generate few calls, if any, and are of superior construction.

The impact of the District on public infrastructure is expected to be minimal. The development is not expected to significantly impact any traffic movements in the area. The current infrastructure for sanitary sewer, storm sewer and water will be able to handle the additional volume generated from the proposed development. Based on the development plans, there are no additional costs associated with street maintenance, sweeping, plowing, lighting and sidewalks.

The probable impact of any District general obligation tax increment bonds on the ability to issue debt for general fund purposes is expected to be minimal. It is not anticipated that there will be any

general obligation debt issued in relation to this project, therefore there will be no impact on the City's ability to issue future debt or on the City's debt limit.

- (3) Estimated amount of tax increment attributable to school district levies. It is estimated that the amount of tax increments over the life of the District that would be attributable to school district levies, assuming the school district's share of the total local tax rate for all taxing jurisdictions remained the same, is \$1,502,222;
- (4) Estimated amount of tax increment attributable to county levies. It is estimated that the amount of tax increments over the life of the District that would be attributable to county levies, assuming the county's share of the total local tax rate for all taxing jurisdictions remained the same, is \$2,827,216;
- (5) Additional information requested by the county or school district. The HRA is not aware of any standard questions in a county or school district written policy regarding tax increment districts and impact on county or school district services. The county or school district must request additional information pursuant to *M.S. Section 469.175 Subd. 2(b)* within 15 days after receipt of the tax increment financing plan.

No requests for additional information from the county or school district regarding the proposed development for the District have been received.

#### **Subsection 1-14. Supporting Documentation**

Pursuant to *M.S. Section 469.175, Subd. 1 (a), clause 7* the TIF Plan must contain identification and description of studies and analyses used to make the findings are required in the resolution approving the District. Following is a list of reports and studies on file at the HRA that support the HRA and City's findings:

- *Workforce Housing Needs in Duluth*, Maxfield Research, April 2014

#### **Subsection 1-15. Definition of Tax Increment Revenues**

Pursuant to *M.S., Section 469.174, Subd. 25*, tax increment revenues derived from a tax increment financing district include all of the following potential revenue sources:

1. Taxes paid by the captured net tax capacity, but excluding any excess taxes, as computed under *M.S., Section 469.177*;
2. The proceeds from the sale or lease of property, tangible or intangible, to the extent the property was purchased by the Authority with tax increments;
3. Principal and interest received on loans or other advances made by the Authority with tax increments;
4. Interest or other investment earnings on or from tax increments;
5. Repayments or return of tax increments made to the Authority under agreements for districts for which the request for certification was made after August 1, 1993; and
6. The market value homestead credit paid to the Authority under *M.S., Section 273.1384*.

#### **Subsection 1-16. Modifications to the District**

In accordance with *M.S., Section 469.175, Subd. 4*, any:

1. Reduction or enlargement of the geographic area of the District, if the reduction does not meet the

- requirements of *M.S., Section 469.175, Subd. 4(e)*;
2. Increase in amount of bonded indebtedness to be incurred;
3. A determination to capitalize interest on debt if that determination was not a part of the original TIF Plan;
4. Increase in the portion of the captured net tax capacity to be retained by the HRA;
5. Increase in the estimate of the cost of the District, including administrative expenses, that will be paid or financed with tax increment from the District; or
6. Designation of additional property to be acquired by the HRA,

shall be approved upon the notice and after the discussion, public hearing and findings required for approval of the original TIF Plan.

Pursuant to *M.S. Section 469.175 Subd. 4(f)*, the geographic area of the District may be reduced, but shall not be enlarged after five years following the date of certification of the original net tax capacity by the county auditor. If a housing district is enlarged, the reasons and supporting facts for the determination that the addition to the district meets the criteria of *M.S., Section 469.174, Subd. 11* must be documented. The requirements of this paragraph do not apply if (1) the only modification is elimination of parcel(s) from the District and (2) (A) the current net tax capacity of the parcel(s) eliminated from the District equals or exceeds the net tax capacity of those parcel(s) in the District's original net tax capacity or (B) the HRA agrees that, notwithstanding *M.S., Section 469.177, Subd. 1*, the original net tax capacity will be reduced by no more than the current net tax capacity of the parcel(s) eliminated from the District.

The HRA must notify the County Auditor of any modification to the District. Modifications to the District in the form of a budget modification or an expansion of the boundaries will be recorded in the TIF Plan.

### **Subsection 1-17. Administrative Expenses**

In accordance with *M.S., Section 469.174, Subd. 14*, administrative expenses means all expenditures of the HRA, *other than*:

1. Amounts paid for the purchase of land;
2. Amounts paid to contractors or others providing materials and services, including architectural and engineering services, directly connected with the physical development of the real property in the District;
3. Relocation benefits paid to or services provided for persons residing or businesses located in the District; or
4. Amounts used to pay principal or interest on, fund a reserve for, or sell at a discount bonds issued pursuant to *M.S., Section 469.178*; or
5. Amounts used to pay other financial obligations to the extent those obligations were used to finance costs described in clauses (1) to (3).

For districts for which the request for certification were made before August 1, 1979, or after June 30, 1982, and before August 1, 2001, administrative expenses also include amounts paid for services provided by bond counsel, fiscal consultants, and planning or economic development consultants. Pursuant to *M.S., Section 469.176, Subd. 3*, tax increment may be used to pay any **authorized and documented** administrative expenses for the District up to but not to exceed 10 percent of the total estimated tax increment expenditures authorized by the TIF Plan or the total tax increments, as defined by *M.S., Section 469.174, Subd. 25, clause (1)*, from the District, whichever is less.

For districts for which certification was requested after July 31, 2001, no tax increment may be used to pay

any administrative expenses for District costs which exceed ten percent of total estimated tax increment expenditures authorized by the TIF Plan or the total tax increments, as defined in *M.S., Section 469.174, Subd. 25, clause (1)*, from the District, whichever is less.

Pursuant to *M.S., Section 469.176, Subd. 4h*, tax increments may be used to pay for the County's actual administrative expenses incurred in connection with the District and are not subject to the percentage limits of *M.S., Section 469.176, Subd. 3*. The county may require payment of those expenses by February 15 of the year following the year the expenses were incurred.

Pursuant to *M.S., Section 469.177, Subd. 11*, the County Treasurer shall deduct an amount (currently .36 percent) of any increment distributed to the HRA and the County Treasurer shall pay the amount deducted to the State Commissioner of Management and Budget for deposit in the state general fund to be appropriated to the State Auditor for the cost of financial reporting of tax increment financing information and the cost of examining and auditing authorities' use of tax increment financing. This amount may be adjusted annually by the Commissioner of Revenue.

#### **Subsection 1-18. Limitation of Increment**

The tax increment pledged to the payment of bonds and interest thereon may be discharged and the District may be terminated if sufficient funds have been irrevocably deposited in the debt service fund or other escrow account held in trust for all outstanding bonds to provide for the payment of the bonds at maturity or redemption date.

Pursuant to *M.S., Section 469.176, Subd. 6*:

*if, after four years from the date of certification of the original net tax capacity of the tax increment financing district pursuant to M.S., Section 469.177, no demolition, rehabilitation or renovation of property or other site preparation, including qualified improvement of a street adjacent to a parcel but not installation of utility service including sewer or water systems, has been commenced on a parcel located within a tax increment financing district by the authority or by the owner of the parcel in accordance with the tax increment financing plan, no additional tax increment may be taken from that parcel and the original net tax capacity of that parcel shall be excluded from the original net tax capacity of the tax increment financing district. If the authority or the owner of the parcel subsequently commences demolition, rehabilitation or renovation or other site preparation on that parcel including qualified improvement of a street adjacent to that parcel, in accordance with the tax increment financing plan, the authority shall certify to the county auditor that the activity has commenced and the county auditor shall certify the net tax capacity thereof as most recently certified by the commissioner of revenue and add it to the original net tax capacity of the tax increment financing district. The county auditor must enforce the provisions of this subdivision. The authority must submit to the county auditor evidence that the required activity has taken place for each parcel in the district. The evidence for a parcel must be submitted by February 1 of the fifth year following the year in which the parcel was certified as included in the district. For purposes of this subdivision, qualified improvements of a street are limited to (1) construction or opening of a new street, (2) relocation of a street, and (3) substantial reconstruction or rebuilding of an existing street.*

The HRA or a property owner must improve parcels within the District by approximately June 2019 and report such actions to the County Auditor.

### **Subsection 1-19. Use of Tax Increment**

The HRA hereby determines that it will use 100 percent of the captured net tax capacity of taxable property located in the District for the following purposes:

1. To pay the principal of and interest on bonds issued to finance a project;
2. To finance, or otherwise pay public redevelopment costs of the Project Area No. 1 pursuant to *M.S., Sections 469.001 to 469.047*;
3. To pay for project costs as identified in the budget set forth in the TIF Plan;
4. To finance, or otherwise pay for other purposes as provided in *M.S., Section 469.176, Subd. 4*;
5. To pay principal and interest on any loans, advances or other payments made to or on behalf of the HRA or for the benefit of Project Area No. 1 by a developer;
6. To finance or otherwise pay premiums and other costs for insurance or other security guaranteeing the payment when due of principal of and interest on bonds pursuant to the TIF Plan or pursuant to *M.S., Chapter 462C, M.S., Sections 469.152 through 469.165*, and/or *M.S., Sections 469.178*; and
7. To accumulate or maintain a reserve securing the payment when due of the principal and interest on the tax increment bonds or bonds issued pursuant to *M.S., Chapter 462C, M.S., Sections 469.152 through 469.165*, and/or *M.S., Sections 469.178*.

**Revenues derived from tax increment from a housing district must be used solely to finance the cost of housing projects as defined in *M.S., Sections 469.174, Subd. 11 and 469.1761*. The cost of public improvements directly related to the housing projects and the allocated administrative expenses of the HRA may be included in the cost of a housing project.**

These revenues shall not be used to circumvent any levy limitations applicable to the City nor for other purposes prohibited by *M.S., Section 469.176, Subd. 4*.

Tax increments generated in the District will be paid by St. Louis County to the HRA for the Tax Increment Fund of said District. The HRA will pay to the developer(s) annually an amount not to exceed an amount as specified in a developer's agreement to reimburse the costs of land acquisition, public improvements, demolition and relocation, site preparation, and administration. Remaining increment funds will be used for HRA administration (up to 10 percent) and for the costs of public improvement activities outside the District.

### **Subsection 1-20. Excess Increments**

Excess increments, as defined in *M.S., Section 469.176, Subd. 2*, shall be used only to do one or more of the following:

1. Prepay any outstanding bonds;
2. Discharge the pledge of tax increment for any outstanding bonds;
3. Pay into an escrow account dedicated to the payment of any outstanding bonds; or
4. Return the excess to the County Auditor for redistribution to the respective taxing jurisdictions in proportion to their local tax rates.

The HRA must spend or return the excess increments under paragraph (c) within nine months after the end of the year. In addition, the HRA may, subject to the limitations set forth herein, choose to modify the TIF Plan in order to finance additional public costs in Project Area No. 1 or the District.

### **Subsection 1-21. Requirements for Agreements with the Developer**

The HRA will review any proposal for private development to determine its conformance with the Redevelopment Plan and with applicable municipal ordinances and codes. To facilitate this effort, the following documents may be requested for review and approval: site plan, construction, mechanical, and electrical system drawings, landscaping plan, grading and storm drainage plan, signage system plan, and any other drawings or narrative deemed necessary by the HRA to demonstrate the conformance of the development with City plans and ordinances. The HRA may also use the Agreements to address other issues related to the development.

Pursuant to *M.S., Section 469.176, Subd. 5*, no more than 10 percent, by acreage, of the property to be acquired in the District as set forth in the TIF Plan shall at any time be owned by the HRA as a result of acquisition with the proceeds of bonds issued pursuant to *M.S., Section 469.178* to which tax increments from property acquired is pledged, unless prior to acquisition in excess of 10 percent of the acreage, the HRA concluded an agreement for the development of the property acquired and which provides recourse for the HRA should the development not be completed.

### **Subsection 1-22. Assessment Agreements**

Pursuant to *M.S., Section 469.177, Subd. 8*, the HRA may enter into a written assessment agreement in recordable form with the developer of property within the District which establishes a minimum market value of the land and completed improvements for the duration of the District. The assessment agreement shall be presented to the County Assessor who shall review the plans and specifications for the improvements to be constructed, review the market value previously assigned to the land upon which the improvements are to be constructed and, so long as the minimum market value contained in the assessment agreement appears, in the judgment of the assessor, to be a reasonable estimate, the County Assessor shall also certify the minimum market value agreement.

### **Subsection 1-23. Administration of the District**

Administration of the District will be handled by the HRA Executive Director.

### **Subsection 1-24. Annual Disclosure Requirements**

Pursuant to *M.S., Section 469.175, Subds. 5, 6, and 6b* the HRA must undertake financial reporting for all tax increment financing districts to the Office of the State Auditor, County Board and County Auditor on or before August 1 of each year. *M.S., Section 469.175, Subd. 5* also provides that an annual statement shall be published in a newspaper of general circulation in the City on or before August 15.

If the HRA fails to make a disclosure or submit a report containing the information required by *M.S., Section 469.175 Subd. 5 and Subd. 6*, the OSA will direct the County Auditor to withhold the distribution of tax increment from the District.

### **Subsection 1-25. Reasonable Expectations**

As required by the TIF Act, in establishing the District, the determination has been made that the anticipated development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future. In making said determination, reliance has been placed upon written representation made by the developer to such effects and upon HRA staff awareness of the feasibility of developing the project site(s) within the District.

### **Subsection 1-26. Other Limitations on the Use of Tax Increment**

1. General Limitations. All revenue derived from tax increment shall be used in accordance with the TIF Plan. The revenues shall be used to finance, or otherwise pay public redevelopment costs of the Project Area No. 1 pursuant to *M.S., Sections 469.001 to 469.047*. Tax increments may not be used to circumvent existing levy limit law. No tax increment may be used for the acquisition, construction, renovation, operation, or maintenance of a building to be used primarily and regularly for conducting the business of a municipality, county, school district, or any other local unit of government or the state or federal government. This provision does not prohibit the use of revenues derived from tax increments for the construction or renovation of a parking structure.
2. Housing District Exceptions to Restriction on Pooling; Five Year Limit. Pursuant to *M.S., Section 469.1763*, (1) At least 80% of the tax increment derived from the District must be expended on Public Costs incurred within said district, and up to 20% of said tax increments may be spent on Public Costs incurred outside of the District but within Project Area No. 1; provided that in the case of a housing district, a housing project, as defined in *M.S., Section 469.174, Subd. 11*, is deemed to be an activity in the District, even if the expenditure occurred after five years.

### **Subsection 1-27. Summary**

The Housing and Redevelopment Authority of Duluth is establishing the District to provide an impetus for residential development and provide safe and decent life cycle housing in the City. The TIF Plan for the District was prepared by Ehlers & Associates, Inc., 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, telephone (651) 697-8500.

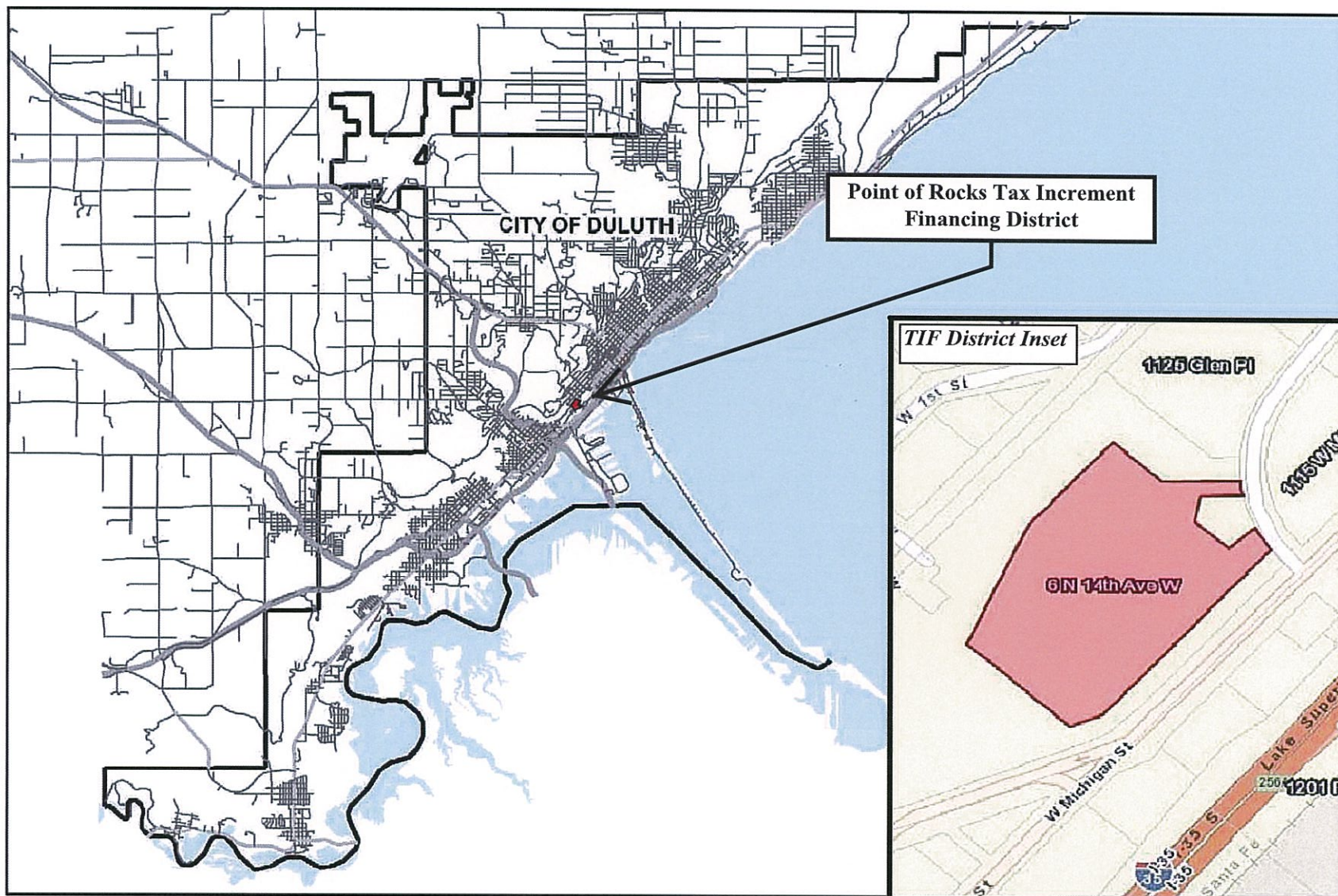


## Appendix A

The proposed project consists of a 4-story, 114-unit rental building situated on approximately 4.28 acres in the City. The project will contain a mix of studio, one and two bedroom units with both surface and underground parking for residents. At least 40% of the units will be occupied by people with incomes less than 60% of median area income. The HRA will enter into an agreement with SDH&M LLC (A.K.A. Augusta Housing) and will provide them with a PAYGO TIF note.

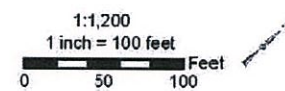
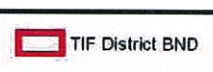
## Appendix B

### Map of Project Area No. 1 and the District



The boundaries of Project Area No. 1 are coterminous with the corporate boundaries of the City of Duluth.

Proposed TIF District  
Overview Map



## Appendix C

### Description of Property to be Included in the District

The District encompasses all property and adjacent rights-of-way and abutting roadways identified by the parcel listed below.

<u>Parcel Numbers</u>	<u>Address</u>	<u>Owner</u>
010-1913-00070		ABC

Appendix D

Estimated Cash Flow for the District



## Point of Rocks

### Duluth HRA

114 Units of Multi-Family Rental Housing - 40% of units affordable at 60% AMI

#### ASSUMPTIONS AND RATES

DistrictType:	Housing	Tax Rates
District Name/Number:		
County District #:		
First Year Construction or Inflation on Value	2015	
Existing District - Specify No. Years Remaining		
Inflation Rate - Every Year:	3.00%	
Interest Rate:	4.50%	
Present Value Date:	1-Aug-16	
First Period Ending	1-Feb-17	
Tax Year District was Certified:	Pay 2016	
Cashflow Assumes First Tax Increment For Development:	2017	
Years of Tax Increment	26	
Assumes Last Year of Tax Increment	2042	
Fiscal Disparities Election [Outside (A), Inside (B), or NA]	Inside(B)	
Incremental or Total Fiscal Disparities	Incremental	
Fiscal Disparities Contribution Ratio	0.0000% Pay 2015	
Fiscal Disparities Metro-Wide Tax Rate	161.6250% Pay 2015	
Maximum/Frozen Local Tax Rate:	137.407% Pay 2015	
Current Local Tax Rate: (Use lesser of Current or Max.)	137.407% Pay 2015	
State-wide Tax Rate (Comm./Ind. only used for total taxes)	50.8400% Pay 2015	
Market Value Tax Rate (Used for total taxes)	0.15882% Pay 2015	
		Exempt Class Rate (Exempt) 0.00%
		Commercial Industrial Preferred Class Rate (C/I Pref.)
		First \$150,000 1.50%
		Over \$150,000 2.00%
		Commercial Industrial Class Rate (C/I) 2.00%
		Rental Housing Class Rate (Rental) 1.25%
		Affordable Rental Housing Class Rate (Aff. Rental)
		First \$100,000 0.75%
		Over \$100,000 0.25%
		Non-Homestead Residential (Non-H Res. 1 Unit)
		First \$500,000 1.00%
		Over \$500,000 1.25%
		Homestead Residential Class Rate (Hmstd. Res.)
		First \$500,000 1.00%
		Over \$500,000 1.25%
		Agricultural Non-Homestead 1.00%

#### BASE VALUE INFORMATION (Original Tax Capacity)

Map #	PID	Owner	Address	Land Market Value	Building Market Value	Total Market Value	Percentage Of Value Used for District	Original Market Value	Tax Year Original Market Value	Property Tax Class	Current Original Tax Capacity	Class After Conversion	After Conversion Orig. Tax Cap.	Area/ Phase
	010-1913-00070			226,900	0	226,900	100%	226,900	Pay 2016	Rental	2,836	Rental	2,836	
				226,900	0	226,900		226,900			2,836		2,836	

#### Note:

1. Base values are for pay 2016 based upon review of County website on 2-18-15.





### Point of Rocks

#### Duluth HRA

114 Units of Multi-Family Rental Housing - 40% of units affordable at 60% AMI

PROJECT INFORMATION (Project Tax Capacity)													
Area/Phase	New Use	Estimated Market Value Per Sq. Ft./Unit	Taxable Market Value Per Sq. Ft./Unit	Total Sq. Ft./Units	Total Taxable Market Value	Property Tax Class	Project Tax Capacity	Project Tax Capacity/Unit	Percentage Completed 2015	Percentage Completed 2016	Percentage Completed 2017	Percentage Completed 2018	First Year Full Taxes Payable
	Apartment	85,000	85,000	114	9,690,000	Rental	121,125	1,063	50%	100%	100%	100%	2018
<b>TOTAL</b>													
Subtotal Residential				114	9,690,000		121,125						
Subtotal Commercial/Ind.				0	0		0						

**Note:**

1. Market values are based upon estimates from discussions with the County Assessor

TAX CALCULATIONS									
New Use	Total Tax Capacity	Fiscal Disparities Tax Capacity	Local Tax Capacity	Local Property Taxes	Fiscal Disparities Taxes	State-wide Property Taxes	Market Value Taxes	Total Taxes	Taxes Per Sq. Ft./Unit
Apartment	121,125	0	121,125	166,434	0	0	15,390	181,824	1,594.95
<b>TOTAL</b>	<b>121,125</b>	<b>0</b>	<b>121,125</b>	<b>166,434</b>	<b>0</b>	<b>0</b>	<b>15,390</b>	<b>181,824</b>	

**Note:**

1. Taxes and tax increment will vary significantly from year to year depending upon values, rates, state law, fiscal disparities and other factors which cannot be predicted.

WHAT IS EXCLUDED FROM TIF?	
Total Property Taxes	181,824
less State-wide Taxes	0
less Fiscal Disp. Adj.	0
less Market Value Taxes	(15,390)
less Base Value Taxes	(3,897)
<b>Annual Gross TIF</b>	<b>162,537</b>

MARKET VALUE BUT / FOR ANALYSIS	
Current Market Value - Est.	226,900
New Market Value - Est.	9,690,000
Difference	9,463,100
Present Value of Tax Increment	3,185,624
Difference	6,277,476
Value likely to occur without Tax Increment is less than:	6,277,476



**Point of Rocks  
Duluth HRA**

**114 Units of Multi-Family Rental Housing - 40% of units affordable at 60% AMI**

TAX INCREMENT CASH FLOW														
% of OTC	Project Tax Capacity	Original Tax Capacity	Fiscal Disparities Incremental	Captured Tax Capacity	Local Tax Rate	Annual Gross Tax Increment	Semi-Annual Gross Tax Increment	State Auditor 0.36%	Admin. at 10%	Semi-Annual Net Tax Increment	Semi-Annual Present Value	PERIOD ENDING Yrs.	Tax Year	Payment Date
100%	60,563	(2,836)	-	57,726	137.407%	79,320	39,660 39,660	(143) (143)	(3,952) (3,952)	- 35,565	34,017 67,286	0.5 1	2017 2017	02/01/17 08/01/17
100%	121,125	(2,836)	-	118,289	137.407%	162,537	81,269 81,269	(293) (293)	(8,098) (8,098)	72,878 72,878	133,959 199,164	1.5 2	2018 2018	02/01/18 08/01/18
100%	124,759	(2,836)	-	121,923	137.407%	167,530	83,765 83,765	(302) (302)	(8,346) (8,346)	75,117 75,117	264,893 329,176	2.5 3	2019 2019	02/01/19 08/01/19
100%	128,502	(2,836)	-	125,665	137.407%	172,673	86,336 86,336	(311) (311)	(8,603) (8,603)	77,423 77,423	393,974 457,347	3.5 4	2020 2020	02/01/20 08/01/20
100%	132,357	(2,836)	-	129,520	137.407%	177,970	88,985 88,985	(320) (320)	(8,866) (8,866)	79,798 79,798	521,226 583,700	4.5 5	2021 2021	08/01/21 02/01/22
100%	136,327	(2,836)	-	133,491	137.407%	183,426	91,713 91,713	(330) (330)	(9,138) (9,138)	82,245 82,245	646,672 708,258	5.5 6	2022 2022	08/01/22 02/01/23
100%	140,417	(2,836)	-	137,581	137.407%	189,046	94,523 94,523	(340) (340)	(9,418) (9,418)	84,764 84,764	770,334 831,045	6.5 7	2023 2023	08/01/23 02/01/24
100%	144,630	(2,836)	-	141,793	137.407%	194,834	97,417 97,417	(351) (351)	(9,707) (9,707)	87,360 87,360	892,237 952,083	7.5 8	2024 2024	08/01/24 02/01/25
100%	148,968	(2,836)	-	146,132	137.407%	200,796	100,398 100,398	(361) (361)	(10,004) (10,004)	90,033 90,033	1,012,403 1,071,396	8.5 9	2025 2025	08/01/25 02/01/26
100%	153,438	(2,836)	-	150,601	137.407%	206,937	103,468 103,468	(372) (372)	(10,310) (10,310)	92,786 92,786	1,130,855 1,189,005	9.5 10	2026 2026	08/01/26 02/01/27
100%	158,041	(2,836)	-	155,204	137.407%	213,262	106,631 106,631	(384) (384)	(10,625) (10,625)	95,622 95,622	1,247,615 1,304,934	10.5 11	2027 2027	08/01/27 02/01/28
100%	162,782	(2,836)	-	159,946	137.407%	219,776	109,888 109,888	(396) (396)	(10,949) (10,949)	98,543 98,543	1,362,705 1,419,204	11.5 12	2028 2028	08/01/28 02/01/29
100%	167,665	(2,836)	-	164,829	137.407%	226,487	113,243 113,243	(408) (408)	(11,284) (11,284)	101,552 101,552	1,476,148 1,531,838	12.5 13	2029 2029	08/01/29 02/01/30
100%	172,695	(2,836)	-	169,859	137.407%	233,398	116,699 116,699	(420) (420)	(11,628) (11,628)	104,651 104,651	1,587,965 1,642,857	13.5 14	2030 2030	08/01/30 02/01/31
100%	177,876	(2,836)	-	175,040	137.407%	240,517	120,259 120,259	(433) (433)	(11,983) (11,983)	107,843 107,843	1,698,178 1,752,282	14.5 15	2031 2031	08/01/31 02/01/32
100%	183,212	(2,836)	-	180,376	137.407%	247,849	123,925 123,925	(446) (446)	(12,348) (12,348)	111,131 111,131	1,806,809 1,860,135	15.5 16	2032 2032	08/01/32 02/01/33
100%	188,709	(2,836)	-	185,873	137.407%	255,402	127,701 127,701	(460) (460)	(12,724) (12,724)	114,517 114,517	1,913,878 1,966,438	16.5 17	2033 2033	08/01/33 02/01/34
100%	194,370	(2,836)	-	191,534	137.407%	263,181	131,590 131,590	(474) (474)	(13,112) (13,112)	118,005 118,005	2,019,406 2,071,210	17.5 18	2034 2034	08/01/34 02/01/35
100%	200,201	(2,836)	-	197,365	137.407%	271,193	135,597 135,597	(488) (488)	(13,511) (13,511)	121,598 121,598	2,123,416 2,174,473	18.5 19	2035 2035	08/01/35 02/01/36
100%	206,207	(2,836)	-	203,371	137.407%	279,446	139,723 139,723	(503) (503)	(13,922) (13,922)	125,298 125,298	2,225,926 2,276,247	19.5 20	2036 2036	08/01/36 02/01/37
100%	212,393	(2,836)	-	209,557	137.407%	287,946	143,973 143,973	(518) (518)	(14,345) (14,345)	129,109 129,109	2,326,957 2,376,552	20.5 21	2037 2037	08/01/37 02/01/38
100%	218,765	(2,836)	-	215,929	137.407%	296,702	148,351 148,351	(534) (534)	(14,782) (14,782)	133,035 133,035	2,426,530 2,475,408	21.5 22	2038 2038	08/01/38 02/01/39
100%	225,328	(2,836)	-	222,492	137.407%	305,719	152,860 152,860	(550) (550)	(15,231) (15,231)	137,079 137,079	2,524,664 2,572,836	22.5 23	2039 2039	08/01/39 02/01/40
100%	232,088	(2,836)	-	229,252	137.407%	315,008	157,504 157,504	(567) (567)	(15,694) (15,694)	141,243 141,243	2,621,379 2,668,854	23.5 24	2040 2040	08/01/40 02/01/41
100%	239,051	(2,836)	-	236,214	137.407%	324,575	162,288 162,288	(584) (584)	(16,170) (16,170)	145,533 145,533	2,716,695 2,763,483	24.5 25	2041 2041	08/01/41 02/01/42
100%	246,222	(2,836)	-	243,386	137.407%	334,429	167,215 167,215	(602) (602)	(16,661) (16,661)	149,951 149,951	2,810,630 2,856,740	25.5 26	2042 2042	08/01/42 02/01/43
Total							6,049,959	(21,780)	(602,818)	5,425,361				
Present Value From 08/01/2016							3,185,624	(11,468)	(317,416)	2,856,740				



## Appendix E

### Housing Qualifications for the District

<b>INCOME RESTRICTIONS - ADJUSTED FOR FAMILY SIZE (HOUSING DISTRICT) - St. Louis County St. Louis County MEDIAN INCOME: \$63,500</b>		
No. of Persons	50% of Median Income	60% of Median Income
1-person	\$22,350	\$26,820
2-person	\$25,550	\$30,660
3-person	\$28,750	\$34,500
4-person	\$31,900	\$38,280

Source: Department of Housing and Urban Development and Minnesota Housing Finance Agency

The two options for income limits on a standard housing district are 20% of the units at 50% of median income or 40% of the units at 60% of median income. There are no rent restrictions for a housing district.

\*\*\*PLEASE NOTE: THESE NUMBERS ARE ADJUSTED ANNUALLY. ALL INCOME FIGURES REPORTED ON THIS PAGE ARE FOR 2015.

## Appendix F

### Findings for the District

The reasons and facts supporting the findings for the adoption of the Tax Increment Financing Plan for Point of Rocks Tax Increment Financing District, as required pursuant to Minnesota Statutes, Section 469.175, Subdivision 3 are as follows:

1. *Finding that Point of Rocks Tax Increment Financing District is a housing district as defined in M.S., Section 469.174, Subd. 11.*

Point of Rocks TIF District consists of one parcel. The development will consist of 114 units of multi-family rental housing. All or a portion of which will receive tax increment assistance and will meet income restrictions described in *M.S. 469.1761*. At least 40 percent of the units/homes receiving assistance will have incomes at or below 60 percent of statewide median income. Appendix E of the TIF Plan contains background for the above finding.

2. *Finding that the proposed development, in the opinion of the City Council, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future.*

*The proposed development, in the opinion of the City, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future:* This finding is supported by the fact that the development proposed in this plan is a housing district that meets the City's objectives for development and redevelopment. Due to the high cost of building affordable new housing in the City and the cost of financing the proposed public improvements, this project is feasible only through assistance, in part, from tax increment financing. The developer was asked for and provided an application and a pro forma as justification that the developer would not have gone forward without tax increment assistance.

*The increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the TIF District permitted by the TIF Plan:* The City reasonably determines that no other development of similar scope is anticipated on this site without substantially similar assistance being provided to the development.

3. *Finding that the TIF Plan for Point of Rocks Tax Increment Financing District conforms to the general plan for the development or redevelopment of the municipality as a whole.*

The Planning Commission reviewed the TIF Plan and found that the TIF Plan conforms to the general development plan of the City.

4. *Finding that the TIF Plan for Point of Rocks Tax Increment Financing District will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the development or redevelopment of Project Area No. 1 by private enterprise.*

Through the implementation of the TIF Plan, the HRA will provide an impetus for residential development, which is desirable or necessary for increased population and an increased need for life-cycle housing within the City.