ADVANCE
Resources for Development, Inc.

TAX INCREMENT FINANCING DISTRICT NO. 40-1 PLAN (Rosa Place Affordable Housing Project)

ADOPTED:
January 8, 2018

CITY OF MANKATO, MINNESOTA

Business Finance and Economic Development Specialists

TAX INCREMENT FINANCING DISTRICT NO. 40-1 PLAN
MANKATO, MINNESOTA
(South Front Street Redevelopment Project)

Adopted: January 8, 2018

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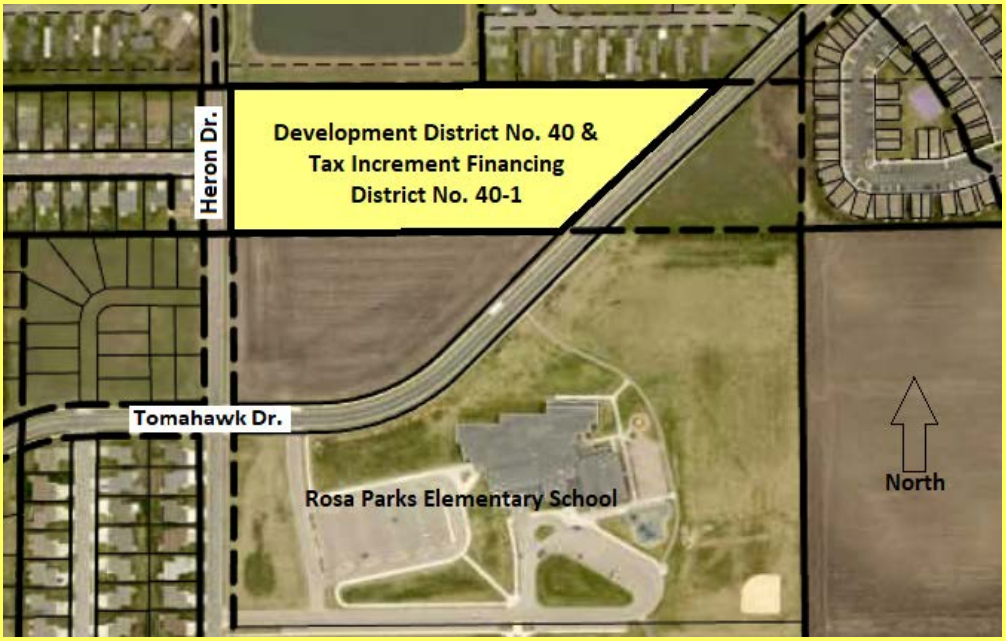
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INTRODUCTION

BACKGROUND

The City of Mankato has received a request from Joseph Development, LLC ("the Developer") to consider financial assistance in the form of "pay-as-you-go" tax increment financing to develop a 60-unit, affordable, rental, apartment project (Rosa Place) on a 7.08-acre parcel north of the intersection of Timberwolf Drive and Heron Drive. The location of Development District No. 40 and Tax Increment Financing District No. 40-1 appear below.

DEVELOPMENT DISTRICT NO. 40 AND
TAX INCREMENT FINANCING DISTRICT NO. 40-1
MANKATO, MN



DEFINITIONS

The following capitalized terms used and not otherwise defined herein shall have the following meanings:

"Bonds" means any bonds or other obligations as defined in Minnesota Statutes, section 469.174, subdivision 3, including pay-as-you-go tax increment financing revenue notes.

"City" means the City of Mankato, a political subdivision of the State of Minnesota.

"City Council" means the Mankato City Council.

"County" means Blue Earth County, State of Minnesota.

"Development District" means a specific area within the corporate limits of a municipality that has been so designated and separately numbered by the governing body. Development District" also means Development District No. 40 established January 8, 2018 by resolution of the City Council.

"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 Minnesota Statutes, Section 469.1761.

"Housing Project" means a 60-unit, affordable, rental apartment to be constructed by the Developer on property located in the District.

"Project" is a development district as defined in, section 469.125, subdivision 9.

"Tax Increment Financing Plan" or "Plan" means the plan for Tax Increment Financing District No. 40-1 prepared pursuant to the provisions of Minnesota Statutes, sections 469.174 to 469.179, which provides a statement of objectives, the development program, a list of development activities, project timing, budget estimates, estimated impact on affected taxing jurisdictions, identification of studies or analysis used to determine need for financing and identification of parcels to be included in the District.

"Tax Increment Financing District No. 40-1" or "District" means a contiguous or noncontiguous geographic area within a project delineated in the tax increment financing plan, as provided by Minnesota Statutes, section 469.175, subdivision 1, for the purpose of financing redevelopment, housing or economic development in municipalities through the use of tax increment generated from the captured net tax capacity in the tax increment financing district.

PURPOSE OF TAX INCREMENT FINANCING PLAN

The District is established pursuant to Minnesota Statutes, Chapter 469, which provides the City Council the ability to use tax increment financing as a funding source. Under Chapter 469, a tax increment district may be established as a housing district, a redevelopment district, a renewal and renovation district, a soils condition district or an economic development district. Because this area qualifies as a housing district, pursuant to Minnesota Statutes, section 469.174, subdivision 11, it has duration of 25 years from the date of receipt by the City of the first tax increment.

It is a goal of the City Council to support the development of vacant or underdeveloped properties to promote low, medium, and high-density residential development that provides affordable and lifecycle housing. To accomplish this housing development goal, the City Council proposes to establish Tax Increment Financing District No. 40-1 and to use tax increment revenues to fund eligible development costs.

TAX INCREMENT FINANCING PLAN

RELATIONSHIP OF TAX INCREMENT DISTRICT TO PROJECT AREA

Development District No. 40 was formed to promote development of certain property, secure additional housing development opportunities, increase property subject to taxation, provide improvements to development properties and designate methods for the financing of activities in the Development District.

Development District law authorizes spending increment funds to pay for these Project activities and improvements. When using tax increment funds, it is necessary to establish a tax increment financing district according to Minnesota Statutes, sections 469.174 to 469.179, inclusive. Approval of this Plan results in the creation of Tax Increment Financing District No. 40-1, which has as its purpose the financing of development activities authorized by the creation of Development District No. 40.

DEVELOPMENT PROPOSAL

The Developer proposes construction of a 60-unit, affordable, rental apartment project serving low-income persons. Financing for the project is provided, in part, via Minnesota Housing Finance Agency's Low-Income Housing Tax Credit Program, which is a financing program for qualified residential rental properties. The Low Income Housing Tax Credit is a federal income tax credit awarded to owners and then sold to investors to generate capital for construction of eligible housing. Minnesota Housing awards tax credits each year. Minnesota Housing has awarded the Developer tax credits for the 2018 construction of the Housing Project. The Housing Project is located on a 7.08-acre parcel north of the intersection of Timberwolf Drive and Heron Drive. The development site consists of single parcel conforming to City regulations applicable to high-density residential development.

The Housing Project includes 15 one-bedroom units, 30 two-bedroom units, and 15-bedroom units. Rents are restricted to households earning less than 60 percent of the area median income. Rents range from $663 for a one-bedroom unit to $924 for a three-bedroom unit. Estimated monthly utility costs are between $35 and $43.

Tax increment generated by the construction of the Housing Project must be used solely to finance the cost of the housing project as defined in Minnesota Statutes, section 469.174, subdivision 11. The cost of public improvements directly related to the Housing Project and the allocated administrative expenses of the City may be included in the cost of the Housing Project. Creation of the District enables the use of tax increment financing to fund eligible housing costs.

The proposed development consists of a project intended for occupancy by low-income persons or families. In order to provide tax increment financing assistance to 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. The proposed Housing Project meets this requirement if 40 percent or more of the residential units in such project are occupied by individuals whose income is 60 percent or less of area median gross income. Median family income is determined by HUD and includes adjustments for family size. Using the

HUD generated data Minnesota Housing publishes income limitations for tax credit projects. Following is the published income limitation data for projects placed in service on March 28, 2016 to present.

Blue Earth County	Adjustments for Family Size (Persons in Family)							
Minnesota Housing	1	2	3	4	5	6	7	8
60% Income Limits	31,260	35,760	40,200	44,640	48,240	51,840	55,380	58,980

PARCEL LOCATED IN TAX INCREMENT DISTRICT

The map on page 1 outlines the boundaries Tax Increment Financing District No. 40-1. The District encompasses a 7.08-acre privately owned property. The parcel number of this property is R01.09.20.376.024.

FINDINGS

Before a municipality approves a tax increment financing plan, the statutory findings of Minnesota Statutes, section 469.175, subdivision 3, must be made and the reasons for those findings must be set forth in writing along with supporting facts for each determination. The findings and supporting facts for the District are as follows:

1. FINDING. Tax Increment Financing District No. 40-1 is a housing district.

SUPPORTING FACTS. Minnesota Statutes, Chapter 469, provides for five types of districts - a redevelopment district, a renewal and renovation district, a housing district, a soils condition district and an economic development district - each serving a well-defined need and each having different qualifying standards. Tax Increment Financing District No. 40-1 is a "Housing District". Minnesota Statutes, section 469.174, subdivision 11, defines "Housing District". This definition is also set forth on page 2 of this Plan.

The District qualifies as a "Housing District" pursuant to Minnesota Statutes, section 469.174, subdivision 11; because the proposed development results in the construction of a 60-unit, affordable, rental apartment project meeting the requirements of Minnesota Statutes, section 469.1761, subdivision 3. In order to meet the requirements of this section, 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 proposed Housing Project meets the requirements of Section 142(d) because individuals whose income is 60 percent or less of the area median income will occupy 40 percent or more of the residential units. These requirements apply for the duration of the tax increment financing district.

2. FINDING. That, in the opinion of the municipality the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future.

SUPPORTING FACTS. The City's Consolidated Planning process identified additional, affordable housing as the community's most prevalent need. In addition, housing has been identified as a need by area employers who pay wages from $11-$18 per hour (identified as workforce housing), as well as citizens living on fixed incomes. The 2016 Mankato Area Housing Study Update indicates that the availability and development of

affordable multi-family housing units is not meeting this demand. This study estimated the vacancy rate was less one percent, and that several projects had waiting lists. The 2016 study also estimated a need of 150-200 tax credit units to meet the growth-generated demand. The proposed Housing Project contributes towards meeting that demand.

Application for Low Income Housing Tax Credits from Minnesota Housing are competitive and consider many factors including local leverage, such as TIF, to help projects to score higher – thus increasing the likelihood of receiving the tax credits necessary for the project to proceed. In addition, municipalities can further support a project by providing Project Based Housing Choice Vouchers, cash donations, low interest loans and land donations. The City's recommendation of TIF and six Project Based Housing Choice Vouchers were major factors contributing to Minnesota Housing's decision to award Low Income Housing Tax Credits to the Rosa Place Project.

Developer and City market research validates that public assistance in the form of tax increment financing, tax credits and Project Based Housing Choice Vouchers are necessary to develop a project offering below market rental rates that are affordable to low-income persons and families. The Developer's project pro forma shows that costs associated with developing, marketing and financing low-income rental apartments require rental rates beyond the means of low-income persons desiring this type of housing. The City recognizes this affordability issue and supports the public financial assistance to address the community's most prevalent need to provide affordable housing. The proposed development provides affordable housing by combining public and private resources to reduce housing costs to affordable levels. Components of the development's funding are line item cost reductions brought about by the public financing assistance package. The development is only feasible through assistance, in part, from tax increment financing.

3. FINDING. That the tax increment financing plan conforms to the general plan for the development or redevelopment of the municipality as a whole.

SUPPORTING FACTS. The tax increment financing plan conforms to the general plan of the City for the following reason:

A. The Comprehensive Plan has designated the District as appropriate for residential development. The Housing Project has been through the planned unit development (PUD) process, with the Planning Commission recommending approval.

B. The Comprehensive Plan supports the development of housing that meets the needs of all ages and income groups.

C. Public streets and utilities are available to service property included in the District.

D. The District is designated in the zoning ordinance for residential development. Plan activities and subsequent development encourage and result in development of a 60-unit, affordable, rental apartment intended for occupancy by low-income persons and families.

E. The general plan for the community supports the creation of additional residential opportunities within the municipality; particularly increased opportunities for low-income persons and families.

4. FINDING. That the tax increment financing plan will afford maximum opportunity, consistent with the sound needs of the municipality as a whole, for the development or redevelopment of the project by private enterprise.

SUPPORTING FACTS. By adopting the Development District No. 40 development program, the City approves a blueprint for development and redevelopment within the community. The Development District plan encourages cooperation with private enterprise. Information contained in the development program along with other City plans and reports has been used in the preparation of this Plan. Based upon the objective of cooperation and upon the guidance provided by City plans and ordinances, the City has determined Project costs that will be paid for by tax increment revenues. As the Financial Plan, on pages 8 through 1 of this Plan, shows the City intends to concentrate the use of tax increment revenue on those improvements that would not reasonably be expected to occur solely through private action. Private enterprise will be responsible for the vast majority of the expenses and activities normally associated with land development.

DEVELOPMENT PROGRAM FOR DEVELOPMENT DISTRICT NO. 40

Minnesota Statutes, section 469.175, subdivision 1(2) requires "A statement as to the development program for the project, including the property within the project, if any, which the authority intends to acquire". The development program for Development District No. 40 is delineated in a report entitled "Development District No. 40" adopted January 8, 2018, copies of which are on file with the City. By this reference, said Development Program is incorporated as part Plan.

TAX INCREMENT DISTRICT DEVELOPMENT PLAN

1. Tax increment financing will solely be used, by the City, to finance the costs of a housing project as defined in Minnesota Statutes, section 469.174, subdivision 11. The cost of public improvements directly related to the housing project and the allocated administrative expenses of the City may be included in the cost of a housing project.

2. The Developer will construct a 60-unit, affordable, apartment project.

These activities and improvements are within the boundaries of Tax Increment Financing District No. 40-1. These activities are scheduled to begin 2018 and will be completed by December 31, 2018. The City and Developer anticipate execution of a development agreement in January 2018.

The above activities are, at the time of preparation of this Plan, the only activities proposed for the Development District because of the formation of the District. The City requires execution of a development agreement with the Developer following approval of the Plan and before beginning project activities.

CONFORMANCE WITH PLAN FOR THE CITY

The City Council believes that creation and implementation of the District meets the intent of the plan for the City by maintaining the quality of existing development, and improving the quality of life through orderly planned improvements.

PROCEDURE FOR MODIFYING AN APPROVED TAX INCREMENT DISTRICT PLAN

The Tax Increment District Plan may be modified, provided the modification shall be approved by the City Council under provisions of the Minnesota Tax Increment Financing Act of Minnesota Statutes, section 469.175, subdivision 4.

RELOCATION

The Plan for the District does not envision that the relocation of persons or businesses will be required to implement this Plan. However, if in the future the City determines that relocation is required, the City shall implement procedures that comply with the Uniform Relocation Act and any person or business affected shall be treated according to those laws, rules and regulations.

PROPERTY ACQUISITION AND DISPOSITION

The Plan does not anticipate that any property will be acquired to implement the development. If future development activities require the use of tax increment funds for property acquisitions, the Plan shall be modified and the City will follow its policies and procedures for property acquisition.

NOTIFICATION OF PRIOR PLANNED IMPROVEMENTS

Minnesota Statutes, section 469.177, subdivision 4 requires that the request for certification of original tax capacity be accompanied by a listing of properties within the tax increment district for which building permits have been issued in the 18 months preceding approval of the tax increment financing plan. The City has searched its records and determined that no building permits have been issued for properties in the District in the 18 months immediately preceding approval of the Plan. Based on information to be submitted to Blue Earth County, it is estimated the most recent tax capacity will be 656.

METHOD OF FINANCE

The City Council elects to use Tax Increment Financing pursuant to Minnesota Statutes, Chapter 469, to finance all or part of the costs of the Project. By electing this method of financing, the City Council is not precluding the use of other methods provided by State law.

FINANCIAL PLAN

ESTIMATE OF PUBLIC COST

The following is an estimate of public cost, including cost of District indebtedness, source of revenue, most recent tax capacity and estimate of captured tax capacity.

1. Activities. Activities within the Project area consist of the cost of the housing project, the cost of public improvements directly related to the housing project and the allocated administrative expenses of the City. The estimated cost for undertaking these activities is:

A. Housing project costs	$880,622
B. Administration	46,349
TOTAL USES OF FUNDS	**$926,971**

2. Source of Funds. Tax increments are the sole source of funds to reimburse District costs:

A. Estimated tax increment	$926,971
TOTAL SOURCES OF FUNDS	**$926,971**

The above represents an estimate of the cost of the Project activities, including administrative expenses, and the sources of revenue to finance or otherwise pay public costs. The City reserves the right to amend individual line items insofar as total estimated tax increment expenditures are not increased. If such an increase is proposed, the City shall seek a public hearing on the increase pursuant to Minnesota Statutes, section 469.175, subdivision 4.

ESTIMATE OF MARKET VALUE AND TAX INCREMENT

The table on page 9 shows the calculations that were used to determine taxes and tax increment.

FINANCING ASSUMPTIONS

Tax increment will be used to finance activities in the Project area. The following information and assumptions were used to calculate financing costs for the activities in the Project area.

1. Construction of the 60-unit, affordable, rental apartment project will begin in 2018. The Developer estimates project occupancy for late 2018 and early 2019.

2. Financing of the Project activities commences in 2018.

3. Pursuant to Minnesota Statues, section 469.176, subdivision 1b.(4) the City is basing the District duration on the requirements for statutory decertification of a tax increment financing district which states that no tax increment shall in any event be paid to the City for a housing district after 25 years from the date of

TABLE 1: TAX INCREMENT CALCULATIONS								
Local Tax Rate = 105.328% (Mankato, Payable 2017) Property Classification: Class 4(d) Qualified, Low-Income Apartments Completion Prior to December 31, 2018 Estimated Completion Market Value: $7,938,700								
YEAR TAXES PAYABLE	BASE TAX CAPACITY	PROJECT'S TAX CAPACITY	CAPTURED TAX CAPACITY	PROJECT'S ANNUAL TIF	LESS OSA FEE OF 0.360%	ADJUSTED TAX INCREMENT	LESS ADMIN. OF 5.0%	NET ANNUAL TIF
2018	656	0	0	0	0	0	0	0
2019	656	0	0	0	0	0	0	0
2020	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2021	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2022	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2023	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2024	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2025	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2026	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2027	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2028	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2029	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2030	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2031	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2032	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2033	656	59,540	58,884	62,021	223	61,798	3,090	58,708
2034	656	59,540	58,884	62,021	223	61,798	3,090	58,708
TOTALS				**$930,320**	**$3,349**	**$926,971**	**$46,349**	**$880,622**
Present value of annual increment discounted at 5.25% =				**$590,631**				**$559,080**

receipt by the City of the first increment. Receipt of the first tax increment occurs in 2020 payable from the 2019 tax levy. Increment may be collected for twenty-six years (2020 through 2045). The City estimates that sufficient increment will have been generated from taxes payable through 2045 to repay all project costs. It is the City's intention to decertify the District upon repayment of project costs. The estimated increments for the District appear on Table 1.

4. The 2017 local tax rate of 105.328% and 2018 tax values are used to calculate the estimate of increment in this Plan. The project is classified as “Class 4d” qualified, low-income apartments. The classification rate, for this type of property, for taxes payable in 2017 is .75% of market value.

5. Annual tax increments as per Table 1, generated by the District, will be the source of funds used to finance the Project area activities.

6. Increment revenues will be used to finance capital and administrative costs resulting from the Project activities. All tax increment generated by this District will be used to finance the activities of the Plan. Pursuant to Minnesota Statutes, section 469.177, subdivision 2, the City chooses to retain the full captured tax capacity to pay expenditures noted in the Plan or subsequent Plan modifications.

7. The City may use annual tax increments in 2020 through 2045 to service Project costs. “Project costs” means all expenditures of the City or reimbursement of eligible company costs for the purchase of land or 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, including interest thereon. Project costs also include all administrative expenses as defined in Minnesota Statutes, section 469.174, subdivision 14. Based upon an annual debt service as per Table 1, the City would be able to finance project costs of $880,622 and administrative costs of $46,349. The first increment would be available to the City in 2020 and may continue through 2045.

SOURCE OF REVENUE

The proposed source of revenue to be used to finance public costs associated with the development project in the District is tax increment generated because of the taxation of the land and improvements in the District. Tax increment financing refers to a funding technique that uses increases in assessed valuation and the property taxes attributed to new development to finance, or assist in the financing of development costs. The improvements resulting from development of the property by private business within the District will generate an anticipated annual tax increment, as per Table 1, in 2020 through 2045 based on a full assessment.

The District's tax increment will be generated from development of the 60-unit, affordable, rental apartment project. The City proposes to reimburse the Developer via pay-as-you-go tax increment financing for eligible project costs. Prior to the reimbursement of any project costs, the City and the Developer shall execute a development agreement.

BONDED INDEBTEDNESS

Following approval of this Plan, the City and Developer will execute a development agreement that provides for the issuance of up to $880,622 Bonds (in the form of a pay-as-you-go tax increment financing revenue note) that will be used to reimburse the Developer for eligible project costs.

TIF BUSINESS SUBSIDY

The assistance provided to the Developer by the City pursuant to this Plan is not a business subsidy under the provisions of Minnesota Statutes, Section 116J.993 to 116J.995, because the use of tax increment financing for assistance for housing is exempt from the provisions of the business subsidy act.

IMPACT OF THE USE OF TAX INCREMENT ON TAXING JURISDICTIONS

Minnesota Statutes, section 469.175, subdivision 1(6), requires, “statements of the authority's alternate estimates of the impact of tax increment financing on the net tax capacities of all taxing jurisdictions in which the tax increment financing district is located in whole or in part. For purposes of one statement, the authority shall assume that the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the district, and for purposes of the second statement, the authority shall assume that none of the

estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the district or subdistrict".

Table 2 shows the impact of tax increment financing on the tax capacity of the affected taxing jurisdictions assuming (1) none of the increment would be available, and (2) the increment would be available to the tax jurisdictions.

TABLE 2
MANKATO, MINNESOTA
TAX INCREMENT FINANCING DISTRICT NO. 40-1

	WITHOUT PROJECT		
	2017 Tax Capacity	Ad Valorem Taxes Generated	2017 Tax Rate
City	40,249,491	$17,599,895	43.7270%
County	82,292,553	$32,122,075	39.0340%
School District	65,133,900	$14,589,994	22.4000%
RDC 9	82,292,553	$137,429	0.1670%
TOTALS			105.328%

	WITH PROJECT							
	2017 Tax Capacity	Projected Captured Tax Capacity	Projected Tax Capacity	Ad Valorem Tax Generated	Adjusted Local Tax Rate	Tax Rate Impact	Projected Captured Tax Capacity	Projected Increment Income
City	40,249,491	58,884	40,308,375	$17,599,895	43.663%	0.064%	58,884	$25,748
County	82,292,553	58,884	82,351,437	$32,122,075	39.006%	0.028%	58,884	$22,985
School	65,133,900	58,884	65,192,784	$14,589,994	22.380%	0.020%	58,884	$13,190
RDC 9	82,292,553	58,884	82,351,437	$137,429	0.167%	0.000%	58,884	$98
TOTALS					105.216%	0.112%		$62,021

Statement 1: The current tax capacity times the local tax rate produces current taxes generated. If the captured tax capacity were available to each taxing jurisdiction, the result would be a lower or adjusted local tax rate to produce the same amount of taxes. Thus, with the addition of captured value of 58,884 the overall local tax rate would be reduced by 0. 112% to a level of 105.216%. The captured tax capacity times the original local tax rate of 105.328% would generate $62,021 in increment income, which represents the loss of new tax revenues if the development had occurred without inclusion in a tax increment district.

Statement 2: If no captured tax capacity is available to each of the taxing jurisdictions without creation of the District, there is no impact on the taxes heretofore levied and therefore no impact on local tax rates. The captured tax capacity at the original local tax rate would generate $62,021 in increment income annually.