

**Minnetonka Economic Development Advisory Commission
Meeting Minutes**

**January 26, 2017
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, Jacob Johnson, Jerry Knickerbocker, Charlie Yunker, and Kathryn Aanenson were present.

Staff present: Community Development Director Julie Wischnack and Economic Development Housing Manager Alisha Gray.

City councilmember present: Tony Wagner.

3. Approval of October 27, 2016 Minutes

Knickerbocker moved, Happe seconded a motion to recommend that the EDAC approve the minutes from the October 27, 2016 meeting as included in the agenda with a modification on the top of Page 7 to change "Isaacson asked" to "Happe asked." Bjorgo, Happe, Isaacson, Johnson, Knickerbocker, Yunker, and Aanenson voted yes. Motion passed.

4. Cloud Nine Condominiums Housing Improvement Area Request

Gray reported. Julie Van Guilder, of Multiventure Properties, and Doug Strandness, the association's consultant, were also available for questions.

A short break was taken.

Chair Aanenson asked about stability and preventing foreclosures and about the latest inspection of the building. Gray explained that the current association has a cap on the number of units that can be rented at 20 percent.

Knickerbocker confirmed with Gray that the 15 year and 20 year bond term estimate figures were provided just to provide a comparison. Wischnack added that the city council may consider if the fees for a 15 year term would be doable.

Doug Strandness, representing the homeowner's association, stated that Cloud Nine had a difficult start. Three people are in prison from fraud involved with the initial sale of the units. The housing crash in 2008 was a difficult time. Those issues are now behind

it. The conversion of the building from office to residential caused a couple of issues. In addition, the initial dues were unreasonably low, including an unreasonably low annual contribution to the replacement reserve. The major nondisclosure on the part of the converter was that the office building would need a major overhaul. That assumes it is being maintained in the meantime. There is no evidence that any maintenance has been done to the building. The issue became evident in 2011. The curtain wall is leaking so much air that the engineers cannot figure out how the heating and cooling systems are doing in the building. They are comfortable with a \$100,000 allowance for the work, but it could be significantly more than that which is why there is a significant contingency worked into the deal.

Knickerbocker asked if the association is ready to put any money into the renovation. Strandness stated that the parking structure is not part of the deal, but engineers have estimated that there could be \$600,000 worth of work that needs to be done to the parking structure. There are close to 5 parking spaces for every residence in the building. The association is working to figure out what to do with the parking ramp. The association will have the money to overhaul the parking structure in the next few years. Nothing was done to maintain the parking structure while it was used by an office building. The association may be back in the future in a totally different context because they are exploring the possibility of selling the whole thing to a developer and working something out to create a small parking structure and the rest of the space being used for something else. The biggest challenge is to make sure to leave the association in a place to be able to take care of everything else in the next 20 to 30 years.

Wischnack added that the contract would have language that would outline what would happen if the association would experience a windfall and payback requirements. The problem is that the curtain wall, HVAC, and elevator work needs to be done soon. Chair Aanenson agreed. There will be a safeguard to payback the city if the association would make a profit by selling some of the parking ramp property.

Strandness clarified that the association proposed that there be an interim loan for 18 to 20 months. He has a bank that is willing to do that as long there is a takeout commitment by the city. Part of the reason for doing that, is that the association wants the parking structure resolved one way or another by fall of 2018. If there would be a net gain, then that would lower the bond amount.

Isaacson asked if there would be a security interest on the bonds tied to the condominiums. Strandness stated that issue has been wrestled with. The HIA would be tied to the condominium units themselves. Isaacson favored some sort of security interest on the parking structure which could be released and provide the city with control. Wischnack agreed. Something could be written by the city attorney to do that.

Isaacson asked Strandness if the association had received any negative feedback and if he anticipated having the minimum 60 percent required in support of the proposal. Strandness stated that well over 60 percent of condominium owners have attended the

association meetings. Van Guilder stated that there is enough approval to move forward.

Isaacson felt that the use of the financing structure is appropriate for this situation. The value of the building and housing stock in Minnetonka would be maintained.

Happe asked for the current replacement reserve for the association. Van Guilder answered \$1 million.

Happe asked what changed since 2011. Strandness stated that the building was still working to recover from the housing crash in 2011. He provided Wischnack and Gray with a detailed sales history. The current reserve did not exist in 2011. There was little or nothing. It has been a struggle to build the reserve. The association went through three management companies before settling on Multiventure two years ago. He has no vested interest in Multiventure, but it is one of the solid companies and has moved things forward in a big way.

In response to Happe's question, Van Guilder stated that the building is 100 percent occupied and is at maximum rental capacity. There have been a lot of changes to the rental policy. In the past, the rules were not as strict. Now, a unit must be owner occupied or a new renter must be found in 60 days. If the unit is sold, then the right to rent is eliminated. The year before Multiventure started managing, the building wrote off \$135,000 of bad debt. There were 40 judgements on file against previous homeowners. Multiventure has been successful in collecting some of those.

Happe thought the building looks pretty nice. The parking ramp looks closed. The lobby looks nice. He asked why the elevators were not working. Van Guilder explained that the elevators have not received any updates and all stopped working at the same time a couple months ago. There is an elevator consultant working on it now to determine if four elevators are needed. Elevators are expensive and these have not been maintained.

Strandness explained that the association is trying to keep the project cost to repair the elevators below \$925,000. He shared a detailed, engineering study that covers a 30-year reserve plan with Gray. Everything is on track except for the curtain wall and the elevators. Van Guilder stated that a new reserve study would be done this year. It is required that one be done every three years.

Chair Aanenson asked what the assessments would do to the affordability. Gray explained that the assessments provided in the chart are the highest possibilities. The project costs are anticipated to be less than the chart anticipates. Part of the HIA process is setting a maximum fee and, as the approvals are reviewed by the city council, then the amount can be reduced, but it cannot be raised. Wischnack explained that this fee, plus homeowner's dues, plus what should be in the affordable range probably would not meet affordability requirements unless the city provides financial help. She will bring a better break down of the affordable units next time. Chair

Aanenson noted that stabilizing the project is the main goal. Wischnack noted the uniqueness of the product and importance of keeping the costs down.

Happe asked if staff routinely visits the site. Wischnack explained that building inspectors would visit the site to see that the building permit would be followed.

Happe asked what would happen if the city did not approve the request. Strandness stated that the most likely scenario would be that the association would have to at least double the amount paid in dues to rapidly generate the money over five or six years to get the work done. Bank financing is not a practical option because banks do not loan to an association for more than five years at a fixed rate and banks have a standard to judge how much to loan to an association because an association cannot give a secured interest in anything other than the cash flow and reserve in the bank. The HIA uses the property tax system to secure the payments.

Strandness noted that the association is not pushing for the prepayment option. Condominium units turn over faster than single-family houses. The curtain wall issue has been a cloud hanging over the building. It has had an impact on sales. There may be a burst of sales once the issue has been resolved. Wischnack explained that the city looks at prepayment because the sellers check with the city every time and prepayment is preferred for internal finance. The bond route would have no prepayment option.

Strandness added that Minneapolis got the county to show the HIA fees on their own line instead of as a special assessment. Wischnack agreed that the city has called a similar assessment a "special service district."

Isaacson supports the proposal. It is a reasonable and appropriate use. He reinforced his support of having a security interest in the parking ramp. He suggested having a condition of the financing restrict the association from increasing significantly the percentage of allowable rental units. Chair Aanenson agreed. Wischnack noted that could be part of the agreement with the city.

Knickerbocker felt that the request is reasonable. The 20-year bonding period makes sense to not put such a burden on the present owners. The scope of work will become more detailed. He was comfortable with whatever amount would get the job done right. Staff will use the experience gained from Cedar Ridge to add the necessary clauses to make sure all contingencies would be covered.

Happe said that the facility looks nice. He struggled with the association not doing enough the last six years. It needs work, planning, and someone to take responsibility for it. He did not support the city helping. He did not think that it is an appropriate use of city funds.

Gray explained that the next step would be the association formally submitting the application and \$5,000 fee. There would be a number of council actions required to move the project forward. The association is looking at a construction loan. The city's

financing tool would come in late 2018. A developer's agreement would be reviewed by the EDAC.

Wagner provided that councilmembers may ask how financing a loan with fund balances would affect the city's flexibility in the future for funding capital improvement projects and impact on the cash flow.

Strandness thought that it would be good to share the sales history summary. The prices at Cloud Nine have only started to recover the last three years. The median resale price in 2016 is still only 70 percent of what the units sold for originally. In a real sense, it is still in recovery mode. They are on solid footing now, but there is a huge deficit to deal with right now.

5. Staff Report

Gray and Wischnack reported:

- Funding agreements were approved for the SWLRT for storm sewer piping casings, fencing upgrades, and paint colors on retaining walls.
- Minnetonka hosted a contracting open house in December and over 200 contractors attended to learn the bidding process.
- Metro Transit is renegotiating its contract in 2017.
- The Open to Business Program served 33 clients for a total of 157 hours of technical assistance in 2016.
- Lolli and Pops, Claires, J. M. Kremps Adventure Store, and other new stores are open at Ridgedale Shopping Center.
- Station Pizzeria is now open.
- Updated new construction projects.
- The city council allocated \$4,000 for HomeLine through the general fund.
- The Small Projects Loan Program met its required spend down of CDBG funds in December and will begin advertising for the new round in March. The Minnetonka Home Enhancement and Welcome to Minnetonka programs had four loans close in 2016 and five down-payment assistant loans in 2016.
- Homes Within Reach acquired two homes at 2402 Ford Road and 13823 Knollway Drive for a total of 55 properties in Minnetonka.
- Staff is working with Ron Clark Construction on a 54-unit, multi-family housing, 100-percent affordable project on Shady Oak Road. Renters would be restricted to 60 percent of median income. The rents would range from \$800 to \$1,200. Staff is now working with Ron Clark to negotiate the price of the property. The EDAC will review any special financing. Commissioners are invited to attend the neighborhood meeting.
- There was a neighborhood meeting for a proposal in Opus for redevelopment of a building to provide 240-unit, multi-family housing with half affordable and half market-rate units.

6. Other Business

The next EDAC meeting is scheduled for Thursday, February 23, 2017 at 6 p.m.

Gray thanked Aanenson and Bjorgo for their service to the city and presented each of them with a plaque. Wagner thanked them for their service. The mayor appointed Isaacson to serve as the chair for the next meeting.

7. Adjournment

Knickerbocker moved, Johnson seconded a motion to adjourn the meeting at 7:40 p.m. Motion passed unanimously.