

**Minnetonka
Economic Development Advisory Commission
Minutes**

May 11, 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, Lee Jacobsohn, Steven Tyacke and Charlie Yunker were present. Melissa Johnston was absent.

Staff present: Community Development Director Julie Wischnack, Economic Development and Housing Manager Alisha Gray and Community Development Coordinator Rob Hanson.

Consultants available by phone: Financial consultant Sean Lentz of Ehlers and Associates.

Councilmember Deb Calvert was present.

3. Greystar Financing Request

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

Gray provided the staff report. Staff recommends commissioners review the contract for private development and make a recommendation.

Tyacke asked why the financial assistance source being considered changed from tax increment to the affordable-housing-trust fund. Grey explained that the affordable-housing-trust fund is utilized for smaller requests for assistance because it is easier to administer and to show the legislature that progress is being made to utilize the funds the city received from the legislature.

In response to Tyacke's question, Gray explained that the staff is recommending approval of assistance because the developer agreed to provide more affordability than what is required in the policy.

Jacobsohn asked how the assistance request amount was able to be decreased from \$5 million to \$500,000. Lentz explained that Ehlers staff reviewed the proposal and found that the appropriate amount of assistance would be \$500,000.

Duginske Cibulka would like specific numbers to explain how \$500,000 would be the appropriate amount of assistance. She was concerned that the project costs have not been reduced and the proposal would not be feasible from a cost perspective.

Lentz explained that \$500,000 would assist the first couple of years with the yield on cost to get it over the initial hump and establish the profit above the metric the applicant requested. After the first couple of years, the yield on cost would be fine.

Ned Dodington, representing Greystar, Inc., the applicant, stated that:

- The applicant's financial analysis shows a \$5 million financial gap.
- He "did not disagree" with Lentz's analysis, except that it assumes that the building would be up and operating in two years. That is the challenge with higher interest rates and the cost of providing affordable-housing units.
- The \$500,000 is appreciated, but it would not allow the project to be financeable in today's market.

Jacobsohn asked if the applicant would still request assistance from the city if the proposal did not include affordable-housing units. Mr. Dodington answered that the applicant would still open the conversation to see if assistance would be available. The proposal has equity and a bank loan in place.

Jacobsohn asked if the project would go forward with \$500,000 of assistance from the city. Mr. Dodington said that the applicant was not in a position to turn down any assistance. There is an equity partner and a lender the applicant is starting to work with. He thinks there is a fair chance that the proposal would go forward with \$500,000 of assistance from the city.

Falk asked if the proposal would reduce the number or type of affordable units if the city's financial assistance would be \$500,000. Mr. Dodington stated that he is not recommending any kind of reduction in the number or type of affordable units. The gap in the net operating income (NOI) is not the issue for the applicant; the issue is getting in the ground.

Duginske Cibulka confirmed with Mr. Dodington that the bank loans and equity would need to be renegotiated.

Duginske Cibulka asked if the market-rate apartments would have to absorb a higher rent to make up for the loss of assistance. Mr. Dodington said that those levers probably would be pulled at least initially to stretch the pro forma to overcome this challenge. Duginske Cibulka was concerned with creating unaffordability at a higher level which could ultimately leave some units empty and create an unsuccessful project.

Hromatka asked how the proposal's market-rate-unit rents compare to what is currently offered in Opus. Mr. Dodington answered that the starting rents at Allcott, the Doran project and Wellington are where the applicant thought they would be. There is still a fairly robust market in Opus. The applicant's proposed market-rate rents still feel very comfortable.

Jacobsohn noted that the market-rate rents would be set to achieve absorption at a certain rate. The market-rate rents would be determined more by the market than the amount of assistance. Mr. Dodington agreed.

Duginske Cibulka confirmed with Mr. Dodington that the overall cost of the project is estimated at \$94 million and the actual construction costs are estimated at \$66 million to \$70 million.

Duginske Cibulka requested staff provide an analysis of the cost of projects completed in Opus and the percentage of the amount of public assistance provided for each.

Tyacke supports reviewing a comparable analysis, the city being consistent with providing assistance and following the financial analysis completed by Ehlers and Associates as has been done for numerous other projects.

Hromatka reviewed the affordable-housing-production summary included in the staff report. When comparing assistance per unit per year, \$500,000 for the current proposal would be on the low end of what has been done recently. Wischnack explained that the summary was one of many things used to determine if a request for financial assistance is appropriate. Each proposal's project pro forma, input sources and uses of funds are different. The financial consultants at Ehlers do a deep dive to provide an objective opinion regarding whether the assistance is needed and what amount would be reasonable.

Calvert noted that the affordable housing policy went into effect in 2014 and councilmembers strive to apply it consistently, but every project is different. The price per unit is hard to compare without considering other factors. She appreciates the commission's discussion which will be extremely helpful to councilmembers.

Hromatka felt that, in order to promote and have more affordable housing stock, the city may have to provide more assistance to make a project work in a challenging market.

Jacobsohn noted that the proposal would provide five percent of the units at 40 percent area median income (AMI) and five percent of the units at 80 percent AMI which is less costly for the developer than the policy standard of five percent of the units at 50 percent AMI and five percent of the units at 60 percent AMI. The math would come out even if the proposal offered five percent of the units at 40 percent AMI and five percent of the units at 70 percent AMI.

In response to Duginske Cibulka's question, Lentz explained that the value of the TIF assistance would go up if the funds would be used as a capital cost reduction, but determining if the assistance would get outsized in later years due to inflation would need to be calculated. There is a significant difference between Greystar's property-tax estimate and Ehlers' staff's property-tax estimate which is another significant determining factor when calculating the appropriate amount of assistance which are significantly different. Lentz discussed the discrepancy with Mr. Dodington previously, but Greystar's property-tax estimate did not change.

Duginske Cibulka asked what would change about the proposal if no more than \$500,000 of assistance would be approved by the city council. Mr. Dodington answered that he would discuss the situation with the equity partner and go from there.

Hromatka did not see a downside to recommending that the city council approve the staff's recommendation to provide assistance at the \$500,000 level. The worst thing that could happen would be that Greystar would submit a new proposal if this one does not work out.

Duginske Cibulka was concerned with the feasibility of the project at the \$500,000 level of public assistance.

Jacobsohn moved, Tyacke seconded, a motion to approve the financial assistance request of \$500,000 for Greystar Development, Inc. as provided in the staff report. Duginske Cibulka, Falk, Hromatka, Jacobsohn, Tyacke and Yunker voted yes. Johnston was absent. Motion carried.

4. Emergency-Business-Loan Fund

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

Hanson provided the staff report. Staff recommends commissioners review the emergency-business-loan fund and provide feedback.

Jacobsohn suggested adding "unforeseen circumstance(s)" as a requirement to qualify for an emergency-business loan and giving preference to an unforeseen circumstance that was caused by a city or county improvement project.

Chair Yunker clarified with Jacobsohn that he would choose to support an application that requested a loan caused by an unforeseeable event over one that was due to a change in the market.

Jacobsohn suggested adding businesses that sell firearms to the list of ineligible applicants.

In response to Hromatka's question, Hanson explained that the code-compliance loan program does not have ineligibility restrictions on legally operating businesses in Minnetonka. Calvert explained that councilmembers identified that code compliance is a safety issue for all businesses and patrons, but providing assistance to keep a business viable is a separate issue.

Hromatka agreed that the emergency-business loan is a different animal than the code-compliance loan. Commissioners nodded in agreement.

Jacobsohn supports fairness, but was inclined to stick with the applicant-eligibility restrictions since the emergency-business-loan program does not have a lot of funds available.

Hromatka supports including eligibility restrictions for the emergency-loan program.

Chair Yunker confirmed with commissioners' unanimous support to add businesses that sell firearms to the list of ineligible businesses to receive an emergency-business loan.

Commissioners discussed including businesses that primarily generate their income from the sale of THC products as ineligible for an emergency-business loan.

Falk asked if there would be an option for a business to apply a second time. Hanson explained that would not be an option in the current draft, but a commissioner could recommend that change. The decision to limit the number of applications to one per business was made to prevent favoring one business over another and to provide assistance to as many businesses as possible.

Hromatka moved, Falk seconded, a motion to recommend that the city council approve the emergency-business-loan fund as presented in the staff report with the inclusion of businesses that primarily generate their income from firearms or THC sales as ineligible. Duginske Cibulka, Falk, Hromatka, Jacobsohn, Tyacke and Yunker voted yes. Johnston was absent. Motion carried.

5. Other Business

The next EDAC meeting is scheduled to be held on June 22, 2023.

6. Adjournment

The meeting was adjourned at 7:30 p.m.