

**Unapproved
Minnetonka
Economic Development Advisory Commission
Minutes**

Jan. 26, 2023

1. Call to Order

Chair Yunker called the meeting to order at 6 p.m.

2. Roll Call

EDAC commissioners Ann Duginske Cibulka, Maram Falk, Jay Hromatka, Steven Tyacke and Charlie Yunker were present. Lee Jacobsohn and Melissa Johnston were absent.

Staff present: Economic Development and Housing Manager Alisha Gray and Community Development Coordinator Rob Hanson.

Financial consultant Stacie Kvilvang of Ehlers and Associates was present.

Councilmember Deb Calvert was present.

3. Approval of the EDAC Sept. 8, 2022 Meeting Minutes

Hromatka moved, Tyacke seconded, a motion to approve the Sept. 8, 2022 meeting minutes. Duginske Cibulka, Falk, Hromatka, Tyacke and Yunker voted in favor of passing the motion. Jacobsohn and Johnston were absent. Motion carried.

4. Marsh II - Doran Financing Request

Chair Yunker introduced the item and called for the staff report.

Gray provided the staff report.

Tony Kuechle, president of development with Doran Companies, was available for questions by phone.

Hromatka stated that it would be helpful to have up-to-date information on what increment districts already exist in Minnetonka when considering newly proposed increment districts.

Hromatka asked if the rating agencies ask about the city's use of increment districts. Gray confirmed that the existing increment districts are a factor used by rating agencies. That information may be found in the Tax Increment Finance (TIF) Management Report which is updated every two years.

Stacie Kvilvang, financial consultant with Ehlers and Associates, explained that:

- Rating agencies like to see that cities are reinvesting and redeveloping, so proposals that utilize TIF help maintain the city's AAA rating.
- It is not a detriment to a city to have TIF districts. There are cities that have many more than Minnetonka. TIF districts are viewed as a positive when used to reinvest and reinvigorate the tax base.
- The affordable housing policy requires affordable units be included in multi-family housing, so the assistance makes it possible for the proposal to move forward and meet affordability requirements.

Hromatka asked why the city would provide assistance for site improvements instead of the property owner decreasing the sale price of the property by that amount. Kvilvang explained that the cost of providing affordability for 30 years and extraordinary costs for cleanup that every other site does not have are taken into consideration. The overall development performance and return matrix also need to be within the market and industry standard for assistance to be provided.

In response to Tyacke's question, Gray explained that the housing study shows that there is a demand for 5,000 additional units in Minnetonka over the next five years and a very high demand for affordable housing.

Tony Kuechle, president of development with Doran Companies, stated that:

- Birke continues to perform really well with 95 percent occupancy.
- Minnetonka has a vacancy rate of 2.4 percent.

Duginske Cibulka asked if there are other financial gaps that would prevent the project from being feasible. Mr. Kuechle described a way that may allow the project to decrease costs. Kvilvang explained that negotiations would happen on the final number as the project progresses.

Falk asked if the assistance for soil-condition improvements would be a condition of affordability. Gray answered affirmatively.

Hromatka moved, seconded by Duginske Cibulka, to recommend that the city council approve the finance request for the Marsh II to provide up to \$4.6 million in tax increment over a 12-year term; require a 30-year period of affordability; establish a look-back provision in the development agreement; and continue discussions to provide a transitional housing unit.

Duginske Cibulka, Falk, Hromatka, Tyacke and Yunker voted in favor of passing the motion. Jacobsohn and Johnston were absent. Motion carried.

5. Cedar Hills Townhomes – DevCo Financing Request

Gray provided the staff report.

Hromatka noted that the assistance would be for deferred maintenance. He asked for information on the underwriting criteria and history of DevCo.

Michael Volz, vice president of finance at DevCo, applicant, stated that:

- DevCo started operating in the early 1990s in the state of Washington developing new, residential construction using four percent low-income-housing-tax credits and tax-exempt bonds.
- DevCo currently has 85,000 units including new construction occurring in the state of Washington.
- His job is to help expand their services on a national level. He has handled many properties like this one that were built in the 1980s with section eight contracts that are in need of renovating.
- In exchange for making extended affordability on the four-percent-tax credit side, an allocation of those credits are sold to investors to raise the equity.

In response to Hromatka's question, Gray confirmed that the conduit tax-exempt bond does not interfere with the city's bank-qualified-tax-exempt debt.

Duginske Cibulka asked for the purpose of DevCo's \$2 million. Mr. Volz answered that interior renovations would include improvements to cabinets, counter tops, walls and flooring. Exterior improvements would be made to the roof, decks and areas around the garages.

In response to Tyacke's question, Mr. Volz explained that the vast majority of units would be renovated with the residents in place. The contractor specializes in doing work around the tenants' schedule. In some cases, a tenant may need to be relocated for a week or two to make accessibility improvements. There would be no long-term relocations.

Falk asked who would receive the energy efficiency and sustainability rebates. Mr. Volz was unsure if the improvements would qualify for rebates. Gray stated that she will meet with another staff member who coordinates the sustainability initiatives to find out more information on available rebates before the item is reviewed by the city council.

Duginske Cibulka asked if an exit strategy has been defined. Mr. Volz answered that the initial compliance period would be 15 years. The credits would be delivered over 10 years to the investor. There would be limited refinancing or capital events done within that time frame. It may be possible to refinance year 11 or 12 after the credits have been delivered fully to the investor to recapitalize and do a similar transaction again.

In response to Hromatka's questions, Gray explained that the affordable housing financing trust (AHFT) was originally established to provide temporary rental assistance during the pandemic. It was turned into a permanent-trust fund and TIF pooling dollars were moved into the fund which now has a balance of approximately \$5 million. This

proposal is requesting to utilize \$1 million of the trust. The city council will have a study session on Feb. 6, 2023 to consider utilizing \$300,000 of the trust for the Pathways to Homeownership program that provides down-payment assistance to qualified buyers.

Chair Yunker recalled the discussion to utilize the trust fund for other things besides rental assistance. This is an opportunity to utilize the fund to help achieve affordability and sustainability goals in a nice, creative way using a deferred loan.

Hromatka asked if the city would get a second mortgage to secure the loan. Gray explained that the city would have a second mortgage and a developer's agreement that would secure the 30-year term on the affordable units.

In response to Falk's question, Gray stated that she will do more research on possible rebates for making improvements to energy efficiency.

Calvert explained that the state legislature passed legislation allowing Minnetonka to be one of a handful of cities to create an affordable-housing-trust fund that may use its funds for more than rental assistance and provide affordable housing. The time is now to address the climate crisis and greenhouse gases. The proposal would make a big impact on the community and aid in meeting the city's greenhouse-gas-reduction goals of 41 percent over 10 years.

Hromatka commended staff for coming up with the idea for the housing trust and utilizing a portion of the funds for making an improvement to affordable housing in Minnetonka.

Hromatka moved, seconded by Duginske Cibulka, to recommend that the city council approve the finance request for Cedar Hills Townhomes to provide up to \$1,011,830 pending final underwriting review; prepare a formal contract with the applicant; and utilize available rebates for improving energy efficiency.

Duginske Cibulka, Falk, Hromatka, Tyacke and Yunker voted in favor of passing the motion. Jacobsohn and Johnston were absent. Motion carried.

6. Staff Report

Hanson and Gray provided the staff report:

- The Metropolitan Council reports civil construction is 70 percent complete on the SWLRT. All of the roads and trails are anticipated to be open by the end of 2023. The SWLRT is anticipated to begin operation by the end of 2027.
- Regional Metro Transit ridership is slowly rebounding for local routes, but express routes are recovering more slowly. It is rolling out a public engagement plan called Network Now that aims to define what routes should be prioritized in restoring service.
- Development updates on The Pointe, Minnetonka Station, Doran, The Townline Apartments (Wellington), Greystar Development, Abdo Market

- House, Marsh Run II, Mills Church project, Ridgedale Park project, a possible affordable ownership product on city-owned properties on Rowland Road and Baker Road, The Marsh and Buhl Investments.
- Open to Business serves as a navigator of Minnetonka business consulting services. Consulting service demand remains high.
- Staff is hosting a half day contractors' exposition on Thursday, Feb. 2, 2023.
- The fall issue of Thrive was emailed to 1,515 subscribers and mailed to over 1,200 addresses in November 2022 and the winter 2023 issue is in development.
- Provided an update on the business-work plan. The compliance-loan program has gone live. There will be a luncheon highlighting businesses and the mayor will award an outstanding-business award. Creating an emergency-assistance fund is being worked on.
- The His House Foundation helped four households in Minnetonka experiencing an emergency.
- There is still mortgage assistance available at HomeHelpMN.
- Rental assistance has been provided to 205 households and still has funds to be utilized.
- The city council will host a study session on Feb. 6, 2023 to receive an update on the pathways and housing programs.

7. Other Business

The next EDAC meeting is scheduled to be held on Feb. 23, 2023.

8. Adjournment

The meeting was adjourned at 7:08 p.m.