Unapproved
Minnetonka Economic Development Advisory Commission
Meeting Minutes

Nov. 8, 2018
6 p.m.

1. Call to Order

Chair Yunker called the meeting to order at 5 p.m.

2. Roll Call

EDAC commissioners present: Jay Hromatka, Lee Jacobsohn, Melissa Johnston, Jerry Knickerbocker, and Charlie Yunker were present. Jacob Johnson was absent.

Staff present: Community Development Director Julie Wischnack, Economic Development Housing Manager Alisha Gray, and Economic Development Coordinator Rob Hanson.

Councilmember present: Deb Calvert.

Consultant present: financial consultant Stacie Kvilvang of Ehlers and Associates.

3. Approval of Aug. 9, 2018 Minutes

Knickerbocker moved, Hromatka seconded a motion to recommend that the EDAC approve the minutes from the Aug. 9, 2018 meeting as included in the agenda. Hromatka, Jacobsohn, Johnston, Knickerbocker, and Yunker voted yes. Johnson was absent. Motion passed.

4. Doran Apartments

Gray reported.

Ryan Johnson, Doran Companies Chief Financial Officer, stated that:

- Staff encouraged the applicant to include affordable units. The first proposal of 235 units included 20 percent of the units being affordable with 50 percent AMI. Through that analysis, the applicant established that $3.95 million would be the TIF request. That would have been about $2,800 per unit, per year. After receiving feedback from the city council, planning commission, and neighbors, the proposal was scaled down to 190 units with 10 percent of those being affordable units. The calculation for those 10 percent was tax abatement versus TIF. That proposal would equal $2.4 million and $4,000 per unit.
- The current proposal is at $1.760 million which would be just over $6,500 per unit.
- The projects around Ridgedale, including The Island and Redstone, do not have affordability requirements. This would be the first Class A within that submarket that would contribute to the affordability requirements set by the city in 2004.

- Tonka on the Creek and At Home Apartments were projects mentioned in the staff report. One was approved four years ago and the other two and a half years ago. The world has changed since then. Construction costs are up over 15 percent and interest rates have increased. Those are not proper comparisons to what is happening today on the economic side.
- He provided a report showing return parameters. He agreed with Kvilvang's analysis on the cash on cost return included in the staff report of roughly six percent for market-rate units. Another metric is cash on cash return which is cash flow divided by the initial equity investment. Significant drivers are interest rates, debt leverage, and reduced equity. Less equity equals a higher cash-on-cash return. Higher costs and interest rates equal less equity and cash-on-cash return.
- He provided a couple different options with different interest rates that moved the leverage point (increase debt, lower equity) to stabilize cash flow. As the interest rate is reduced, there is a big difference and impact to the project. Mezzanine financing and leveraging higher (more debt) could be considered, but that is not the applicant's intent.
- He explained how lost income relates to affordable units and lower value. He calculated that there would be $87,000 in lost income at five percent which would equal $1.752 million in lost value. The proposal request is for $1.760 million in assistance.
- He provided a report on cap rates and a report from a local appraiser who confirms that as affordability is added, then cap rates go up, values go down.
- He estimates that the lost value of the building with 20 percent of the units affordable would be $9.8 million.
- He then goes on to mention that the $4.8 million in proposed TIF assistance would not come close to making up the difference of having 20 percent of affordable housing because the value reduction would be so significant. The illustration is based on a 5.25 cap rate with 20 percent affordable units.
- The proposal should be looked at on its own rather than compared to past projects.
- He was available for questions.

Knickerbocker asked if the applicant considered going from 50 percent AMI to 60 percent AMI or going from 10 percent affordable units rather than 20. Mr. Johnson answered in the affirmative. He explained that 5 percent of the units at 60 percent AMI were requested because if the applicant would go to 10 percent units at 50 percent AMI, then the gap would grow. Tax abatement over 20 years would not fill that gap. The loss in valuation would not be recovered. As density has shrunk, everything has been compressed.

Knickerbocker understood the argument of looking at the project on its own rather than comparing it to past projects. The two projects referenced in the staff report were constructed on undeveloped land. Mr. Johnson said that the applicant felt good about the 168-unit project. There are a 100 different reasons why the current proposal's cost basis is different from previous projects, but, at the same time, he did not know if the assistance per unit should be tied directly to the city's previous project approvals. Perhaps projects in the future would be higher because of the construction-cost market and interest rate hikes.

Jacobsohn asked if the project would still be built with no affordable housing component and no assistance. Mr. Johnson answered that numbers would work to move forward with a project that doesn't include affordable housing or city assistance.

Hromatka asked Kvilvang if five percent is a reasonable cap rate to use for a project like this. Kvilvang said that there is currently a cap rate range of five percent to six percent for similar projects.

Kvilvang reminded commissioners that the city is not required to give tax abatement or tax increment financing to a developer. Public assistance may be provided in return for something to help the city reach a goal such as redevelopment of a blighted property or affordable housing. She gave a presentation that reviewed the affordability requirements for similar projects. Overall, the projects she reviewed were done with even higher development costs and lower rent structures, but were able to be done with a smaller amount of assistance from the city. The projects shown had 20 percent affordable units and 50-60 percent AMI. That is staff's recommendation for this project. She provided the background information for the comparison projects. Her example of Marsh Run showed the project at 20 percent affordable at 50% AMI and included 16 years of tax increment, which would be $4.4 million. After the 17th year when TIF is finished. The cash on cash return works out to be 11.7%, well within the parameters of typically what investors like to see (10 percent cash on cash). Doran likes to see an 11 percent return. Kvilvang saw a viable project with 20 percent affordable units with 4.8 million in assistance through TIF.

Chair Yunker invited anyone in the audience to provide comments.

Pam Lewis, 980 Fairfield Court, stated that she is concerned with the wildlife, traffic, safety, and livability of the neighborhood.

No one else present chose to speak.

Hromatka stated that he, Jacobsohn, and Luke were on a subcommittee that reviewed the proposal in depth. Five percent of the units being affordable would be low. The proposal is requesting to receive 50 percent more than the high-water mark of assistance per unit.

Jacobsohn agreed that five percent of the units, nine units, would not have enough of a significant impact for the city and creates a high cost per unit. The cost per unit at 20 percent of units, 34 units, would be at the high end. It would be acceptable for approval. It could also be considered if the property is one that the city would like to change from the existing office buildings. The proposal could be built without assistance and no affordable housing. He did not think that five percent of the units would be enough.

Johnston asked if the comprehensive guide plan includes any specifics for the area regarding affordable housing. Wischnack explained that there is an entire section of the comprehensive guide plan dedicated to the housing goals of the city. It is available on **eminnetonka.com**.

Calvert stated that a majority of councilmembers want to make an effort to reach the city's affordable housing goals and make sure that the affordable housing units would not be segregated to a specific area of the city. This proposal would provide an opportunity to provide more affordable housing. There are quite a few affordable housing units located in the first ward. The proposed site would be located close to the transit station, retail, and other amenities. She was worried that if the city offered TIF for a small number of units that a bad precedent would be set for future developments. The other luxury apartment complexes mention by Mr. Johnson were ones that the city was not able to offer assistance. This is the wave of the future. Affordable housing units have more consistent residency than market rate units. Affordable units are a guaranteed income stream much more so than a market rate unit. She did not want to lose the opportunity to have affordable units, but she did want to impress upon the applicant that she thought 20 percent would be the goal. It is written into the goals for the city and she would be supporting that amount.

Knickerbocker moved, there was no second, to recommend that the city council approve a proposal with five percent of the units meeting affordability guidelines. Motion failed.

Knickerbocker moved, Jacobsohn seconded a motion to recommend that the city council approve a proposal with 20 percent of the units meeting affordability guidelines and offering assistance of up to $4.8 million. Hromatka, Jacobsohn, Johnston, Knickerbocker, and Yunker voted yes. Johnson was absent. Motion passed.

5. Fair Housing Policy

Gray reported.

In response to Hromatka's question, Gray explained that the policy would have been adopted eventually. It is included in the 2040 comprehensive guide plan as a recommendation. Given that the grant funding is tied to it, the city is taking action now rather than next year.

Hromatka asked if it made sense to include a specific number of years in which to review the policy. Gray answered that the specific time period was left out because there is fair housing work that is currently being amended. Wischnack said that a reminder could be added as a project page in the EIP so that it would be reviewed every year.

Johnston asked if the classifications change at the federal level, then could the city still maintain the protected classes as a municipality. Gray responded that the protected classes could be listed in the policy. Johnston supports that being done. Wischnack will add language to the policy before the city council's review.

Knickerbocker liked seeing all of the language changes over time. Gray clarified that the policy mainly relates to projects that receive city financing. The policy is a guide to referral services. Hanson explained that the city would refer someone with a fair housing complaint to the Department of Housing and Urban Development or the Minnesota Department of Human Rights. Wischnack clarified that the requirements are not new.

Jacobsohn noted that the rules already apply to a homeowner selling his or her house. The policy says that the city serves as a clearing house for those complaints. The rules that apply to a single-family homeowner would not change, there would be an additional communication vehicle now available. Gray agreed.

Wischnack explained that if a seller of a house based his or her decision to not sell to a buyer because the buyer was a member of one of the protected classes that would be a violation of law the same as it has been since the Fair Housing Policy was enacted in 1968. The city attorney did review the proposed policy.

Hromatka understood that the city is adopting the federal Fair Housing Policy similar to other cities that have already done the same thing.

Chair Yunker saw it as restating the Fair Housing Policy.

Hromatka moved, Jacobsohn seconded a motion to recommend that the city council approve the Fair Housing Policy. Hromatka, Jacobsohn, Johnston, Knickerbocker, and Yunker voted yes. Johnson was absent. Motion passed.

This item is scheduled to be reviewed by the city council on Dec. 3, 2018.

6. Staff Report

Gray and Wischnack gave the staff report:

- Megan Luke left the EDAC to serve on the planning commission.
- There is one remaining bidder for the SWLRT. There is an extension until Nov. 15, 2018 to accept additional bids. Construction could begin this year with a completion date of 2023.
- Staff continues to meet with Metro Transit on a quarterly basis. Routes 614 and 671 are being looked at to be cut unless there would be an increase in ridership.
- An application for The French Academie on Whitewater Drive is being reviewed.
- A concept plan is being reviewed for Highcroft Meadows on Orchard Road.
- The sign ordinance update has been adopted.
- The Mariner project is under review this month.
- An application for Williston Heights, a four-lot subdivision, is being reviewed.
- The public safety facility application will be reviewed this month.
- Villas of Glen Lake is under review.
- The Renneke property application for market-rate apartments is being reviewed.
- The building permit for Dominium is being reviewed.
- A grading permit is being reviewed for Ridgedale Executive Apartments.
- Grading and building permits are being reviewed for Ridgedale Active Adult Apartments.
- The grading is being done for Solbekken Villas.
- Minnetonka Hills Apartments are under construction.
- Havenwood of Minnetonka is under construction.
- Crest Ridge Senior Housing is nearing completion.
- The RiZe at Opus is under construction.
- LISC is working on creating a visioning process for a site on Shady Oak Road. That work will begin in Feb.
- There are five loans in process. Two Home Enhancement loans have closed. The two-bid process was slowing things up because contractors were not showing up to bid a project, so the requirement was changed to one bid.
- CDBG has approved one loan since Aug. and five others are going through the approval process.

7. Other Business

The SLUC lunch entitled “Harstad versus City of Woodbury: What’s Next” is scheduled for Nov. 28, 2018 at 11:30 a.m. in Golden Valley.

The ULI MN 10th Annual Housing Summit is scheduled to be held from 8 a.m. to 11 a.m. on Dec. 14, 2018 at Dorsey and Whitney in Minneapolis.

The next EDAC meeting is scheduled for Jan. 24, 2018 at 6 p.m.

8. Adjournment

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