

**Minnetonka Economic Development Advisory Commission
Meeting Summary**

**February 25, 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: Michael Happe, Ken Isaacson, Jerry Knickerbocker, Charlie Yunker, and Kathryn Aanenson were present. Benita Bjorgo and Jacob Johnson was absent.

Staff present: Community Development Director Julie Wischnack and financial consultants Julie Eddington of Kennedy and Graven and Mark Ruff of Ehler and Associates.

3. Approval of Minutes

Isaacson moved, Knickerbocker seconded a motion to approve the January 28, 2016 meeting minutes as attached with a change on Page 3 from "The city does a study . . ." to "HUD does a study . . ." Happe, Isaacson, Knickerbocker, Yunker, and Aanenson voted yes. Bjorgo and Johnson were absent. Motion passed.

4. Review revised financing concept for Shelter Corporation.

Chair Aanenson called for the staff report. Wischnack, Ruff, and Eddington reported.

Isaacson asked if the commitment for \$500,000 is still in place. Wischnack answered affirmatively. Eddington clarified that the \$500,000 would be added to \$300,000 for a total of \$800,000. The contract has not been signed by all of the parties. The contract could be changed to include the \$300,000 and move forward.

Knickerbocker asked Ruff what he would recommend for the amount of the contingency fund. Ruff made it clear that he is not making value judgements about the amount of contingency or the amount of renovation going on. He has no knowledge of what would be necessary for the building. It is common in renovation projects for surprises to occur. The minimum standards must be met and there must be a contingency plan in case of surprises. Chair Aanenson confirmed with Ruff that the expectations need to be made clear in the private development contract.

Knickerbocker asked if it is common for cities to hire an inspecting architect. Ruff answered not for this amount of financial assistance. He mentioned it as an option.

Isaacson expected that the equity investor would have a minimum of 7 percent and more likely 10 percent.

Ruff continued his report.

Eddington reported.

Isaacson asked if the sources and uses would be based on those from 2014. He asked what mechanism would make the city's funds the last money in. Eddington explained that there would be a sources and uses submitted at the time of the bond closing. There would be a master dispersing agreement that would prioritize how monies would be used. The city's \$800,000 would be the last money used and would be reduced by cost savings or additional funds. The final sources and uses would be sent to Ehlers for review.

Isaacson asked who makes decisions if an increase in construction costs is eligible and or appropriate and or there is a corresponding reduction of capital contribution from any of the other sources. Eddington stated that the TIF grant would not be increased because it would take board authority. Wischnack stated that staff would rely on Ehler's. Isaacson did not think Ehlers would provide a subjective review. Wischnack explained that Ehlers would review the final numbers to find anything that looks different or inappropriate.

Ruff added that Ehlers was working off of the December pro forma as well.

Knickerbocker asked if \$500,000 or \$300,000 of the city's funds would be used first if needed. Wischnack clarified that both are money provided by TIF pooling. Eddington added that once the developer is closer to completing a construction contract, then the developer would request that the city issue tax-exempt bonds of the developer's behalf. At least 50 percent of the project cost must be issued with tax-exempt bonds.

Knickerbocker asked if the assessments attached to the property help qualify the site for tax credits. Wischnack agreed that there is an assessment for sewer and water improvements from years ago. Ruff was suggesting that an appraisal be done on the townhomes. It is much more difficult to get a third-party acquisition and purchase agreement today.

Isaacson asked Ruff if he reviewed an appraisal that supports a \$525 acquisition price for 54 or 46 units. He was unsure what the appraised value includes. Ruff

understood that the appraisal includes both. The appraisal looked at units with rent restrictions and no rent restrictions.

Isaacson thought inflating the price added \$.65 to the gap for every dollar. Ruff understood. The tax credits do not bring the incentives, but acquisition and rehabilitation projects being done by related parties.

Isaacson was concerned with the acquisition price that establishes the base value for both properties. He asked if there as an appraisal that supports the purchase price. Ruff answered affirmatively. There are two appraisals for three different sites. Isaacson would like to see the appraisals.

Jay Jensen, of Shelter Corporation, applicant, stated that:

- The two appraisals were ordered by the Minnesota Housing Finance Agency. The combined value of the sites is \$84,000 less than the appraisal values.
- Shelter Corporation does a lot of new construction and rehabilitation business and uses different contractors for each of them. Shelter Corporation has done \$250 million of housing construction with Frana and Company over the years. Shelter Corporation has never had a surprise that cost beyond the contingency fund.
- Shelter Corporation is working with an occupied rehabilitation expert.
- The contingency for rehabilitation is 10 percent and for new is 4 percent. If it would go beyond that, Shelter Corporation would have corporate guarantors who would write the check. The developer's fee would be reduced dollar for dollar for an unplanned expense.
- He submitted a proposal for the Affordable Housing Incentive Fund provided by Hennepin County. He is cautiously optimistic that one or two applications he submitted will come through.

In response to Isaacson's question, Mr. Jensen stated that the appraisals considered the units market rate. Isaacson would be interested in appraisal results for rent-restricted units. Wischnack asked for authorization to release the appraisal. Mr. Jensen provided authorization.

Isaacson asked if Shelter Corporation got an approved HUD rent study. Mr. Jensen answered affirmatively. It showed that the additional \$300,000 would be needed.

Mr. Jensen explained that Shelter Corporation applied for a transportation-oriented development (TOD) grant. To be eligible for the grant, the city would have to create a redevelopment district. Wischnack added that a resolution is on

the city council's agenda Monday night in support of the proposal receiving the TOD money.

Mr. Jensen stated that the two applications each requested \$250,000 from Hennepin County.

In response to Knickerbocker's question, Mr. Jensen stated that he hopes to close early this summer.

Chair Aanenson confirmed with Wischnack that commissioners may choose to recommend to staff to finalize the contract to include an additional \$300,000 for a total of \$800,000 with the caveat that it would be dispersed as Eddington described.

Isaacson noted that the equity investor would have an inspecting architect and the equity investor's interests are aligned with Minnetonka's interests.

Happe asked when the Hennepin County grants will be decided and the likelihood of the proposal being awarded either of the grants. Wischnack is hopeful, but the city would still provide a funding commitment. The amount would go down if a grant is awarded. The grants are expected to be awarded in April. Eddington explained that it would be easy to reduce the amount before the contract would be signed. Wischnack added that the contract could be amended if necessary.

Isaacson supports the project. He is not convinced that there continues to be a gap. He supports \$500,000. If the amount would be \$800,000, then he would want to explore a cash-flow loan in lieu of a deferred loan. He did not have enough information to make a recommendation of \$800,000.

Knickerbocker was comfortable with \$500,000 as a clean, separate deal. He was unsure, but wanted to give staff what they need to work with. He was willing to recommend to continue discussions regarding \$800,000 with the caveat of more information being provided.

Happe liked the project and the idea of the city supporting the project. The \$500,000 commitment feels pretty good. He felt like the conversation may be mote if the other grants are received. The additional \$300,000 may not be needed.

Yunker agreed that there are other funding possibilities which make it difficult for him to make a recommendation to move forward without knowing the outcome of those possibilities.

Chair Aanenson was fine with reviewing the contract at the next EDAC meeting. Wischnack said that the contract will be brought back to the EDAC to review with

changes in April. The \$800,000 discussion will be set aside. She needs to take a recommendation from the EDAC to the city council.

5. Staff Report

Wischnack provided the staff report:

- The city has 90 percent of the SWLRT plan comments submitted for review.
- The Shady Oak Road redevelopment project is receiving comments from residents. All of the developers said that retail would not work because of the high cost of lease space.
- The city is assisting Freudenberg Medical to get money through the job creation fund.
- The city's total construction value increased to \$163 million in 2015. The big projects for 2015 include Cargill, Highland Bank, Ridgedale Center, and Eagle Ridge Academy.
- The average value for new-house construction is \$447,000. That does not include the lot.
- There were 1,900 permits issued in 2015.
- There were 2,100 e-permits issued on line in 2015.
- Minnetonka's construction value increased by 59 percent in 2015.
- There were 8,000 permits issued in 2015.
- There were 545 nuisance complaints in 2015.
- Planning staff processed 116 land use applications.
- Solicitors are required to receive a license from the city and carry picture identification.
- There were 57 meetings, 247 agenda items, and 17 neighborhood meetings in 2015.

6. Other Business

Alisha Grey will be starting on March 14, 2016.

The next EDAC meeting is scheduled for Wednesday, March 23, 2016. Happe is unable to attend that meeting.

7. Adjournment

Knickerbocker moved, Isaacson seconded a motion to adjourn the meeting at 7:30 p.m. Motion passed unanimously.