



March 31, 2016

Superintendent Ric Dressen  
Edina Public Schools  
Independent School District #273  
5701 Normandale Road  
Edina, Minnesota 55424

Dear Superintendent Dressen,

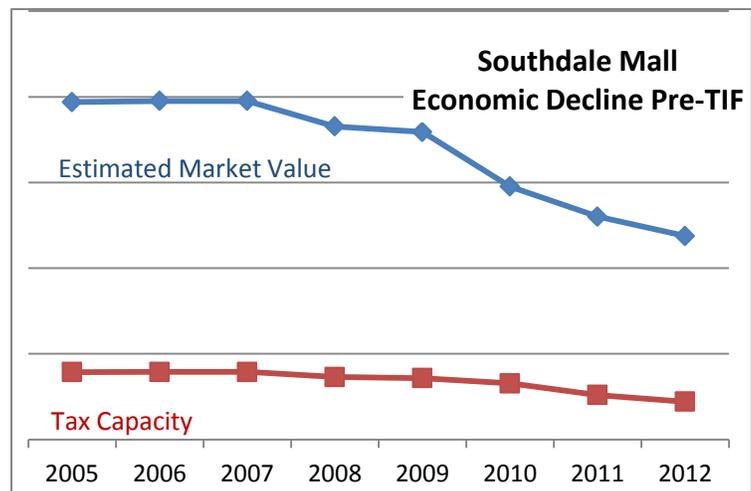
Thank you for your letter regarding the proposal to support and encourage new investment and new affordable housing in the City of Edina. The City and the Edina Housing and Redevelopment Authority are considering the use of Tax Increment Financing (TIF) to provide local financial support to a new affordable housing project located at 3330 West 66<sup>th</sup> Street.

As outlined in the documents sent to the School District on March 4, 2016, the creation of a new Housing TIF District to support the 66 West Apartments is currently proposed. In order to establish this new District, the parcel must first be removed from the existing Southdale 2 TIF District; thus, a modification to this existing TIF District is also proposed.

Based on the scope of your questions, it may be useful to clarify the background related to the existing Southdale 2 TIF District.

The Southdale 2 TIF District was established in April 2012, based on one-time legislation that encouraged job creation and investment in commercial properties. This is an 8-year economic development TIF District that is set to expire in 2021. It currently includes 301 parcels and covers approximately 209 acres.

This TIF District was established to incentivize Simon Properties to make a substantial and transformational investment in the historic Southdale Center shopping mall. Over many years of varied owners, the Southdale Mall had suffered from disinvestment, increasing vacancy rates, declining market value and rising criminal activity. Those conditions threatened the reputation and quality of life in Edina and hindered the success of the Greater Southdale commercial area – Edina’s employment hub and largest



center for retail commerce. The decline in the Estimated Market Value and Tax Capacity of the shopping center before the Southdale 2 TIF District was created is illustrated in the following chart.

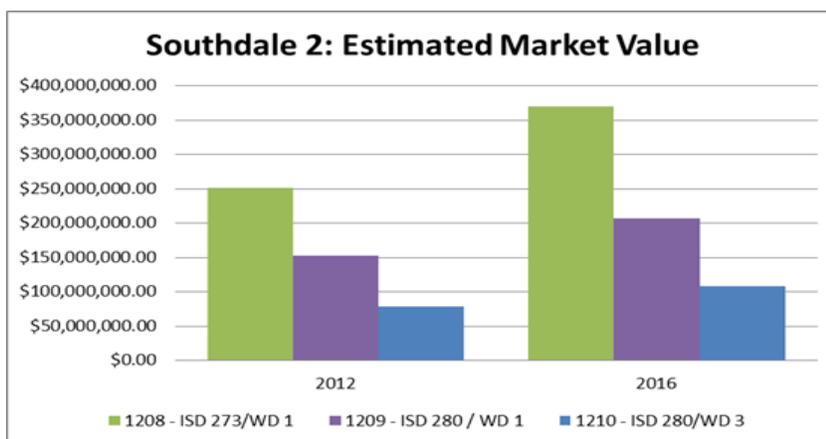
Subsequent to the establishment of the Southdale 2 TIF District, the City and Simon Properties entered into a redevelopment agreement that provided a \$5 million dollar interest-free loan and required Simon to invest at least \$15 million into upgrades and enhancements to the mall entrances and common areas of the shopping center.

The \$5 million loan was also provided in hopes that new retail tenants and other users would be attracted to the mall property and surrounding parcels. This strategy was highly successful!

The updated shopping center retained many existing tenants and attracted many new tenants. This rejuvenation also boosted the confidence of real estate investors, demonstrating that the Greater Southdale area was on an upward trajectory. In addition the retail tenants, several new residential and mixed-use projects have been completed or are in various stages of development in the immediate vicinity. These projects fulfill the architect Victor Gruen’s original vision, that the Greater Southdale area be a special place that brings together business, commerce, healthcare and residential living.

Sparked by the City’s loan to Southdale Center Mall, nearly \$100 million has been permanently invested into the Southdale Center and surrounding properties. The estimated tax value of the Simon/Southdale Mall parcels has grown 60 % since this investment was made. Surrounding properties have also seen economic growth and additional growth is likely in the years ahead. The chart below shows a summary in the growth in Estimated Market Value of the properties located within the Southdale 2 TIF District from 2012 to 2016. Portions within Edina School District 273 are shown in green. Portions within Richfield School District 280 are shown in purple and blue.

When the Simon/Southdale Center TIF loan is repaid and the TIF District expires in five years, the increases in market value will significantly enhance the tax base of the City, School Districts and County.

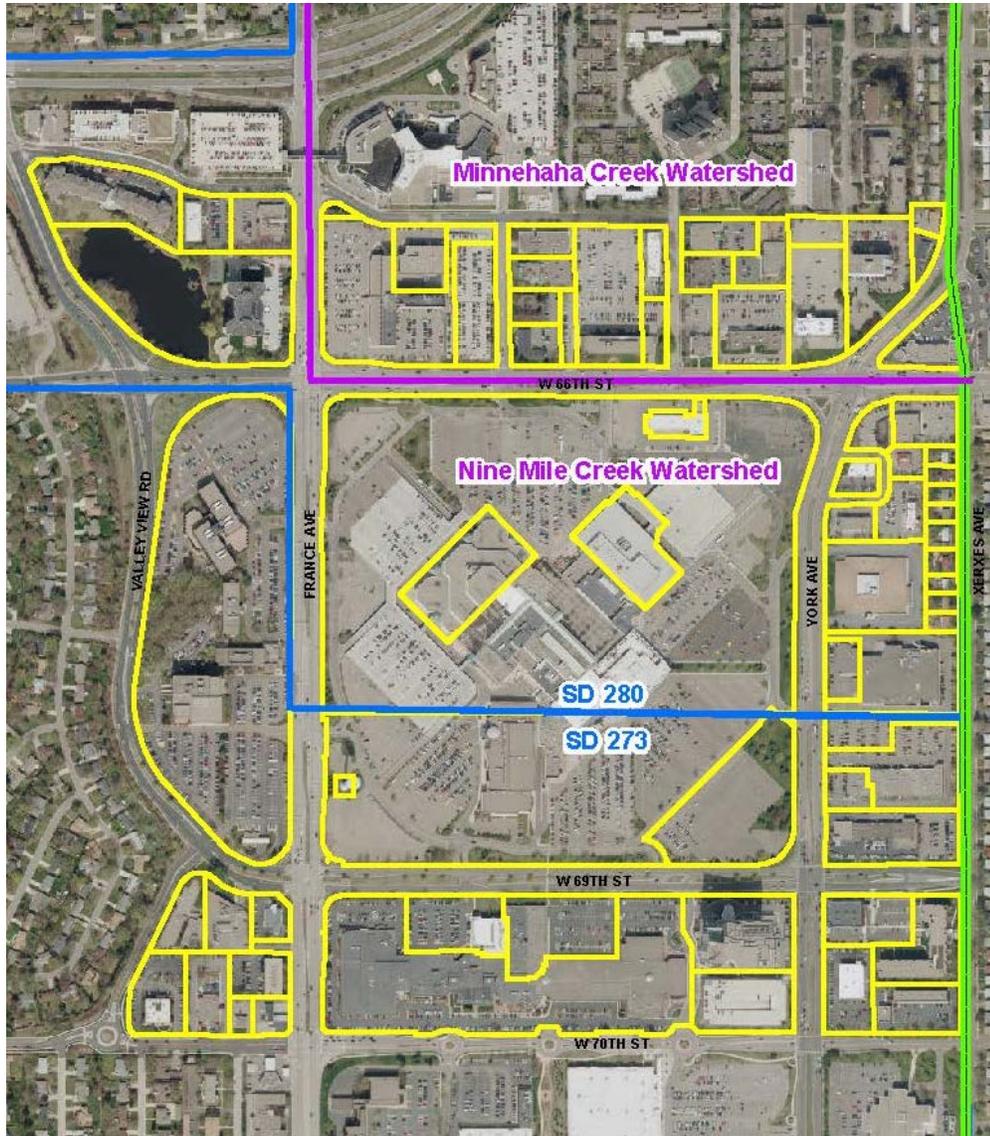


There are many positive stories to tell about new development in the Greater Southdale area. We have reported on many in the 2014 and 2015 “State of the City” presentations. City staff is happy to discuss these projects in depth with the School District if you would like additional details.

In response to your specific questions, we can provide the following responses.

**1) What percent of each TIF Plan is within the Edina School District boundaries?**

The table below summarizes the portions of 66 West and Southdale 2 TIF Districts within the Edina School District. The District boundaries are illustrated on the following map.

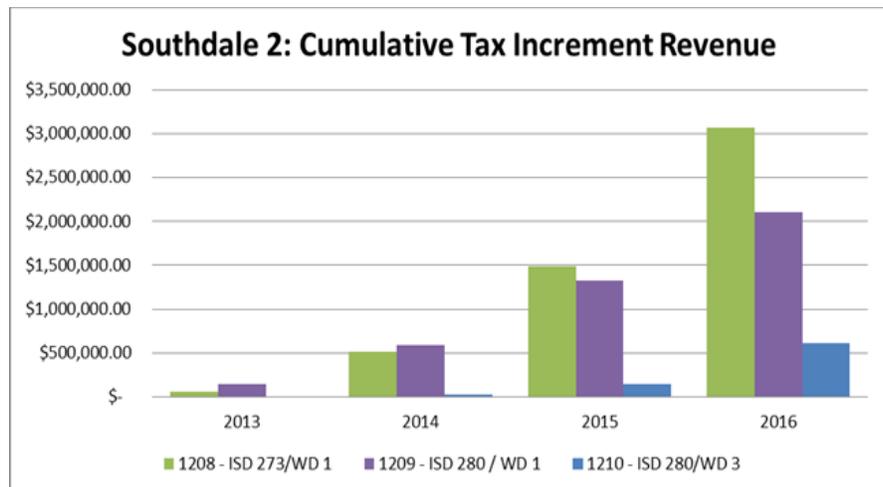


	Total		Edina School District #273		
	Parcels	Acres	Parcels	Acres	Percent
66 West TIF District	1	0.9	0	0.0	0%
Southdale 2 TIF District with Modification	300 (reduced by 1)	208 (reduced by 1)	105	93	45%

**2) What percent of the money used to fund the proposed (66 West) TIF Plan is generated from property within the Edina School District?**

There is not a simple answer to this question. The adjacent chart illustrates the cumulative tax increment collected in Southdale 2 TIF District since it was established in 2012. This chart shows “incremental taxes” only and does not include the base property taxes that are always distributed

to the school district, municipality, county and other taxing agencies. Incremental taxes attributed to parcels within Edina School District 273 are shown in green. Richfield School District 280 is divided into two Watershed Districts and is shown in purple and blue.



At this time, there are two potential options available to pay for the Project Costs anticipated in the 66 West TIF Plan.

The proposed Redevelopment Agreement includes two up-front TIF payments to the affordable housing developer. The source of funds is incremental taxes already collected and available in the Southdale 2 TIF account.

- Option A – incremental taxes generated by new construction in the Southdale 2 TIF District (combination of SD 273 and SD 280) could fund the TIF contribution to 66 West. TIF Law does not require repayment of pooled TIF funds provided that they are used for an eligible purpose such as affordable housing.
- Option B – incremental taxes generated by the 66 West TIF District (SD 280 only) could be used to repay these monies. Preliminary projections indicate that full repayment could be possible with no or low interest.

Pending changes in State Law and fluctuations in assessed valuations of properties will determine which of these options will be used. The preferred option will likely become apparent after the conclusion of the 2016 Legislative Session, although this may stretch to the 2017 Legislation Session.

The cost of creating the TIF Plan is borne by the Developer (Beacon Interfaith Housing) and is not funded with public monies.

**3) How will the proposed TIF Plan impact the immediate tax rate for the current (Edina) school district taxpayers.**

The 66 West TIF Plan includes one parcel that is in the Richfield School District and none that are in the Edina School District. Thus, the 66 West TIF Plan does not impact the tax rate or revenues of the Edina school district's property tax.

The companion changes to the Southdale 2 TIF Plan are relatively minor. There is no change to the term or budget estimates of the TIF District at this time. Thus, the proposed modifications to Southdale 2 TIF District do not alter the tax rate borne by taxpayers.

**4) What is the potential increase in residential enrollment in the (Edina) school district boundaries due to the proposed TIF Plan?**

The proposed 66 West TIF District is located entirely in the Richfield School District. The project consists of 39 efficiency apartments targeted to young adults who were formerly homeless. None of the residents are anticipated to be of school-age. If, there is a school-age resident, the Developer indicates that they will most likely be pursuing a GED or attending the Richfield High School. Considering that only efficiency-sized apartments will be constructed, it is highly unlikely that any of the single-person households will have children of school-age.

The Southdale 2 TIF Plan does not provide for any new housing units. Both the original and modified TIF Plans are limited to the enhancement of commercial (non-residential) buildings only. While Minnesota Statute allows a limited amount of monies from this District to be pooled into a different District, there are no plans to do so at this time. Any proposal to pool TIF monies for new housing developments will be evaluated on a case-by-case basis. The City will engage the school districts should such a proposal be considered.

In the event that new residential construction is proposed elsewhere in Edina, the Hazel Reinhardt report to Edina School District dated 3/14/2014 may be the most useful reference source to estimate enrollment. This report was prepared specifically for ISD #273 in preparing for future enrollment and contains the following factors:

Type of Housing	K-12 Student Yield per Housing Unit
Single family house (average)	0.56
Single family house (new)	0.68
Single family house (recently sold)	0.70

Type of Housing	K-12 Student Yield per Housing Unit
Duplex	0.25
Single family attached / townhouse	0.11
Apartments	0.19
Condominiums	0.02

Source: Edina School District #273 Resident Enrollment Projections dated 3/14/2014; pages 21-22.

When future multi-family housing projects are proposed (regardless of the use of TIF), City staff is willing to ask developers to provide information to assist the School District in future planning.

**5) How is the length of each TIF Plan determined, and is it possible to have a reduced number of years?**

TIF Districts are created in accordance with Minnesota Statutes. State law establishes the maximum length of TIF Districts as noted below:

Type of TIF District		Maximum Term of TIF Revenue Collection
Southdale 2	Economic Development	9 years
66 West	Housing	26 years

Historically, the City has established TIF Districts that allow the full term to be applied. This allows the greatest opportunity to resolve the community goals and also allows unforeseen conditions to be addressed during the regular cycles of the economy.

The City also abides by the provisions of Minnesota Statute that require parcels that have not been improved to be put in a dormant state, allowing the current tax capacity to be included in the tax base of all taxing jurisdictions. It is likely that some of the parcels in the Southdale 2 TIF District will be placed in this “dormant” state by February 1, 2017. Further information will be available by December 31, 2016.

Regarding early termination, yes, it is possible. The City evaluates the performance of each TIF District regularly and is open to closing TIF Districts early, when all goals have been accomplished, all debt obligations have been satisfied and economic conditions allow.

**6) What would be the impact to the (Edina) school district taxpayers if the TIF Plan’s years were reduced?**

The 66 West TIF Plan does not affect the Edina school district’s portion of property taxes.

If the Southdale 2 TIF Plan was modified to reduce the length of the District, the increased tax base brought about by the new investments would benefit each governmental agency with taxing jurisdiction. This, theoretically, would result in a small benefit to each taxpayer in those jurisdictions (provided that the budget of each agency stayed the same). If however, the TIF District was terminated before the debt obligations were fulfilled, all taxpayers in the City of Edina would likely see a small tax increase to cover the unsatisfied debt.

**7) What other TIF Districts are being considered or modified over the next 24 months that might impact the (Edina) school district?**

The City recently established the Grandview 2 TIF District. At this time, no other TIF Districts are being formally considered in the City of Edina.

City staff, however, regularly monitors the needs of the community and the development interest in Edina. As a mature community, much of the public infrastructure is aging and in need of replacement or improvement to meet the needs and expectations of Edina residents and businesses. Since properties in the City of Edina are nearly fully developed, new investment to remain competitive and strong comes at a higher cost. When redevelopment financing tools are advantageous to the broad goals of the community-at-large, the creation of new TIF Districts will likely be considered.

As previously mentioned, the City is happy to meet with the School District staff, consultants or School Board to discuss re-development in the City of Edina and the use of the available financing tools to meet the long-term goals of community. If you would like to discuss any of these questions or other related matters, we stand ready to meet with you.

Sincerely,



Scott Neal  
City Manager & HRA Executive Director

- c. Mayor and City Council members  
Edina HRA Commissioners  
Bill Neuendorf, Economic Development Manager  
Nick Anhut and Jessica Cook, Ehlers