

**Minnetonka Economic Development Advisory Commission
Meeting Minutes**

**September 7, 2017
6 p.m.**

1. Call to Order

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

2. Roll Call

EDAC commissioners present: Michael Happe, Ken Isaacson, Lee Jacobsohn, Jacob Johnson, Jerry Knickerbocker, Charlie Yunker were present. Melissa Johnston was absent.

Staff present: Community Development Director Julie Wischnack, Economic Development Housing Manager Alisha Gray, consultant Stacie Kvilvang with Ehlers and Associates, and consultant Julie Eddington of Kennedy and Graven.

Councilmember present: Tony Wagner.

3. Approval of July 27, 2017 Minutes

Knickerbocker moved, Johnson seconded a motion to recommend that the EDAC approve the minutes from the July 27, 2017 meeting as included in the agenda and modified by the change memo dated September 7, 2017. Happe, Jacobsohn, Johnson, and Knickerbocker voted yes. Yunker and Isaacson abstained. Johnston was absent. Motion passed.

4. Shady Oak Redevelopment

Gray reported.

Knickerbocker asked if the new contract would include a termination point if activity did not begin. Wischnack stated that commissioners could recommend 2018 or 2019. Chair Isaacson was comfortable with a two-year time frame. Commissioners agreed with the concept of adding language to the contract requiring the developer to request an extension if the first round of tax credit allocation is not awarded. The commissioners agreed that the timing of construction should not be open ended.

In response to Knickerbocker's question, Wischnack explained tax-increment pooling. Funds are returned to the city through the purchase and reimbursement through TIF pooling. Money is expended through the development account and special assessment account which are not general taxation funds. It is an accounting issue to make sure that funds are returned to the right place.

Kvilvang explained how funds would be transferred at the closing.

Jacobsohn stated that the contract should include language that the purchase price of \$734,000 is reflective of the market appraisal.

Isaacson asked if the surplus cash calculation, to repay the TIF Note, could be prepared by the project accountants identified in the LPA. In response to Isaacson's question, Kvilvang stated that the audit could be prepared by the accountant for the partnership.

Isaacson suggested that the developer apply for Hennepin County HOME funds and Affordable Housing Investment funds. Kvilvang said that could be reflected in the contract.

Mike Waldo, Ron Clark Construction, applicant, stated that the MN Housing Standard is structured for 50 percent of the cash flow going to the owner and 20 percent of the excess going to the loan entity. The applicant may be back if the project does not receive county or clean-up funds. There may be a stronger take from the cash flow at that point. He would apply June of 2018 for tax credits. It would be an April close and a May of 2019 start. If not awarded in 2018, then they would apply again and possibly receive an award in October of 2019. Closing on the land in December of 2019 would probably be doable, but, realistically, the start of construction would not occur until August. He could look at HOME funds. There are strings attached there. Getting an award before the application would be key. Chair Isaacson said that their typical cycle is January to April. Mr. Waldo said that it would limit the rents to a full 30 years at 50 percent, but, he would take a look at it. Chair Isaacson said that the developer could limit the HOME funds to a certain number of units, so the rent restriction would be approximately 2 to 4 units. Mr. Waldo stated that staff has made everything clear.

Jacobsohn was inclined to stay at 50 percent.

Chair Isaacson was inclined to leave it as it is at 50 percent. If there would be a problem in a year or at the time of the award, then that would be the appropriate time to look for a change prior to close.

Chair Isaacson invited the public to provide comments.

Andy Braun, 4408 Crawford, stated that:

- The EDAC commissioners are the experts. Some of it makes some sense. A lot of it does not make a lot of sense.
- One of his concerns is that the site is publically owned land. Developers are being asked what they want to do with it rather than residents.
- Sustainability should be the first priority, but it is totally ignored.
- After 10 years, there would be a 10 percent gap and after 20 years, there would be a 20 percent gap. The measure of affordability is crawling up year by year and becomes unaffordable pretty quick. Those numbers do

not seem to add up. Chair Isaacson said that revenue would go up 2 percent and expenses 3 percent, not the other way around. Mr. Braun said that the projected increase in the tenants' income would be 2 percent and the projected increase in rent would be 3 percent.

- He asked someone to explain how public funds would be used to buy public land "gifted" to a developer.
- The proposed units would be valued more, at \$260,000, than the surrounding neighbors' properties at \$220,000.
- It looks like the developer would get an 8 percent profit. That seems reasonable.

Mr. Waldo explained the rigid standards that would have to be met in accordance with Minnesota Housing's Green Communities Act. It would be a very sustainable building. He was very proud. The budget assumes a 2 percent increase in income or rent each year and a 3 percent increase in costs. The reality is that there have only been rent increases 2 of the last 6 years.

Kvilvang explained that the city paid the fair market value to the property owner and relocated the businesses. On top of that, the city paid for demolition. The developer is paying for the value of the land based on an appraisal for \$734,000. It is not unreasonable, unrealistic, or uncommon for the current market. In redevelopments, there are, typically, additional sources of funds.

Chris Aanestad, 4255 Oak Drive Lane, stated that:

- He would like to see the appraisal.
- He did not understand TIF pooling. He thought it is a shell game. It is his land and money.
- The site needs mowing. He thinks the city is doing that on purpose.

Wischnack stated that she would e-mail Mr. Aanestad the appraisal.

Wischnack explained that the city council made a policy decision to determine the source of the funds. Wagner provided that the council made a decision in 2013 that workforce housing is a strategic value for the city's workforce community. The Boulevard Gardens TIF district was set up to fund activities to provide workforce housing. The benefit of that decision is that the funds could be used anywhere in the city. That TIF district massively over-performed. The funds would not be used on a project if it did not include the restriction that tenants must have an income equal to or lower than 50 to 60 percent of the average area median income (AMI).

Wischnack reviewed the slide that listed the purchase price at \$1.9 million. The Hennepin County contribution for the road project and the city's costs for the road project were subtracted. Relocation costs were estimated at \$700,000; \$800,000 for purchase out the door; and costs for taxes and professional services.

Mr. Aanestad asked if the developer would pay more for the land if it would go up in value in 2019. Wischnack said that the EDAC could consider including a price increase in the contract if the value of the land would increase. Staff met with Mr. Johnson during the road project. There were no negotiations for the purchase of Mr. Johnson's property since he did not provide a purchase price.

Chair Isaacson thought the appraised value would be a fair approach. There is a time limit for this deal.

Knickerbocker agreed with Chair Isaacson. The signed contract should be upheld. He did not support an escalator clause.

Johnson agreed with that. It would also protect the city from a loss due to a decrease in property value.

Happe liked the idea of an escalator clause.

Eddington has never seen an escalator in a purchase and redevelopment contract. In particular, in the affordable housing world, that would be difficult because they have to be proforma.

Stephen Philbrook, 4222 Oak Drive Lane, stated that:

- He wants to know why he is continually being lied to.
- Mr. Johnson said that he would be willing to work with staff at the last meeting.

Mr. Waldo stated that he met with Mr. Johnson one or two times and the architect for the project met with him once. The plan that Mr. Johnson supports does not facilitate an access point, so the sale price would be way higher than what could be justified for an access point. Mr. Waldo would be happy to consider a sale price, but, based on past conversations, the property would not be priced to be used as an access point.

Mr. Braun stated that he wants the facility to have net zero waste, zero landfill, and use solar and geothermal power.

Abby Holm, 4234 Oak Drive Lane, stated that the safety and security of the neighborhood road has extremely high value. Putting in the stoplight would be worth millions of dollars of safety for the neighborhood.

Happe confirmed with staff that the motion would recommend to the EDA the use of TIF poolings funds and that the contract is appropriate to execute the funds with the changes provided in the motion.

Jacobsohn moved, Knickerbocker seconded a motion to recommend that the city council adopt a resolution approving the contract for private development for Shady Oak Redevelopment with modifications to the commencement and completion dates to accommodate the tax credit application and tax credit award dates; have the project accountant provide the cash flow computation; provide market value qualification language for the purchase price; and require the developer to submit additional funding source applications for HOME and AHIF funding. Happe, Isaacson, Jacobsohn, Johnson, Knickerbocker, and Yunker voted yes. Johnston was absent. Motion passed.

5. Staff Report

Gray reported:

- Agreements were completed with DNSF and Twin Cities and Western Railroad to allow the SWLRT project office to apply for federal funding.
- The civil bids were opened the week of August 21, 2017 for the SWLRT. The bids will be awarded in November.
- The park and ride was open for the state fair express.
- Staff meets quarterly with MTC to discuss route improvements.
- Cherrywood Pointe is under construction.
- Groveland Elementary is still under construction.
- The Ridgedale Library is closed for construction.
- Work is being done to prepare for Ridgedale restaurants. The parking lot traffic pattern is being modified.
- Woodlands on Linner Avenue is under construction.
- Eldorado Villas, The Rize, Highview Place, and Williston Woods West are under construction.
- Highland Bank is complete.
- Prestige Preschool and Unmapped are now open.
- Hopkins High School construction is complete.
- Midwest Mastercraft has applied for a conditional use permit for a boat dealership.
- Masaba Capital was approved by the city council.
- Minnetonka Hills received final approval.
- Kai Sushi was approved on Minnetonka Boulevard.
- Dash Fire, a micro-distillery, has applied for a conditional use permit at the former Lucid Brewery site.
- The Shady Oak redevelopment project will be reviewed by the planning commission immediately following this meeting. The EDA and city council will review the Shady Oak redevelopment project September 25, 2017.
- Open to Business is advertised on billboards now.
- Hennepin County is looking for participants in the Economic Gardening program. It is a mentorship program to provide second-stage growth companies with research and peer to peer advice. There is more information on Hennepin County's website.

- The Greater Metropolitan Housing Corporation announced that it would be closing, so staff is working with the Center for Energy and Environment to get the loan programs back up and running. Changes are being looked at for the program guidelines.
- The city received its Community Development Block Grant award, so staff has been processing the applications. The city hopes to do 24 loans this year.

6. Other Business

The next EDAC meeting is scheduled for Thursday, October 19, 2017 at 6 p.m.

7. Adjournment

Jacobsohn moved, Knickerbocker seconded a motion to adjourn the meeting at 7:15 p.m. Happe, Jacobsohn, Johnson, Knickerbocker, Yunker, and Isaacson voted yes. Johnston was absent. Motion passed.