Unapproved
Minnetonka Economic Development Advisory Commission
Meeting Minutes

November 27, 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, Melissa Johnston, and Jerry Knickerbocker were present. Jacob Johnson and Charlie Yunker were absent.

Staff present: Community Development Director Julie Wischnack, Economic Development Housing Manager Alisha Gray, consultant James Lehnhoff with Ehlers and Associates, and consultant Gina Fiorini of Kennedy and Graven.

Councilmember present: Tony Wagner.

3. Approval of September 7, 2017 Minutes

<u>Knickerbocker moved, Jacobsohn seconded a motion to recommend that the EDAC approve the minutes from the September 7, 2017 meeting as included in the agenda.</u> Happe, Jacobsohn, Johnston, Knickerbocker, and Isaacson voted yes. Johnson and Yunker were absent. <u>Motion passed.</u>

4. Dominium Apartments Concept Plan and Financial Request

Gray and Lehnhoff reported.

Knickerbocker stated that he had no problem with the request. The memo explained things clearly. He asked if the tax bill being considered by congress could have an effect on the tax credits. Lehnhoff answered affirmatively. The current house bill would remove private-activity bonds for uses with these types of projects.

Ryan Lunderby, of Dominium, agreed with Lehnhoff. The house version of the bill would eliminate private-activity bonds. The senate bill draft kept private-activity bonds. It is being speculated that the senate bill may drive tax reform, but that has not yet been determined. The vote is scheduled for December 8, 2017 which would allow the tax reforms to be done before the end of the year. Advocates in the industry are contacting legislators to request the private-activity bonds be preserved. If bonds would be eliminated, then this project would not go forward.

Knickerbocker noted that the developer would still have a deficit. Due to the uniqueness of the project and the cost of the land, he thought that the city's 30-year requirement for affordable rents and income requirements may not be reasonable. He suggested reducing the affordable restrictions to 26 years to coincide with the term of the TIF district. Lehnhoff explained that would not have an impact on the TIF value. A bank would limit a TIF-district term to up to 26 years.

In response to Happe's question, Lehnhoff explained that the developer would put a large percentage of the developer and contractor fees back into the project to make the gap as small as it reasonably can. The deferred developer fee is paid back to them through cash flow over the next 15 or more years depending on how long it takes to pay back the deferred amount. The reason that developers using tax credits will do that is that it would boost how much of the 4 percent tax credit equity is generated. There is a financial benefit to the project to do it that way versus reducing the fee to the net amount up front.

Happe asked if the developer fee would be $9 million up front and $10 million deferred, so the total would be $19 million. Lehnhoff explained that Dominium would collect a contractor fee and a developer fee. Within the program requirements, there are limits that MHFA has set. The fees would be below the maximum allowed limits for the total amount. The total fees would equal $13.6 million and 80 percent of that would be deferred and, essentially, put back into the project.

Lehnhoff reviewed Page 2 of the memorandum that listed the contractor total fee of $4,578,000 and developer fee of $9,100,000 for a total of approximately $13.7 million. Of that, $10.8 million would be put back into the project. In reality, the net fee is not received up front. The fee would be received over time as performance requirements would be met.

Happe confirmed with Lehnhoff that $3.6 million or less would be received up front. The gap would total approximately $900,000 or $2,300,000 depending on inflation.

Happe asked if the proposal would be contingent on the SWLRT being completed. Mr. Lunderby said that the project would move forward without the SWLRT. There is enough of a demand for affordable housing that it would still move forward.

Mr. Lunderby appreciated the feedback and the commissioners' time. The proposal is a unique opportunity to bring affordable housing, which is in such great demand, to the Opus area near all of the great employers. Dominium has been around for 45 years and would own the proposal for the length of the TIF term. He appreciated the commissioners' consideration.

Chair Isaacson asked if the rents and incomes would be required to meet affordability standards for 30 years. Gray answered affirmatively.

Knickerbocker thought a better use of the land would be for business, but the market may not indicate that.

Wischnack invited commissioners to review the housing report which identifies “Class B” properties in the city which have similar rents to the rents designated as affordable. There are a lot of apartments in the city that have similar rent. There has been no new stock in this arena for a long time.

Gray provided a staff report on the EDAC subcommittee meeting.

Mr. Lunderby stated that the market right now has low interest rates and high-equity pricing for tax credits. This market may not last forever. Looking at the Opus development overall, this proposal would provide a chance to bring 475 affordable-housing units into the area. That might not be possible in the future when land prices increase even further. The project would provide housing for seniors and workers. There would probably be more market-rate development in the future that would provide a mix. Services typically follow the creation of households. Once the area starts to turn over, the demand would increase for services for the residents.

Commissioner Happe asked if a mix of affordable housing and market-rate units had been considered. Mr. Lunderby stated that there is an incredible demand for affordable housing for independent seniors and general occupancy.

Commissioner Happe asked what services would be available for seniors. Mr. Lunderby stated that the senior units would be restricted to age 55 and above. The finishes would be high end and look like a market-rate project. There would be club rooms with community kitchens, salons, theaters, craft rooms, a library, and outdoor spaces. Exam rooms would be available for routine exams by health professionals. Transportation would be provided by a shuttle to bring residents to appointments and shopping.

Wischnack reviewed the housing demand report which indicates that there is a need for 370 units of independent senior housing and an additional 320 units of independent senior housing in the next 5 years to 7 years.

Mr. Lunderby explained that the annual debt service on the Series B TIF note would be approximately $700,000. Typically those are underwritten by the lender with a little bit of debt coverage on the TIF increment as well to provide a cushion built into the financing vehicle. If taxes or the increment would be lower than that, then Dominium would cover that amount. Dominium’s properties in Hennepin County that were built in the early 2000s averaged property tax increases close to 4 percent per year.

Chair Isaacson noted that the equity investor would look closely at the underwriting because it would have $30 million in equity in the deal if the debt would go bad. Mr. Lunderby agreed.

Gray continued her presentation.

Johnston asked what the city's tax capacity is at currently. Wischnack answered 1.3 percent of the total tax base. Other communities of similar size have a much higher number.

Jacobsohn reported that those present at the subcommittee meeting agreed that the proposal would definitely fit within the TIF policy. They agreed with the 2 percent inflation partially because it reduces the request for additional funds from the city and puts the risk with Dominium. That was an easy decision.

Chair Isaacson agreed. Subcommittee members felt the proposal met the requirements of the TIF policy. The amount is large, but when it is broken apart and put in context, it would be at the mid-point or low end of historical support for this type of project. There was general support. The memo addressed that the three members of the subcommittee felt that the proposal would meet the TIF policy and the request. It would be consistent with the city's treatment of similar projects.

Knickerbocker agreed that the request is appropriate and he supports the $7,611,000, 26-year TIF term with 2-percent-inflation factor.

Happe would be more comfortable with a mix of affordable and market-rate units. He was not comfortable with the gap in the financing. The developer is taking all of the risk with the interest rate, but he thought it would be better to balance the proposal and reduce the fee. Chair Isaacson explained that the developer could do so, but, there is a catch-22 situation since the developer fee is on an eligible basis which translates to equity. The growth rate may be a better way to describe it than interest. He was not sure that the liability on the second mortgage is any different than the first mortgage.

Mr. Lunderby explained that the developer fees on the uses' side of the equation generate the basis which translates to equity. Of the amounts that are in the contractor fee and developer fee, approximately 30 percent to 40 percent of that is coming from federal resources that reduce the amount needed from a local or state level. Reducing the fees would have a negative impact creating a wider gap. An option, as listed in the report, is that the $880,000 gap would be Dominium's responsibility to figure out. Dominium has made a request to the city through deferment of park dedication and other resources to fill that. Those dollars would be a last-in situation. At the very end of it, Dominium would have an opportunity to defer more fees and solve the $880,000 gap. There is a threshold level of paid developer fee that the investor-community looks to have to know that the deal would be feasible. That is what is being balanced.

Chair Isaacson said that there are a number of things still in play. The interest rate has not yet been locked. He would not speak on gap financing. Determining what the estimate for current proceeds from equity are and what the interest rate on the mortgage would be could easily swing 50 basis points. There may not be a gap if the interest rate is right.

Lehnhoff clarified that during the meeting, “interest rate” was mistakenly spoken when the speaker intended to refer to “inflation” when referring to the TIF district.

5. Staff Report

Gray reported:

- A ribbon cutting was held at The Farm and Vine, a restaurant in the Highland Bank Building.
- The Metropolitan Council rejected the bids and advertised for new bids that are due in January. The goal is to award the bid in April of 2018. A corridor protection wall is being required by DNSF to protect the freight rail from SWLRT. A supplemental environmental review will be done.
- There is a road reconstruction project planned for next summer near Highland Bank. The MTC bus stop will be moved to line up with the crosswalk. Adding future bus stops on Ridgedale Drive was also discussed.
- Cherrywood Pointe is nearly complete.
- Mesaba Capital had a groundbreaking last week.
- Mastercraft should begin construction soon.
- Total Wine and Cheesecake Factory are open.
- The Open to Business Program received 96 views on the website. New ads will be in the *Minnetonka Memo*. In 2018, a business newsletter will be created.
- The economic gardening program through Hennepin County has two Minnetonka companies.

Beth Kodluboy, executive director of HOME Line, stated that HOME Line has been serving Minnetonka residents since 1992. HOME Line provides legal advice specific to keeping residents in a safe, decent, and affordable home. HOME Line helps prevent callers from making poor decisions that may lead to eviction. In 2016, it served 132 families in Minnetonka, prevented 7 evictions, and saved families over $17,000 in returned damage deposits and monies owed for security deposits and repairs. Most of the callers have low incomes. In Minnetonka, 80 percent of the callers met HUD’s low income standards. Financing repairs, security deposits, and breaking leases are the top three issues in Minnetonka. HOME Line estimates to help between 132 and 150 families in Minnetonka in 2017. November has been a record month. The cost would be between $5,200 and $5,800. The number of foreclosures has gone down to 1 or 2 a year. She was available for questions.

Happe thought the service is important.

Knickerbocker asked when Hennepin County will make its allocation of CDBG funds. He asked what would happen if other non-profits also request funding. He did not think it would be timely to act on this request.

Gray explained that Hennepin County will make its allocation of CDBG funds in March of 2018.

Wischnack explained that HOME Line is not eligible for CDBG funds. This process has always been done for HOME Line which utilizes money from the development fund.

Knickerbocker asked if the city could enter into a contract with HOME Line so that it would be treated as a contract for services rather than HOME Line having to request money each year. Wischnack said that could be considered for next year. The 2018 budget will be adopted next week.

Johnston moved, Jacobsohn seconded a motion to recommend that the city council allocate $5,200 to HOME Line. Happe, Jacobsohn, Johnston, and Isaacson voted yes. Knickerbocker voted no. Johnson and Yunker were absent. Motion passed.

Gray continued the staff report:

- Staff is proposing that The Mariner receive $210,000 for its project and $67,000 go to WHALT of the funds provided by the Metropolitan Council.
- The loan programs are being moved over to the center for energy and environment for administration. Residents can apply on line or request a paper application.
- Minnetonka Heights has a buyer. The buyer is looking at keeping most of the rents at affordable levels, but rents could change to market rate. Chair Isaacson was curious if the purchase price was based on affordable or marketable rates.

6. Other Business

The next EDAC meeting is scheduled for Thursday, December 7, 2017 at 6 p.m.

7. Adjournment

Jacobsohn moved, Johnston seconded a motion to adjourn the meeting at 7:30 p.m. Happe, Jacobsohn, Johnston, Knickerbocker and Isaacson voted yes. Johnson and Yunker were absent. Motion passed.