**Minnetonka Economic Development Advisory Commission**
**Meeting Summary**

**January 28, 2016**
**6 p.m.**

## 1. Call to Order

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

## 2. Roll Call

EDAC commissioners present: Benita Bjorgo, Michael Happe, Ken Isaacson, Jerry Knickerbocker, and Kathryn Aanenson were present. Jacob Johnson was absent.

Staff present: Community Development Director Julie Wischnack.

## 3. Approval of Minutes

Isaacson moved, Knickerbocker seconded a motion to approve the minutes as attached for the October 22, 2015 EDAC meeting. Bjorgo, Isaacson, Knickerbocker, and Aanenson voted yes. Johnson was absent. Happe abstained. Motion passed.

## 4. Review revised financing concept for Shelter Corporation.

Chair Aanenson called for the staff report. Wischnack reported.

Knickerbocker asked if there is a policy relating to tax-exempt bonds. Wischnack answered affirmatively. Knickerbocker asked if there would be requirements. It sounded like a lot of money. The 27 units met the “but, for test,” but adding on the 54 units no longer qualifies the proposal for the “but, for test,” but it might qualify for tax-exempt bonds. Wischnack explained that the city has done tax-exempt financing for entities that were also provided TIF pooling funds and tax-increment funds. The Ridge and The Overlook are examples. The policy provides standards.

Chair Aanenson asked if there are amount limits or a nexus between the other funding sources. Knickerbocker asked what should be taken into account when looking at the overall amount. Wischnack explained that it is hard to quantify tax-exempt financing mixed with TIF pooling. Isaacson explained that the tax-exempt bond policy allows for preserving an affordable development for the long term.

Jay Jensen, of Shelter Corporation, applicant, stated that Wischnack did a great job describing the project. He stated that:

- ElmbrookeTownhomes currently has tax-exempt financing issued by the city. The proposal would refinance the existing tax-exempt financing.
- The proposal did not get selected by the Minnesota Housing Finance Agency (MHFA). Four-percent tax credits are not nearly as valuable as nine-percent credit, but the only way to get them is with tax-exempt bonds. The interest rate between tax-exempt bonds and taxable bonds is about the same and it costs more to do tax-exempt bonds, but tax-exempt bonds have to be done to get the credits.
- There is no risk to the city and costs the city nothing.
- It would be FHA insured to get a 40-year term.
- The chart shows how the loss from the tax-credit proceeds would be made up. It is significant to go from $9.7 million to $5.1 million.
- An FHA, tax-exempt, 40-year mortgage is more efficient than a loan through the MHFA. An FHA, tax-exempt, 40-year mortgage saves at least 1.5 percent on the interest rate plus a longer term and lower debt-service coverage.
- HUD does a study every year to determine what the rents should be for Elmbrooke Towhnhomes. Five years ago, the rents went backwards. Now the market is as strong as it has been for many years. A study is being done now to increase the rents to support a larger mortgage.
- The non-profit would include $1,250,000 of its own money. That is how committed the non-profit is to the project.
- The project still ends up $300,000 short.
- He described the CHC Boardmembers.
- The rent comparison study should be done in the next month. He expected a $100 to $150 per month rent increase that would support a large enough mortgage so the city's $300,000 would not be necessary.
- The CHC does not have current ownership interest in the property.
- He was available for questions.

Isaacson confirmed with Mr. Jensen that the proposal would not be preservation eligible.

Isaacson supports the concept. Combining the projects makes sense. He asked if the applicant planned to submit a spring application to Hennepin County. Mr. Jensen explained that the limited partner in Elmbrooke wants to go to market with the property. The current owners of the music barn site have been very patient. There is a negative capital account. It is getting close to the time when the limited partner could sell or require the applicant to buy their interest.

Isaacson asked if the applicant requested financing from Golden Valley. Mr. Jensen answered in the negative. The applicant asked last time, but Golden Valley did not have the resources to do so.

Isaacson emphasized his support for the concept, but he thought the applicant should be pursuing other lenders. The city has made a significant commitment. He felt it would be appropriate for Minnetonka to be involved, but others need to come to the table. The proposal is a perfect candidate for Hennepin County. Mr. Jensen said that he would be happy to apply to Hennepin County. Part of the issue is sequencing. He was trying to keep the current owners on board. If another funding source would be secured, then the last money in, the $300,000 from Minnetonka, would be the first returned. The trigger date is this summer.

In response to Isaacson's question, Mr. Jensen explained that first-mortgage assumptions would be a 40-year term, FHA loan with an interest rate of 3.5 percent and 40 MIP. The rents used are based on the predicted updated rent of $115 above the current monthly rent.

Mr. Jensen explained that the rent at the music barn is $975 and $1,175 for a 3-bedroom. At Elmbrooke, 30 percent of the tenant's income is paid to rent. A 2-bedroom at Elmbrooke is $1,173. Thirty percent of a tenant's income may be $500. The tenant writes a check for $500 and HUD makes up the difference. The residents are looking forward to rehabilitating the inside of the units.

Mr. Jensen stated that the rent study has not been completed yet.

Isaacson asked for the assumption for equity pricing. Mr. Jensen said that two bids are at $102.

Knickerbocker asked why the MHFA did not fund the bid. Mr. Jensen answered that there was one phrase that was not caught that added 5 more years of affordability onto the project. He thought the application was a slam dunk because it had so many points for preservation, was located close to light rail, and contained new construction in addition to rehabilitation of an existing structure. A commissioner told him that the rules would be changed to prevent another applicant from having new construction and rehabilitation together in one project to get points on both sides. The preservation points are so significant and the selection process is so competitive that it knocked the application out of the running.

Wischnack stated that the phrasing used on an application for tax credits can eliminate an application.

Isaacson added that it is common to not get funded since four times the number of applications received are able to be funded.

Mr. Jensen said that there is a great need for affordable housing and not nearly enough resources. The best tool is the 9 percent credit which is why it is so competitive throughout the whole state.

Isaacson supports the concept. It is creative. It is premature in terms of the projections. He is not confident that there would be a gap. He asked if the applicant would consider a cash-flow loan. There was moderate cash flow being distributed at one time. Mr. Jensen answered that the cash flow disappeared. Mr. Jensen stated that the general partner could consider a cash-flow loan as a last resort after some reasonable return to the general partner. The projection of annual cash flow is $60,000. That includes a rent-value increase of $115 per month.

Knickerbocker asked why there is a need for $2.9 million for rehab for Elmbrooke. Mr. Jensen explained that the replacement reserve goes toward replacing carpet and painting as units turn over. The rent is not high enough to set aside funds to cover maintenance or a new roof. With tax-credit projects, every 15 years a substantial rehabilitation is done. There needs to be a replacement reserve large enough to cover maintenance costs for 15 years. The project is worth a lot more than $2.9 million rehab. The rents are kept artificially low. HUD inspects the properties each year. Elmbrooke scored unsatisfactory on the exterior.

Knickerbocker thought 11 percent of the project as a developer's fee is high. Mr. Jensen explained that in 4 percent tax-credit projects, the key is to get the basis as high as possible to get the most credits possible. There is also $757,000 of deferred developer fee. That goes to the non-profit organization. That comes out of cash flow over a fifteen-year period. The amount is higher than it was last time to boost the base, but it is included in the deferred developer fee to get the tax credits bigger. The deferred part of the cash flow goes to the non-profit organization.

Chair Aanenson summarized that additional information would be needed including the amount of rent compensation and the results of fund requests to Hennepin County and Golden Valley.

Isaacson did not have enough information to recommend new additional financing. The city has made a significant commitment of $500,000 early. Other opportunities need to be exhausted.

Mr. Jensen said that he could share the summary page of the rent-compensation study. Wischnack agreed. She will have Ehlers redo the "but, for" analysis for next month and have legal counsel weigh-in on the disbursement agreement that allocates Minnetonka's money to be the last used. She will have Ehlers address the issues related to rent, financial gap, developer fee, and county and Golden Valley applications.

Isaacson supports the project. This is the best way to expand potential resources. He was not convinced there would be a gap.

Wischnack requested the EDAC provide direction at the next meeting. She assumed the applicant could depend on the $500,000 provided in the original contract with the city. Isaacson noted that the city's $500,000 would be reduced if equity would come in significantly higher than originally projected or the debt financing would be more attractive than it is today.

Isaacson and Knickerbocker felt that the current deal is different than the previous one.

Wischnack will return with an analysis from Ehlers and the city attorney at the next meeting. The applicant may get information from Golden Valley and Hennepin County.

Chair Aanenson confirmed with Wischnack that the contract has to be revised if changed. The contract is good until July 1, 2016 for construction to begin.

Knickerbocker asked if TIF pooling is the only source of funds that can be used for the proposal. Wischnack said that it is the most appropriate source. The money in the development fund could also be used. The money in the Livable Communities Fund is committed. This proposal is one of the lowest amount-per-unit projects the city has funded. Isaacson said that the proposal would preserve an existing asset and create a new one. The city's goal is to produce and maintain affordable housing in the city. The proposal makes great strides in helping the city reach that goal. He was not sure that there would be a gap.

## 5. Staff Report

Wischnack provided the staff report:

- The city has 90 percent of the SWLRT plans submitted for review.
- A link was provided to the completed housing gap analysis, inventory, and draft of the housing strategy. There will be a presentation to the EDAC.
- The zoning of the Shady Oak SWLRT station was completed.
- A link was provided to the housing policy results.
- The Open to Business program report results were given. There was one direct loan of $12,000. They provided 125 hours of service for Minnetonka.
- The city has been working with Nature Works, a company that makes a corn-based product used for clothing and containers, to expand its facility by the city applying for funds from the Minnesota Investment Fund. The average job pays $30 to $80 an hour.

- Kona Grill and Redstone are under construction at Ridgedale Center.
- Applewood Pointe's foundation is done.
- The Overlook has received its certificate of occupancy.
- The Island Apartments are occupied.
- The Home2 Hotel on Whitewater was approved by the city council.
- The foundation is being done for the Highland Bank project.
- At Home Apartments on Rowland Road are framing the third and fourth floors.
- Williston Woods and Highview Place are being reviewed.
- TCF has submitted a redevelopment concept plan that was reviewed by the planning commission and city council.

## 6. Other Business

The State of the City will be presented February 10, 2016.

The SLUC is hosting a presentation on market trends February 24, 2016.

The next EDAC meeting is scheduled for February 25, 2016 at 6 p.m.

The annual boards and commissions training will be April 27, 2016.

## 7. Adjournment

Knickerbocker moved, Isaacson seconded a motion to adjourn the meeting at 7:07 p.m. Motion passed unanimously.