

Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: August 24, 2010

To: Council Member Lisa Goodman, Chair, Community Development Committee
Council Member Betsy Hodges, Chair, Ways & Means/Budget Committee

Subject: Lyndale Green: Public Hearing on Proposed TIF Plan; Issuance of two Pay-As-You-Go TIF Notes; Proposed Great Streets Loan; and Proposed Redevelopment Contract Terms

Recommendation: 1) Adopt the attached City Council Resolution approving the Lyndale Green Tax Increment Finance Plan; 2) Amend the 2010 General Appropriation Resolution by establishing the Community Planning & Economic Development agency Fund 01CLG – Lyndale Green (01CLG-8900900) and approving an initial appropriation of \$5,000 in the fund; 3) Adopt the attached City Council Resolutions authorizing the issuance of two Limited Revenue Pay-As-You-Go Tax Increment Financing Notes to Brighton Lyndale Development, LLC or its affiliates, in total principal amounts not to exceed \$567,200; 4) Approve the proposed redevelopment contract business terms as described in this report; 5) Authorize a \$245,000 Great Streets Gap Financing Loan to Brighton Lyndale Development, LLC from the already appropriated CDBG allocation budgeted in 2007-2008; and 6) Authorize the appropriate City officials to execute the redevelopment and other funding agreements with Brighton Lyndale Development, LLC or its affiliates, based on the terms contained in this report, and all other necessary documents related to the above recommended actions.

Previous Directives: 1) On April 18, 2008 the City Council authorized the submission of a Hennepin County Transit Oriented Development (TOD) application and authorized submission of a Hennepin County Environmental Response Fund (ERF) grant application; 2) On June 6, 2008, the City Council authorized submission for Livable Communities Demonstration Account (LCDA) funding by the Metropolitan Council; 3) On August 8, 2008, the City Council authorized acceptance of the Hennepin County ERF grant; 4) On September 26, 2008, the City Council authorized staff to execute a Cooperative Agreement with Hennepin County related to the TOD grant awarded to the project; 5) On October 24, 2008, the City Council adopted a resolution approving the Lyndale Green Redevelopment Plan; 6) On December 18, 2008, the City Council approved a loan up to \$975,000 from the 2008 AHTF; 7) On March 6, 2009 the City Council provided Project Analysis Authorization (PAA) regarding the applicant's TIF application; 8) On February 6, 2009 the City Council accepted a \$850,000 LCDA grant from the Met Council for the project; 9) On October 2, 2009 the City Council granted preliminary approval of the applicant's Housing Revenue Bond request (bonds will now be provided by Minnesota Housing); 10) On February 26, 2010 the City Council approved a loan of up to \$981,743 from the 2009 AHTF and accepted a \$170,000 TBRA grant from the Met Council for the project.

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Approved by: Charles T. Lutz, CPED Deputy Director

Thomas A. Streitz, Director of Housing Development

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Presenters in Committee: Wesley Butler, Manager, Multifamily Housing
Rebecca Parrell, Project Coordinator

Financial Impact

- Action requires an appropriation increase to the ___ Capital Budget or X Operating Budget

Community Impact

- Neighborhood Notification: The Whittier Alliance received a copy of the proposed TIF Plan and was notified that this report will be considered by the City Council. The developer has met with the Whittier Alliance numerous times over the past couple years. Comments from the neighborhood are expected on the TIF plan, which will be passed along to the City Council when available.
- City Goals: *Livable Communities, Healthy Lives*- thoughtful, neighborhood design with density done right and high-quality affordable housing for all ages and stages in every neighborhood; *Jobs & Economic Vitality*- strong commercial corridors, thriving business corners and businesses – big and small – start here, stay here, thrive here
- Sustainability Targets: Affordable housing production. Increased density of development along a commercial corridor.
- Comprehensive Plan: *Policy 1.10*: Support development along Commercial Corridors that enhances the street's character, fosters pedestrian movement, expands the range of goods and services available, and improves the ability to accommodate automobile traffic; *Policy 3.1*: Grow by increasing the supply of housing; *Policy 3.2*: Support housing density in locations that are well connected by transit, and are close to commercial, cultural and natural amenities; *Policy 3.3*: Increase housing that is affordable to low and moderate income households; *Policy 8.10*: Promote the benefits of preservation as an economic development tool and a method to achieve greater environmental sustainability and city vitality.
- Zoning Code: The Planning Commission originally approved the Lyndale Green development on August 10, 2008; minor modifications to the plans were approved by the Commission on August 2, 2010.
- On August 16, 2010, the Minneapolis City Planning Commission is expected to review the TIF Plan; staff will provide a verbal update to the City Council.
- Living Wage/Business Subsidy Agreement: Yes _____ No X _____
Exempt: Assistance for housing purposes or for environmental remediation are exempt from such requirements. Additionally, federal CDBG funds are exempt from the state policy and the Developer does not have more than 20 full-time employees.
- Job Linkage: Yes X _____ No _____
- Other: N/A

Supporting Information

Brighton Lyndale Development, LLC or its affiliates ("the developer," whose members include Peggy Lucas and Mark Lucas) is proposing to purchase a portion of the Salem English Lutheran Church site in order to develop a mixed-use project consisting of 63 rental apartments and approximately 7,300 square feet of neighborhood commercial space, along with 99 parking spaces (51 to be underground). The developer proposes to demolish a 1960s-era addition to the original church and surface parking lot, and construct the new

building in their place. The original church will be retained and renovated as a separate project.

Brighton Development Corporation is not participating in this project. All assistance being requested in this report or by previous Council actions will go to the developer, not Brighton Development Corporation. As the Council is aware, Peggy Lucas is one of the three partners of Brighton Development Corp., which has completed numerous similar mixed-use projects in the City of Minneapolis. Faegre & Benson will provide developer counsel, and architectural services will be provided by LHB Architects.

The Lyndale Green TIF Plan establishes a new housing TIF district within the Lyndale Green Redevelopment Project area. Fourteen of the housing units will be affordable to and occupied by households earning 50% of Area Median Income (AMI) or at Fair Market Rents (FMRs), whichever is lower. The balance of the units will be affordable to households earning up to 60% of AMI. The developer has received zoning and site plan approval from the City; the proposed site plan and project elevations are attached to this report.

The developer expects to close on the sale of the property in the fall of 2010 and begin environmental abatement and construction shortly thereafter. Construction would take place for approximately one year with lease-up completed by the end of 2012.

Public Benefits

- ✓ Physical revitalization and development - Activates a parcel on a commercial corridor, currently occupied by a surface parking lot and boarded church building by bringing street-level retail activity into new construction.
- ✓ Neighborhood employment and entrepreneurial opportunities - A minimum of two commercial/retail tenants with a minimum of seven total new jobs, at least four of which will be available to or held by low and moderate income persons.
- ✓ Expansion of the provision of goods and services to Minneapolis residents.
- ✓ Expansion of property tax base and sales tax revenues.

Project Financing Overview

The estimated total development cost of the project is approximately \$13.6 million, \$12.1 million for the housing component and \$1.5 million for the commercial component. There is a separate budget for the renovation of the church itself (approximately \$3.4 million), which is not included in this analysis. It should also be noted that the developer is not seeking TIF or any other City funds for the renovation of the church.

The City's state, regional, county, and private sector partners have committed substantial resources to the project to date. Non-City funding sources total approximately \$11.3 million, or 86 percent of the total funding sources.

Developer equity in the overall project is approximately \$250,000 in the form of a deferred developer fee. The total developer fee for the housing portion of the project is about \$1.2 million, which is just under 10% of TDC (the developer is not requesting a fee on the commercial portion of the project). Additional information on the project financing for the housing component is provided on the Project Data Worksheet, which is attached to this report. The following tables summarize the proposed funding sources and uses for the project.

Table 1. Lyndale Green Project Sources

SOURCES	Type	Housing Costs	Commercial Costs	Total	% of Total	Funding Approved
MHFA LMIR 1st mortgage*	loan	\$3,301,132		\$3,301,132	24.3%	X
Housing Tax Credit syndication (MHFA)	equity	\$3,110,360		\$3,110,357	22.9%	X
MHFA deferred loan	loan	\$1,572,495		\$1,572,495	11.6%	X
Bank Mortgage (Park Midway NMTC loan)	loan		\$1,121,499	\$1,121,499	8.3%	pending
CPED AHTF 2009	loan	\$981,743		\$981,746	7.2%	X
CPED AHTF 2008	loan	\$975,000		\$975,000	7.2%	X
Met Council LCDA (2008)	loan	\$850,000		\$850,000	6.3%	X
Hennepin County AHIF (2009)	loan	\$600,000		\$600,000	4.4%	X
Deferred Developer Fee	equity	\$250,000		\$250,000	1.8%	X
CPED Great Streets	loan		\$245,000	\$245,000	1.8%	pending
Met Council TBRA	loan	\$170,000		\$170,000	1.3%	X
Hennepin County TOD (2008)	grant	\$150,000		\$150,000	1.1%	X
Developer loan*	loan	\$125,000		\$125,000	0.9%	X
CPED 2%	loan		\$75,000	\$75,000	0.6%	pending
Hennepin County ERF	grant	\$57,000		\$57,000	0.4%	X
TOTAL SOURCES		\$12,142,730	\$1,441,499	\$13,584,229	100.0%	

* TIF revenues in the amount of \$567,200 are included in these two line items, to be used for TIF eligible housing costs. This funding amount is pending Council approval.

Table 2. Lyndale Green Project Uses

Uses	Total
Acquisition and Demolition	\$ 1,600,000
New Construction	
Building	\$ 8,423,890
Contingency	\$ 413,675
Environmental Abatement	\$ 180,000
Professional Fees & Other Soft Costs	\$ 757,328
Developer's Fee	
Developer's Fee	\$ 993,132
Other Consultant Fees	\$ 200,000
Tax Credit Syndication Fees	\$ 30,041
Financing Costs	\$ 685,813
Reserves	\$ 300,350
TOTAL USES	\$ 13,584,229

Proposed TIF Assistance

The financing plan for Lyndale Green still requires the approval of additional City funding in the form of TIF pay-as-you-go notes of up to \$567,200 and a Great Streets loan of \$245,000 that will be sourced from CDBG funds. The proposed TIF district is a housing district, so all TIF proceeds will be used to reimburse eligible costs that are incurred related to the housing portion of the project. The tax credit syndicator requires the residential component to be underwritten separately from the commercial component, therefore the housing component will be owned separately from the commercial component, and there will be two TIF notes, one to be repaid from increment generated by the commercial

component and one by the housing component of the project. A total of \$1.95 million in loan funds from the Affordable Housing Trust Fund has already been approved by the City Council.

Proposed \$245,000 Great Streets Real Estate Gap Financing Loan

- Applicant for City Financial Assistance: Brighton Lyndale Development, LLC
- Loan Request: \$245,000 Great Streets Gap Financing; Seven (7) year term, amortized over fifteen (15) years, with two (2) years of interest-only payments and a balloon payment of principal in year 7; fixed interest rate of 4.00%
- Property: 610 West 28th Street, Whittier Neighborhood, Ward 6
- Non-public Lender: Park Midway Bank
- Origination fee: a 1% fee to defray City staff costs of application review, processing, and monitoring

The developer of Lyndale Green has requested a \$245,000 Great Streets Real Estate Gap Financing Loan to fund acquisition and demolition costs for the commercial portion of the mixed-use project on this eligible Great Streets commercial corridor. The commercial/retail space on the first floor will accommodate two to four tenants, each with a separate entrance off Lyndale Avenue. The developer is in lease discussions with a “wellness” concept tenant that is seeking a second location in the metropolitan area. This prospective tenant would provide natural goods and services. They intend to pair this use with a restaurant/café.

The requested Great Streets loan would (1) support increased commercial activity and density on a commercial corridor and (2) spur new business activity at this location that will create permanent jobs. CDBG funds used for economic development purposes as the source of this loan will mandate this project create seven new jobs, four of which four will be targeted to low- and moderate-income residents.

The following terms are proposed for the Great Streets loan:

Borrower/Owner	Brighton Lyndale Development, LLC
Loan Amount	not to exceed \$245,000
Interest Rate	4%
Interest-only Payments	first 2 years
Term	7 years (final maturity 2017) *
Amortization Period	15 years
Security	subordinate mortgage on 2743 Lyndale Ave S (3 rd)
Pre-payment Penalty	none

* Seven years to coincide with seven-year term on private loan with Park Midway Bank

Loan covenants to be included in the loan agreement include typical construction loan covenants and conditions, prohibition of additional financing secured by the property without City consent, compliance with city contracting policies, and federal job creation reporting associated with the CDBG-sourced loan. To meet the CDBG job creation objective, the developer will create a minimum of seven total new jobs on the property, at least four of which will be available to or held by low- and moderate-income persons.

Park Midway Bank’s financing and the City’s 2% loan will be secured by first and second mortgages on the real property at 2743 Lyndale Avenue South. The Great Streets loan will be secured by a third mortgage.

Risk Assessment

The greatest strengths of this proposal are the experience of the developer's principals and the project's alignment with City goals. With more than two decades of experience, Peggy Lucas, a principal with the project developer and of Brighton Development Corp., has demonstrated a strong capacity for successful real estate development. The City's investment in this project helps to advance City goals related to increasing density and commercial activity on commercial corridors. The Lyndale Green redevelopment project transforms an underutilized surface parking lot and vacant building in the Lyn-Lake area into a mixed-use development that will provide housing and retail space along a commercial corridor. The Great Streets loan using CDBG dollars achieves job creation goals for low and moderate-income Minneapolis residents.

Staff reviewed the Cash Flow Proforma for the commercial component of the project and believes the assumptions used are reasonable. The projected net operating income is sufficient to make principal and interest payments on the commercial loans and maintains a minimum 1.08 Debt Service Coverage Ratio through the initial six-year operating period, rising with each successive year. The greatest risk of nonpayment of the Great Streets loan is its subordination to the Park Midway Bank and CPED 2% mortgages. Additional risk is introduced in year seven under the New Markets Tax Credit structure, when significant refinancing is required and an \$180,000 balloon on the Great Streets loan is due.

The market for new retail space is not generally strong at this time, and that poses a risk to the success of the commercial portion of the project. However, this risk is significantly mitigated by the location of the project, near the intersection of Lyndale and Lake Street in the Uptown area. This particular commercial submarket has been relatively robust in recent years, as can be seen in the number and variety of new restaurant and retail establishments. This market vitality is also reflected in (and supported by) the addition of several high-end apartment and condominium developments in the area.

Cash flow for the housing has also been reviewed, and generally meets CPED underwriting criteria. The housing component will be owned separately from the commercial component. The tax credit syndicator requires the residential component be underwritten separately from the commercial component, to ensure the success of the residential component is independent from the success of the commercial component.

The apartment rents for this project are significantly below the rents of other new-construction apartments in this location. It is anticipated that vacancy loss for the apartment development will be minimal.

Proposed Redevelopment Contract Terms

1. The developer will develop the Lyndale Green project consisting of the following:
 - (a) A rental apartment component with 32 one-bedroom units and 31 two-bedroom units. Of the 63 units, 14 units (20%) will be affordable to and occupied by households earning 50% of Area Median Income (AMI) or at Fair Market Rents (FMRs), whichever is lower. The balance of the units (80%) will be affordable at 60% MMI.
 - (b) A commercial component that will have approximately 7,300 square feet of neighborhood-serving retail.
 - (c) There will be a total of approximately 99 parking spaces, consisting of 48 surface spaces and 51 underground spaces

2. The City will provide TIF assistance in the form of two pay-as-you-go notes in a combined amount not to exceed \$567,200.
3. Lyndale Green has been awarded \$170,000 in TBRA funds from the Metropolitan Council for environmental remediation, and the City will enter into a Sub-recipient Loan Agreement with the developer for these funds.
4. Lyndale Green has been awarded \$850,000 in 2006 LCDA funds for site acquisition and demolition costs from the Metropolitan Council, and the City will enter into a Sub-recipient Loan Agreement with the developer for these funds.
5. Lyndale Green has been awarded \$57,000 in ERF funds from Hennepin County for environmental remediation, and the City will enter into a Sub-recipient Grant Agreement with the developer for these funds.
6. The City will provide a total of \$1,956,743 in deferred loan funding from the City's Affordable Housing Trust Fund program.
7. The City will provide the developer an amortizing loan of up to \$245,000 through the Great Streets program.

Project Timeline

Fall 2010	Project closing
Fall 2010	Start of demolition and environmental remediation
Fall 2010	Start of construction
Fall 2011	Project completion

Exhibits

1. Draft TIF Plan
2. Resolution approving the TIF Plan
3. Resolution authorizing issuance of the TIF notes
4. Project Data Worksheet
5. Site plan and building elevations (included with TIF Plan)

**RESOLUTION
OF THE
CITY OF MINNEAPOLIS**

By Goodman and Hodges

Approving the Lyndale Green Tax Increment Financing Plan.

Resolved by the City Council of the City of Minneapolis:

Section 1. Recitals

1.1. Pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, the City of Minneapolis (the "City"), acting by and through its department of Community Planning and Economic Development, has been granted the authority to propose and implement city development districts, housing and redevelopment projects and tax increment financing ("TIF") districts, all pursuant to Minnesota Statutes, Sections 469.001 through 469.134, and 469.174 through 469.179, as amended, and other laws enumerated therein (collectively, the "Project Laws").

1.2. By Resolution 2008R-454 duly adopted October 24, 2008 and approved October 27, 2008, the City approved the Lyndale Green Redevelopment Plan and thereby established the Lyndale Green Redevelopment Project (the "Project Area").

1.3. It has been proposed and the City has caused to be prepared, and this Council has investigated the facts with respect to, the Lyndale Green Tax Increment Financing Plan (the "TIF Plan"). The TIF Plan creates a new housing TIF district (the "TIF District") within the Project Area, designates property to be included in the TIF District, states the City's objectives, describes proposed development activity, and identifies a budget for expenditures, all pursuant to and in accordance with the Project Laws.

1.4. The City has performed all actions required by law to be performed prior to the adoption of the TIF Plan, including, but not limited to, a review of the proposed TIF Plan by the affected neighborhood group and the City Planning Commission, transmittal of the proposed Plan to the Hennepin County Board of Commissioners and the School Board of Special School District No 1 for their review and comment, and the holding of a public hearing upon published notice as required by law.

Section 2. Findings and Election

2.1. The Council hereby finds, determines and declares that the objectives and actions authorized by the TIF Plan are all pursuant to and in accordance with the Project Laws.

2.2. The Council further finds, determines and declares that the TIF Plan conforms to the general plan for the development or redevelopment of the city as a whole.

2.3. The Council further finds, determines and declares that the TIF Plan will afford maximum opportunity, consistent with the sound needs of the city as a whole, for the redevelopment of the Project Area and TIF District by private enterprise.

2.4. The Council further finds, determines and declares that the land in the Project Area and TIF District would not be made available for redevelopment without the financial aid and public assistance to be sought.

2.5. The Council further finds, determines and declares that the Lyndale Green TIF District is a housing district pursuant to Minnesota Statutes, Section 469.174, Subdivision 11, and 469.1761, Subdivisions 1 and 3.

2.6. The Council further finds, determines and declares that the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future.

2.7. The Council further finds, determines and declares that 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 the market value estimated to result from the proposed development after subtracting the present value of the projected tax increment for the maximum duration of the district permitted by the TIF Plan.

2.8. The Council further finds, determines and declares that the reasons and facts supporting the findings in this resolution are described in the TIF Plan.

2.9. The Council elects the method of computation provided in Minnesota Statutes, Section 469.177, Subdivision 3, Paragraph (a). The Council acknowledges that, by making this election, the entire fiscal disparity contribution required of the City for development occurring within this district will be taken from outside the Lyndale Green TIF District.

2.10. The Council hereby finds, determines and declares that it is necessary and in the best interests of the City at this time to approve the TIF Plan.

Section 3. Approval of the TIF Plan

3.1. Based upon the findings set forth in Section 2 hereof, the TIF Plan presented to the Council on this date is hereby approved and shall be placed on file in the office of the City Clerk.

Section 4. Implementation of the TIF Plan

4.1. After passage and publication of this Resolution, the officers and staff of the City and the City's consultants and counsel are authorized and directed to proceed with the implementation of the TIF Plan, and for this purpose to negotiate, draft, prepare and present to this Council for its consideration, as appropriate, all further modifications, plans, resolutions, documents and contracts necessary for this purpose.

4.2. As provided under Minnesota Statutes, Section 469.1781, Subdivision 7, this Council hereby authorizes the advance of revenues from other available development revenues of the City in the principal amount needed to offset any negative fund balances incurred with respect to this TIF District as a result of expenditures incurred prior to or in excess of the collection of tax increment revenue. The interest rate paid on such advances shall be equal to the rate of interest those revenues would have generated in their fund. The term of this advance shall end upon the termination of the TIF District, although as revenues are available in the fund for the TIF District, the advance shall be offset by such amounts.

Resolution
of the
City of Minneapolis

Authorizing the issuance of one or more tax increment limited revenue notes in substantially the form recited herein in a cumulative principal amount not exceeding \$567,200 in connection with the Lyndale Green Project.

Whereas, the City of Minneapolis (the "City"), acting pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, has certain powers, including without limitation the powers set forth in Minnesota Statutes, Sections 469.001 through 469.047, as amended (the "HRA Act") and Minnesota Statutes, Sections 469.174 through 469.179, as amended (the "TIF Act"); and

Whereas, in furtherance of the objectives of the HRA Act, the City has undertaken programs for the clearance and reconstruction or rehabilitation of blighted, deteriorated, deteriorating, vacant, unused, underused or inappropriately used, areas of the City, and the development of housing for persons of low and moderate incomes, and in this connection the City is carrying out a housing development project known as the Lyndale Green Project (the "Project") pursuant to the Lyndale Green Redevelopment Plan dated August 29, 2008, and adopted October 24, 2008 (the "Redevelopment Plan"); and

Whereas, pursuant to the TIF Act and in furtherance of the Redevelopment Plan, the City has approved the Lyndale Green Tax Increment Finance Plan dated _____, 2010, and adopted _____, 2010 (the "TIF Plan"); and

Whereas, pursuant to the TIF Plan and the TIF Act, specifically Minnesota Statutes, Section 469.178, subd. 4, the City is authorized to issue its tax increment limited revenue note(s) to finance the public redevelopment costs of the Project; and

Whereas, the City has entered or will enter into a redevelopment contract (the "Redevelopment Contract") with Lyndale Salem Green Limited Partnership, a Minnesota limited partnership (the "Developer"), and Brighton Lyndale Development, LLC (the "General Partner") pursuant to which the City will provide tax increment financing assistance and the Developer and General Partner will develop a 63-unit rental housing project, with 63 affordable housing units, approximately 7,300 square feet of commercial space, and related site and public improvements;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

1. That it is desirable that the City issue two tax increment limited revenue note (the "Notes") in substantially the following forms:

[FORM OF TIF NOTE 1]

Lyndale Salem Green Limited Partnership

Tax ID # _____

UNITED STATES OF AMERICA

STATE OF MINNESOTA

COUNTY OF HENNEPIN

CITY OF MINNEAPOLIS

TAX INCREMENT LIMITED REVENUE NOTE

(Lyndale Green Project)

The City of Minneapolis (the "City"), hereby acknowledges itself to be obligated and, for value received, promises to pay to the order of Lyndale Salem Green Limited Partnership, a Minnesota limited partnership (the "Developer"), solely from the source, to the extent, and in the manner hereinafter provided, the principal amount of this Note, being Four Hundred Forty-Two Thousand Two Hundred and No/100 Dollars (\$442,200.00) or such lesser amount as may equal the certified Public Costs allocated to TIF Note 1 as described in Section 4.01(d) of the Contract, with interest at the Note Rate, in the installments specified in this Note, on the Payment Dates.

Capitalized terms not defined elsewhere in this Note shall have the meanings below:

"Approximately" means give or take a difference of not more than 10% of the square footage.

"Available Tax Increment" means the Tax Increment received by the City during the period preceding each Payment Date, less (i) the amount of Tax Increment, if any, which the City must pay to the school district, the county and the state pursuant to *Minnesota Statutes*, Sections 469.177, Subds. 9, 10, and 11; 469.176, Subd. 4h; and 469.175, Subd. 1a, as the same may be amended from time to time; and (ii) actual administrative costs of the City in an amount not to exceed 10% of the Tax Increment.

"Certificate of Completion" means a Certificate issued by the City to the Developer pursuant to Section 5.04 of the Contract certifying that Minimum Improvements have been substantially completed.

“Commercial Improvements” means Approximately 7,300 square feet of commercial space and related improvements as described in the Contract.

“Commercial Property” means the real property legally described in the attached **Exhibit C**, upon which the Minimum Improvements other than the Housing Improvements will be constructed.

“Contract” means that certain Redevelopment Contract by and among the City, the Developer and Brighton Lyndale Development, LLC, dated *[insert date]*, 2010.

“Declaration of Restrictive Covenants” means the Declaration of Restrictive Covenants executed by the Developer in favor of the City dated _____, 20__ that is filed against the Housing Property.

“Development Project” means the Lyndale Green Development Project, which includes the Property.

“District” means the Lyndale Green Tax Increment Financing District within the Development Project.

“Housing Improvements” means 32 one-bedroom rental housing Units and 31 two-bedroom rental housing Units plus 99 parking spaces, 52 of which will be underground, and related improvements as described in the Contract.

“Housing Property” means the real property legally described in the attached **Exhibit B**, upon which the Housing Improvements will be constructed.

“Maturity Date” means the earlier of (i) February 1 of the year following the final year of Tax Increment collection from the District; and (ii) the date when the principal and interest amount of this Note has been paid in full.

“Minimum Improvements” means new construction of 63 rental housing units, Approximately 7,300 square feet of commercial space, 99 parking spaces, 52 of which will be underground, and related improvements as described in the Contract.

“Note Rate” means six and one half percent (6.5%) simple interest per annum calculated on a 360-day-year basis.

“Payment Date” means August 1 of the year of first increment collection from the District and each August 1 and February 1 thereafter until the Maturity Date, provided that in no event will any payment date occur before the City's issuance of the Certificate of Completion under the terms of the Contract.

“Property” – means the real property legally described in the attached **Exhibit A**, upon which the Minimum Improvements will be constructed.

“Public Costs” means actual Public Costs as defined in the Contract, not in excess of \$567,200 related to the Minimum Improvements and which are approved by the City pursuant to the Contract.

“Public Costs Certification” means a certificate in substantially the form attached to the Contract, by which the City certifies the Public Costs pursuant to the terms of the Contract.

"Tax Increment" means that portion of the property taxes generated by the Housing Property and Housing Improvements that is actually remitted to the City as tax increment under the Tax Increment Act.

"Tax Increment Act" means *Minnesota Statutes*, Section 469.174-469.1799, as amended, or any successor statutes applicable to the District.

On each Payment Date, the City shall pay the Developer an installment equal to the lesser of (i) the Available Tax Increment or (ii) the amount necessary to pay the accrued unpaid interest and the unpaid principal amount of this Note in full. If, after issuance of the Certificate of Completion the Developer is in default under the Contract or Declaration of Restrictive Covenants, and, after notice by the City to the Developer as provided in Section 9.02 of the Contract, such default has not been cured within the time period provided in the Contract, then the City may suspend payment on this Note until the default is cured or the City's obligations under this Note are terminated. The City may not suspend payments on this Note after issue of the Certificate of Completion for a default under the Contract by the General Partner. If payments are suspended due to a Default under the Declaration of Restrictive Covenants, the City is not obligated to pay to the Developer the amount of the suspended payments that would otherwise have been paid to the Developer between the date the payment is suspended and the date the default is cured. Otherwise, if the City suspends payments due under this Note, the City shall make the suspended payments to the Developer within ten (10) business days after the Developer's cure of the Default to the City's satisfaction. In no event is the City obligated to pay interest on the amount of the suspended payments between the date the payment is suspended and the last date on which the City is obligated to make the suspended payment to the Developer. To the extent that on any Payment Date there is insufficient Available Tax Increment to make a scheduled payment, such failure to make a scheduled payment shall not constitute a default under this Note. If the Developer or other Housing Improvements' owner fails to pay all or a portion of the property taxes due and owing on the Housing Improvements, then upon such failure to pay, no interest as required by the Note shall accrue on an amount equal to the amount of the Available Tax Increment that would have been paid to the City had such property tax amounts been paid.

Interest shall accrue on the initial principal amount of this Note from the date of issue of the Public Costs Certification. Each payment under this Note, whether a scheduled payment or any other payment, shall be applied first to current interest, then to accrued unpaid interest and then to the unpaid principal amount of this Note.

On the Maturity Date, this Note shall be deemed paid in full and the City shall have no further obligation under this Note even if the aggregate of the Available Tax Increment that has actually been paid to the Developer on the Payment Dates is less than the full principal and interest amount of this Note. The obligation of the City to make any scheduled payment shall terminate if and to the extent that the full principal and interest amount of this Note has been paid in full. This Note may be prepaid in full or in part at any time without penalty.

Each payment on this Note is payable in any coin or currency of the United States of America which on the date of such payment is legal tender for public and private debts and

shall be made by wire transfer, check or draft made payable to the Developer and mailed to the Developer at _____, Minneapolis, MN 554____, or such other address as the Developer shall provide in writing to the City's notice address as set forth in the Contract.

The Note is a special and limited obligation and not a general obligation of the City, which has been issued by the City pursuant to and in full conformity with the Constitution and laws of the State of Minnesota, including *Minnesota Statutes*, Section 469.178, subdivision 4, to aid in financing a "project", as therein defined, of the City consisting generally of defraying certain public redevelopment costs incurred by the Developer within and for the benefit of the Project.

THE NOTE IS NOT A DEBT OF THE STATE OF MINNESOTA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF MINNEAPOLIS, MINNESOTA, EXCEPT THAT THE CITY SHALL BE OBLIGATED TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, SHALL BE LIABLE ON THE NOTE, EXCEPT FOR THE CITY'S OBLIGATION TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, NOR SHALL THE NOTE BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN AVAILABLE TAX INCREMENT AS SET FORTH HEREIN.

This Note shall not be transferred to any person, unless the City has been provided with an opinion of counsel acceptable to the City that such transfer is exempt from registration and official statement delivery requirements of federal and applicable state securities law and an investment letter reasonably acceptable to the City.

This Note shall not be payable from or constitute a charge upon any funds of the City, and the City shall not be subject to any liability hereon or be deemed to have obligated itself to pay hereon from any funds except the Available Tax Increment, and then only to the extent and in the manner herein specified. No Tax Increment generated by the Commercial Property or Commercial Improvements shall go toward payment of this Note.

The Developer shall never have or be deemed to have the right to compel any exercise of any taxing power of the City or of any other public body, and neither the City nor any person executing or registering this Note shall be liable personally hereon by reason of the issuance of registration thereof or otherwise.

IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and the laws of the State of Minnesota to be done, to have happened, and to be performed precedent to and in the issuance of this Note have been done, have happened, and have been performed in regular and due form, time, and manner as required by law; that this Note is issued pursuant to the Tax Increment Act; and that this Note together with all other indebtedness of the City outstanding on the date hereof and on

the date of its actual issuance and delivery, does not cause the indebtedness of the City to exceed any constitutional or statutory limitation thereon.

(Signature page follows.)

IN WITNESS WHEREOF, the City of Minneapolis, by action of its City Council, has caused this Note to be executed by the manual signature of its Finance Officer, and has caused this Note to be dated _____, 2010.

CITY OF MINNEAPOLIS

By _____

Patrick Born

Its Finance Officer

Approved as to form:

Assistant City Attorney

EXHIBIT A TO TIF NOTE 1

Description of the Property

Lot 6, Lot 7, Lot 8, Lot 9, Lot 10, and the West 19.42 feet of Lot 5 except the North 8.00 feet thereof, Block 2, Grover's Addition to Minneapolis, Hennepin County, Minnesota;

Together with that part of the vacated north-south alley in said Block 2, Grover's Addition to Minneapolis, lying south of the westwardly extension of the South line of the North 8 feet of said Lot 5;

Together with, Lot 4, Lot 5, Lot 6, and the West 25.42 feet of Lot 3, Block 1, Coe's Addition to Minneapolis, Hennepin County, Minnesota;

Together with that part of vacated east-west alley in said Block 1 lying northerly and adjoining said Lot 3, Lot 4, Lot 5, and Lot 6 and lying west of the northerly extension of east line of the West 25.42 feet of said Lot 3.

EXHIBIT B TO TIF NOTE 1

Description of Housing Property

That portion of the Property described as: (To be determined)

EXHIBIT C TO TIF NOTE 1

Description of Commercial Property

That portion of the Property described as: (To be determined)

[FORM OF TIF NOTE 2]

Brighton Lyndale Development, LLC

Tax ID # _____

UNITED STATES OF AMERICA

STATE OF MINNESOTA

COUNTY OF HENNEPIN

CITY OF MINNEAPOLIS

TAX INCREMENT LIMITED REVENUE NOTE

(Lyndale Green Project)

The City of Minneapolis (the "City"), hereby acknowledges itself to be obligated and, for value received, promises to pay to the order of Brighton Lyndale Development LLC, a Minnesota limited liability company (the "Investor"), solely from the source, to the extent, and in the manner hereinafter provided, the principal amount of this Note, being One Hundred Twenty-Five Thousand and No/100 Dollars (\$125,000.00) or such lesser amount as may equal the certified Public Costs allocated to TIF Note 2 as described in Section 4.01(d) of the

Contract, with interest at the Note Rate, in the installments specified in this Note, on the Payment Dates.

Capitalized terms not defined elsewhere in this Note shall have the meanings below:

"Approximately" means give or take a difference of not more than 10% of the square footage.

"Available Tax Increment" means the Tax Increment received by the City during the period preceding each Payment Date, less (i) the amount of Tax Increment, if any, which the City must pay to the school district, the county and the state pursuant to *Minnesota Statutes*, Sections 469.177, Subds. 9, 10, and 11; 469.176, Subd. 4h; and 469.175, Subd. 1a, as the same may be amended from time to time; and (ii) actual administrative costs of the City in an amount not to exceed 10% of the Tax Increment.

"Certificate of Completion" means a Certificate issued by the City to the Developer pursuant to Section 5.04 of the Contract certifying that Minimum Improvements have been substantially completed.

"Commercial Improvements" means Approximately 7,300 square feet of commercial space and related improvements as described in the Contract.

"Commercial Property" means the real property legally described in the attached **Exhibit B**, upon which the Commercial Improvements will be constructed.

"Contract" means that certain Redevelopment Contract by and among the City, the Investor, and the Developer dated *[insert date]*, 2010.

"Declaration of Restrictive Covenants" means the Declaration of Restrictive Covenants executed by the Developer in favor of the City dated _____, 20____ that is filed against the Housing Property.

"Developer" means Lyndale Salem Green Limited Partnership, a Minnesota limited partnership and developer of the Housing Improvements.

"Development Project" means the Lyndale Green Development Project, which includes the Property.

"District" means the Lyndale Green Tax Increment Financing District within the Development Project.

"Housing Improvements" " means 32 one-bedroom rental housing Units and 31 two-bedroom rental housing Units plus 99 parking spaces, 52 of which will be underground, and related improvements as described in the Contract.

"Housing Property" means the real property legally described in the attached **Exhibit C**, upon which the Housing Improvements will be constructed.

"Maturity Date" means the earlier of (i) February 1 of the year following the final year of Tax Increment collection from the District; and (ii) the date when the principal and interest amount of this Note has been paid in full.

"Minimum Improvements" means new construction of 63 rental housing units, Approximately 7,300 square feet of commercial space, 99 parking spaces, 52 of which will be underground, and related improvements as described in the Contract.

"Note Rate" means seven and one half percent (7.5%) simple interest per annum calculated on a 360-day-year basis.

"Payment Date" means August 1 of the year of first increment collection from the District and each August 1 and February 1 thereafter until the Maturity Date, provided that in no event will any payment date occur before the City's issuance of the Certificate of Completion under the terms of the Contract.

"Property" means the real property legally described in the attached **Exhibit A**, upon which the Minimum Improvements will be constructed.

"Public Costs" means actual Public Costs as defined in the Contract, not in excess of \$567,200 related to the Minimum Improvements and which are approved by the City pursuant to the Contract.

"Public Costs Certification" means a certificate in substantially the form attached to the Contract, by which the City certifies the Public Costs pursuant to the terms of the Contract.

"Tax Increment" means that portion of the property taxes generated by the Commercial Property and Commercial Improvements that is actually remitted to the City as tax increment under the Tax Increment Act.

"Tax Increment Act" means *Minnesota Statutes*, Section 469.174-469.1799, as amended, or any successor statutes applicable to the District.

On each Payment Date, the City shall pay the Investor an installment equal to the lesser of (i) the Available Tax Increment or (ii) the amount necessary to pay the accrued unpaid interest and the unpaid principal amount of this Note in full. If, after issuance of the Certificate of Completion the Developer or the Investor is in default under the Contract or Declaration of Restrictive Covenants, and, after notice by the City to the Investor and Developer as provided in Section 9.02 of the Contract, such default has not been cured within the time period provided in the Contract, then the City may suspend payment on this Note until the default is cured or the City's obligations under this Note are terminated. If payments are suspended due to a Default under the Declaration of Restrictive Covenants, the City is not obligated to pay to the Investor the amount of the suspended payments that would otherwise have been paid to the Investor between the date the payment is suspended and the date the default is cured. Otherwise, if the City suspends payments due under this Note, the City shall make the suspended payments to the Investor within ten (10) business days after the Investor's or Developer's cure of the Default to the City's satisfaction. In no event is the City obligated to pay interest on the amount of the suspended payments between the date the payment is suspended and the last date on which the City is obligated to make the suspended payment to the Investor. To the extent that on any Payment Date there is insufficient

Available Tax Increment to make a scheduled payment, such failure to make a scheduled payment shall not constitute a default under this Note. If the Investor or other Commercial Improvements' owner fails to pay all or a portion of the property taxes due and owing on the Commercial Improvements, then upon such failure to pay, no interest as required by the Note shall accrue on an amount equal to the amount of the Available Tax Increment that would have been paid to the City had such property tax amounts been paid.

Interest shall accrue on the initial principal amount of this Note from the date of issue of the Public Costs Certification. Each payment under this Note, whether a scheduled payment or any other payment, shall be applied first to current interest, then to accrued unpaid interest and then to the unpaid principal amount of this Note.

On the Maturity Date, this Note shall be deemed paid in full and the City shall have no further obligation under this Note even if the aggregate of the Available Tax Increment that has actually been paid to the Developer on the Payment Dates is less than the full principal and interest amount of this Note. The obligation of the City to make any scheduled payment shall terminate if and to the extent that the full principal and interest amount of this Note has been paid in full. This Note may be prepaid in full or in part at any time without penalty.

Each payment on this Note is payable in any coin or currency of the United States of America which on the date of such payment is legal tender for public and private debts and shall be made by wire transfer, check or draft made payable to the Investor and mailed to the Investor at _____, Minneapolis, MN 554____, or such other address as the Developer shall provide in writing to the City's notice address as set forth in the Contract.

The Note is a special and limited obligation and not a general obligation of the City, which has been issued by the City pursuant to and in full conformity with the Constitution and laws of the State of Minnesota, including *Minnesota Statutes*, Section 469.178, subdivision 4, to aid in financing a "project", as therein defined, of the City consisting generally of defraying certain public redevelopment costs incurred by the Developer within and for the benefit of the Project.

THE NOTE IS NOT A DEBT OF THE STATE OF MINNESOTA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF MINNEAPOLIS, MINNESOTA, EXCEPT THAT THE CITY SHALL BE OBLIGATED TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, SHALL BE LIABLE ON THE NOTE, EXCEPT FOR THE CITY'S OBLIGATION TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, NOR SHALL THE NOTE BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN AVAILABLE TAX INCREMENT AS SET FORTH HEREIN.

This Note shall not be transferred to any person, unless the City has been provided with an opinion of counsel acceptable to the City that such transfer is exempt from registration and official statement delivery requirements of federal and applicable state securities law and an investment letter reasonably acceptable to the City.

This Note shall not be payable from or constitute a charge upon any funds of the City, and the City shall not be subject to any liability hereon or be deemed to have obligated itself to pay hereon from any funds except the Available Tax Increment, and then only to the extent and in the manner herein specified. No Tax Increment generated by the Housing Property or the Housing Improvements shall go toward payment of this Note.

The Investor shall never have or be deemed to have the right to compel any exercise of any taxing power of the City or of any other public body, and neither the City nor any person executing or registering this Note shall be liable personally hereon by reason of the issuance of registration thereof or otherwise.

IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and the laws of the State of Minnesota to be done, to have happened, and to be performed precedent to and in the issuance of this Note have been done, have happened, and have been performed in regular and due form, time, and manner as required by law; that this Note is issued pursuant to the Tax Increment Act; and that this Note together with all other indebtedness of the City outstanding on the date hereof and on the date of its actual issuance and delivery, does not cause the indebtedness of the City to exceed any constitutional or statutory limitation thereon.

(Signature page follows.)

IN WITNESS WHEREOF, the City of Minneapolis, by action of its City Council, has caused this Note to be executed by the manual signature of its Finance Officer, and has caused this Note to be dated _____, 2010.

CITY OF MINNEAPOLIS

By _____

Patrick Born

Its Finance Officer

Approved as to form:

Assistant City Attorney

EXHIBIT A TO TIF NOTE 2

Description of the Property

Lot 6, Lot 7, Lot 8, Lot 9, Lot 10, and the West 19.42 feet of Lot 5 except the North 8.00 feet thereof, Block 2, Grover's Addition to Minneapolis, Hennepin County, Minnesota;

Together with that part of the vacated north-south alley in said Block 2, Grover's Addition to Minneapolis, lying south of the westwardly extension of the South line of the North 8 feet of said Lot 5;

Together with, Lot 4, Lot 5, Lot 6, and the West 25.42 feet of Lot 3, Block 1, Coe's Addition to Minneapolis, Hennepin County, Minnesota;

Together with that part of vacated east-west alley in said Block 1 lying northerly and adjoining said Lot 3, Lot 4, Lot 5, and Lot 6 and lying west of the northerly extension of east line of the West 25.42 feet of said Lot 3.

EXHIBIT B TO TIF NOTE 2

Description of Commercial Property

That portion of the Property described as: (To be determined)

EXHIBIT C TO TIF NOTE 2

Description of Housing Property

That portion of the Property described as: (To be determined)

2. Be It Further Resolved that the form of the Notes are hereby approved and shall be executed by the Finance Officer in substantially the forms on file, with such changes therein not inconsistent with law as the Finance Officer may approve, which approval shall be conclusively evidenced by the execution thereof.

3. Be It Further Resolved that all actions of the members, employees and staff of the City heretofore taken in furtherance of the issuance of the Notes are hereby approved, ratified and confirmed.

4. Be It Further Resolved that the sale of said Notes are hereby approved and TIF Note 1 is hereby directed to be sold to the Developer and TIF Note 2 is hereby directed to be sold to the General Partner upon the terms and conditions set forth in the Redevelopment Contract.

5. Be It Further Resolved that the Finance Officer is hereby authorized and directed to execute such other documents, agreements and certificates as may be required in connection with the Notes.

6. Be It Further Resolved that no provision, covenant or agreement contained in the aforementioned documents, the Notes or in any other document related to the Notes, and no obligation therein or herein imposed upon the City or the breach thereof, shall constitute or give rise to any pecuniary liability of the City or any charge upon its general credit or taxing powers. In making the agreements, provisions, covenants and representations set forth in such documents, the City has not obligated itself to pay or remit any funds or revenues, other than funds and revenues derived from the tax increment revenues which are to be applied to the payment of the Notes, as provided therein and in the Redevelopment Contract. The Notes shall not constitute a charge, lien or encumbrance, legal or equitable upon any property or funds of the City except that revenue and proceeds pledged to the payment thereof, nor shall the City be subject to any liability thereon. The holders of the Notes shall never have the right to compel any exercise of the taxing power of the City to pay the outstanding principal on the Notes or the interest thereon, or to enforce payment hereon against any property of the City. The Notes shall not constitute a debt of the City within the meaning of any constitutional or statutory limitation.

7. Be It Further Resolved that the Notes, when executed and delivered, shall contain a recital that they are issued pursuant to the TIF Act, and such recital shall be conclusive evidence of the validity of the Notes and the regularity of the issuance thereof, and that all acts, conditions and things required by the laws of the State of Minnesota relating to the adoption of this resolution, to the issuance of the Notes and to the execution of the aforementioned documents to happen, exist and be performed precedent to and in the enactment of this resolution, and precedent to issuance of the Notes and precedent to the execution of the aforementioned documents have happened, exist and have been performed as so required by law.

8. Be It Further Resolved that this resolution shall be in full force and effect from and after its date of publication.