EDAC Agenda Item #4
Meeting of Jan. 09, 2020

Brief Description Shady Oak Redevelopment financial request

Recommendation Review financing request and make a recommendation

Background

In March 2015, the city purchased the properties at 4312 Shady Oak Road and 4292 Oak Drive Lane as a result of Hennepin County's road reconstruction project on Shady Oak Road. The city currently owns and manages the commercial building at 4312 Shady Oak Road and the residential building at 4292 Oak Drive Lane.

In Nov. 2016, after several neighborhood meetings and a developer interview process, the city council selected Ron Clark Construction to begin negotiations and had the developer propose a development concept.

On Sept. 25, 2017, after community outreach, the city council approved the Shady Oak Crossings redevelopment project. The project, as approved, is a two and three-story, 49-unit apartment building with underground parking, resident community room, exercise room, on-site manager's office, and an outdoor play area. The building would have a mix of 1, 2, and 3 bedroom apartments with rents expected to be between $800 and $1,200 per month. (On Dec. 16, 2019, the city council extended the approval to Dec. 31, 2020. The extension is customary for approvals when construction has not commenced.)

After the 2017 approval, the developer worked towards 2018 tax credit financing for the project (through the state). In Nov. 2018, the developer was notified that they were not awarded tax credits.

In May 2019, Ron Clark Construction announced it was proposing to make revisions to the approved plan, which included the acquisition of adjoining property in Hopkins. A revised concept plan was submitted to the planning commission, and the city council reviewed a revised concept plan. The city council also introduced an ordinance for the revised project on July 8, 2019. In June 2019, another application for tax credits was submitted, and unfortunately, the credits were oversubscribed, and the project again did not receive credits.

The developer continued to meet with staff to discuss the project financing and is now moving forward with a mixed-income project. The city council will review the introduction of the revised project at its Jan. 6 meeting. Which will include a review of the master development plan, site and building plan review, preliminary plat, and detachment and annexation associated with the parcel.

Complete information on the project's history is posted on the city's website here.

Revised Proposal

Ron Clark Construction has submitted revised plans and is now proposing a three-story, 75-unit apartment building on the property located at 4312 Shady Oak Road and on a portion of the property to the south that is currently in the City of Hopkins. The proposed apartment building would have underground parking, resident community room, exercise room, onsite manager's office, and an outdoor play area. Apartment units would be a mix of alcove, studio, 1- and 2-bedroom apartments ranging between 450 and 1,200 sq. ft. with an average size of 847 sq. ft. The rent is estimated to be between $1,000 and $1,300 per month for the affordable units and between $1,100 and $2,400 per month for the market-rate units. The revised project is a mix-income project with 30% (23 units) of the 75 units affordable at 60% AMI. This level of affordability supports workforce housing for local employees, such as retail, administration, and health care positions.

2019 Qualifying income for 60% AMI units (23 units)

- At or below $42,000 (family of 1)
- At or below $48,000 (family of 2)
- At or below $54,000 (family of 3)
- At or below $60,000 (family of 4)
- At or below $64,800 (family of 5)
- At or below $69,600 (family of 6)

Projected Affordable Rents (including utilities)

- 1 bedroom = $937
- 2 bedroom = $1,125
- 3 bedroom = $1,300

Financing Request

The developer has asked the city to consider providing financial assistance for the inclusion of affordable units. Staff is recommending the establishment of the Shady Oak Crossings Tax Increment Financing District, up to $1.9 million, as the sources of funding for this request. Ms. Kvilvang reviewed this request and prepared the attached memo that includes analysis of the request and a recommendation. The following is a summary of Ehlers' recommendation that is included in the memo:

- Provide up to $1.9M, structured as a pay-as-you-go note for an anticipated term of 20 years.

The assistance requested from the developer would result in a per-unit cost of approximately $2,753 per-unit per year over a 30 year affordability period based on total assistance of up to $1.9 million. The per-unit assistance on previously approved housing redevelopment projects ranges from $540 per unit/per year to $4,571 per unit/per year.

The developer also indicated it would take reasonable steps to apply or assist in applying for grant funding through the Metropolitan Council's Tax Base Revitalization Account (TBRA), Hennepin County Transit Oriented Development (TOD) and Environmental Response Funds to assist with project costs. The City will use existing TIF pooling dollars from Boulevard Gardens to reimburse themselves for relocation and environmental clean-up, if grant funds are not received.

Summary of the Revised Project

Purchase of Land

- The developer will purchase the city owed property at a price of $734,400. The purchase price reflects the appraised value of the property.
    - The developer has request the conveyance of the property in conjunction with the redevelopment of the property.
- The developer has also secured a purchase agreement with the adjacent property in Hopkins that will provide additional land to expand the project. The developer is proposing that the city of Hopkins and Minnetonka concurrently detach/annex the property.

Construction Commencement and Completion

- The developer intends to commence clean-up of the site in the Summer of 2020 and begin construction following site demolition and clean-up.

Demolition Funding and Performance

- The developer intends to coordinate with the city on the submission of a grant application to assist with the funding for the costs of demolition and contamination clean up on the site. Any grant applications that would be made to the Department of Employment and Economic Development, Hennepin County, and/or Metropolitan Council must be approved through a resolution of support by the city council.
- If grants are not obtained for such costs, the city will utilize existing pooled dollars from Boulevard Gardens to reimburse itself for these expenditures.

Declaration of Restrictive Covenants

- The developer is proposing to make all 23 units affordable to those at 60% AMI or less and is seeking the establishment of a Redevelopment TIF District. The developer is able to provide 30% of the units at 60% AMI versus a Housing TIF District, which allows 20% of the units at 50% AMI or 40% of the units at 60% AMI.
    - The Affordable Housing Policy provides guidance on the required affordability for projects receiving city assistance. For this project, staff is recommending establishing a Redevelopment TIF district to obtain a greater number of affordable units while maintaining project feasibility.

- The 23 units will remain affordable for 30 years, in accordance with the city's Affordable Housing Policy.

- As an example, rents are anticipated to be $937 - $1,300 per month (depending on the size of the unit). At 60% AMI, the maximum estimated annual income allowable for one person is approximately $42,000 ($20.19/hour). For a four-person household, the estimated annual income allowable is approximately $60,000 ($28.84/hour). In similar developments in Minnetonka, residents indicated employment at these wages in retail, administrative, and health professional careers.

Relocation

- The city completed the relocation process in 2019.

Recommendation

Staff recommends the EDAC review the financing request and provide a recommendation to the city council.

Submitted through:
Julie Wischnack, AICP, Community Development Director

Originated by:
Alisha Gray, EDFP, Economic Development and Housing Manager

Next Steps:

- City Council introduction – Jan. 6, 2020
- Planning Commission – Jan. 16, 2020
- City Council – Feb. 24, 2020

Supplemental Information:

Location Map

Letter from Ron Clark Construction

Ehlers Memo

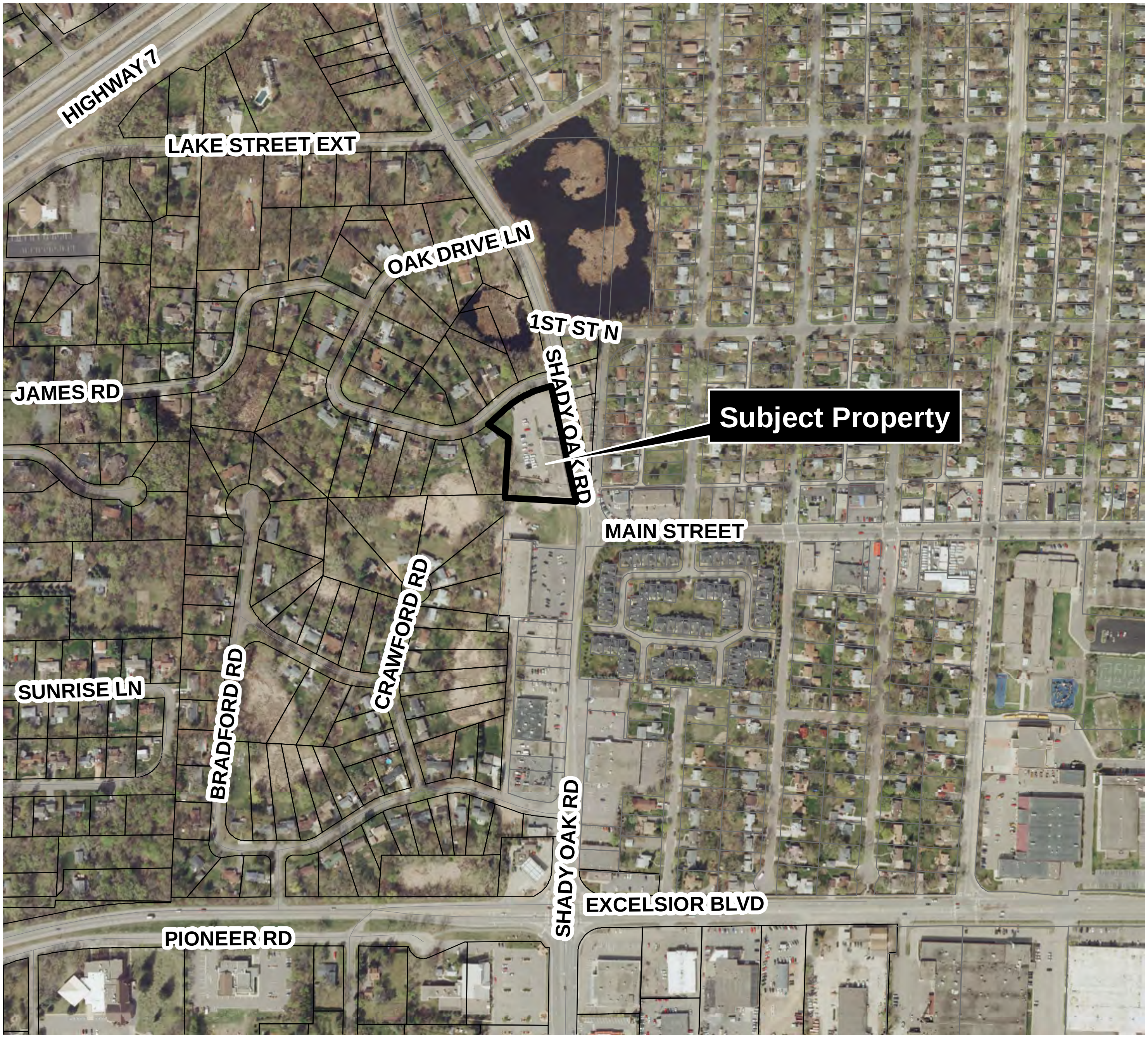
Affordable Housing Production in Minnetonka

Concept Plans

Tax Increment Financing Policy

Tax Increment Financing Pooling Policy

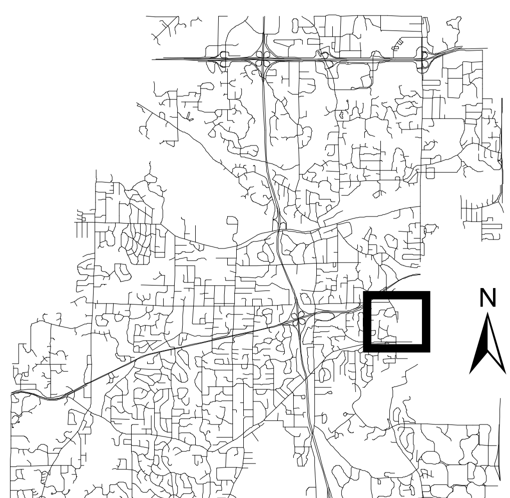
Affordable Housing Policy



LOCATION MAP

Project: Shady Oak Redevelopment
Address: 4312 Shady Oak Rd.

CITY OF MINNETONKA



This map is for illustrative purposes only.

RonClark
Construction & Design

7500 West 78th Street
Edina, MN
55439

(952) 947-3000
fax (952) 947-3030

Monday, December 02, 2019

Loren Gordon
City of Minnetonka
14600 Minnetonka Blvd
Minnetonka, MN 55345

RE: Shady Oak Crossing Project Narrative

Ron Clark Construction is proposing a three-story, 75-unit apartment building on the property located at 4312 Shady Oak Road and on a portion of the property to the south that is currently in the city of Hopkins.

The proposed apartment building would have underground parking, resident community room, exercise room, onsite manager's office and an outdoor play area.

It is proposed to have a mix of Alcoves, Studios, 1- and 2-bedroom apartments and they currently expect the unit rents to be between $1,000 and $1,300 per month for the affordable units and between $1,100 and $2,400 per month for the Market Rate units. (See attachments).

Zoning for the property is currently B-2, limited business district. The city's comprehensive plan guides the property for commercial use.

Change from Tax Credit to a Mixed Income Apartment. We have submitted for tax credits the last 2 years and have been unsuccessful, as such we have worked with staff and decided to propose a mixed income project. We are disappointed that we were not able to obtain the tax credits, but the process has become more and more competitive over the last few years and without being within ½ mile of the Light Rail platform, we just don't get enough points to beat other projects. We have revised the project with more of a Market Rate unit mix and we have also adjusted the sizes of the units to be consistent with comparable projects, which allows for a smaller overall building. We will have 9 Alcove, 14 Studios, 21 One Bedroom, 9 One Bedroom + Dens and 22 Two Bedroom units.

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Rezoning and Comprehensive Plan: The proposed residential use requires a rezoning and guide plan change.

The proposed housing component would qualify the project for public benefit under the planned unit development zoning district.

A complementary high density residential comprehensive plan re-guidance would align with the zoning density of 27.18 units/acre. (75 units/2.76 acre)

Building Design: The proposed 3 story building with a combination of sloped and flat roof and two-story components at each end represents significant first step in the redevelopment of the Shady Oak Road corridor between Highway 7 and Excelsior Boulevard.

This existing commercial building is dilapidated and unlikely to be a candidate for remodeling. The other residential redevelopment in the area includes The Oaks of Mainstreet townhome development (late 1990s) at the corner of Shady Oak Road and Mainstreet.

The proposed apartment building incorporates an attractive roof design and an articulated façade, underground parking and common building entry accesses.

Changes from the previously approved development plan:

During our previous City approval process most of the concern from the neighbors was the impact of traffic on Oak Drive Lane. We had attempted during the previous application to approach our neighbor to the south on acquiring some additional property to allow for a change of access to the site, but we were unsuccessful. After our approval we re-kindled those discussions and now have a purchase agreement for the additional land needed to make the access off Shady Oak Road possible at the current stop light location.

Our current design includes 75 units. The previous design submitted in May earlier this year contained 67 units, but the building footprint was much larger which was a major concern of the Planning Commission and City Council. Our new design has

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55439

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smaller units and the building is approximately 60’ shorter in length along Shady Oak Road and much farther from Oak Drive Lane.

Site Design: Like our previous proposal, this proposal would site the apartment building toward Shady Oak Road while providing greenspace to separate the building from the sidewalk.

Surface parking and a play area are provided on the west side of the building and the underground parking is now accessed only from Shady Oak Road.

Site and building design consider the relationships of public and private spaces. A strong relationship of the sidewalk, front yard space and the building’s first floor is essential for great spaces, including an outdoor patio and rooftop deck, both facing the main street intersection.

Changes to Site Design:

The previously approved site plan in 2017 had the entrance to the parking garage coming from Oak Drive Lane. The parking garage now enters from Shady Oak Road. The only traffic to Oak Drive Lane will come from our small surface parking lot of 29 parking stalls that will mainly be used by visitors.

The building now has shifted south to allow the garage entrance to come from Shady Oak Road.

The building exterior has changed to more blend and complement the existing residential neighborhood and the front of the building is faced toward and connected to the sidewalk along Shady Oak Road while providing greenspace to separate the building from the sidewalk.

Accenting landscaping will be placed at the north and south ends of the building to provide an attractive updated presence along Shady Oak Road. All efforts will be made to protect the existing trees as well as adding additional trees and landscaping to screen the existing neighbors from the surface parking.

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Stormwater Management:

The current property is covered with 1.53 acres of impervious surface and primarily drains to the wetland. The new development stormwater management system for the site will convey all site runoff to a new basin installed on the adjacent property to the West. The impervious area for the new development (1.18 ac) provides a 23% reduction from the existing site condition. The development will meet all management standards required by the City of Minnetonka, the Nine Mile Creek Watershed District and the MPCA NPDES Permit.

Traffic: Prior to our previously approved proposal the city consultant prepared a traffic study of the area and it clearly shows that the new use will have less traffic than other currently allowed uses and the effect on the surrounding intersections was minimal. The impact of our current design will be dramatically reduced from our previously approved proposal due to most of our traffic will now enter directly onto Shady Oak Road vs Oak Drive Lane.

Affordable Housing: The project will include some units that are affordable based on 60% of area medium income (AMI).

Professional Management: Steven Scott Management will be our management company, they are a highly respected local company.

We will have an onsite resident caretaker as well as a building manager who is at the building a minimum of 30 hours per week, along with leasing agent and a Senior Manager who oversees the building management.

As part of the maintenance and management of the building we are in each unit, normally monthly or bi-monthly to maintain equipment and to do a quick inspection to confirm no lease violations or undo wear and tear is happening.

Income requirements and Rents for Shady Oak Crossing

New 2019 Qualifying incomes:	At or below $42,000 (family of 1)
	At or below $48,000 (family of 2)
	At or below $54,000 (family of 3)
	At or below $60,000 (family of 4)
	At or below $64,800 (family of 5)
	At or below $69,600 (family of 6)

Each resident in the household must pass extensive credit, criminal and housing history checks.

Projected rents including utilities:

1 bedroom = $937

2 bedroom = $1,125

3 bedroom = $1,300

Note: There are also 8 permanent supportive housing units within the development.

Memo

To: Alisha Gray, Economic Development and Housing Manager

From: Stacie Kvilvang, Ehlers

Date: January 9, 2020

Subject: Analysis of TIF Request – Shady Oak Apartments

In 2017, the City and EDA entered into a contract with Ron Clark Construction for the development of a 49-unit, non-age restricted apartment community on City-owned property at 4312 Shady Oak Road. The project was going to be financed with 9% low-income housing tax credits (LIHTC) through the State's competitive process. The City agreed to provide the developer with $1,209,000 TIF loan to repaid from surplus cash, if any, over time. Since that time, the developer has gone through two (2) rounds of applications for the LIHTC without success. They have since revised the proposal to purchase the adjacent property located at 2 Shady Oak Road and have increased the number of units to 75. They are proposing to provide 23 units (31%) affordable to persons at or below 60% of the area median income (AMI).

Analysis of Financial Need

Ehlers conducted a thorough review of the developer's updated budget and operating pro forma to ensure all development costs, anticipated revenues, and expenditures are represented appropriately and accurately. The table below depicts the proposed sources and uses for the project.

SOURCES	Amount	Pct.	Per Unit
First Mortgage	11,557,331	66%	154,098
TIF Note	1,900,000	11%	25,333
Energy Rebate	37,000	0%	493
Developer Cash	3,919,091	23%	52,255
TOTAL SOURCES	**17,413,422**	**100%**	**232,179**

USES	Amount	Pct.	Per Unit
Acquisition Costs	1,384,400	8%	18,459
Construction Costs	13,833,971	79%	184,453
Professional Services	777,804	4%	10,371
Financing Costs	614,073	4%	8,188
Developer Fee	500,000	3%	6,667
Cash Accounts/Escrows/Reserves	303,174	2%	4,042
TOTAL USES	**17,413,422**	**100%**	**232,179**

Pro Forma Analysis:

Generally, this project meets the expectations of a rental project with regards to the financing structure, projected revenues, on-going operational costs and developer fee. Following are our findings relating to the analysis completed for the development:

1. **Total Development Costs (TDC).** The TDC for this project is approximately $17.4 million, or $232,000/unit, which is within the typical range of $225,000 to $300,000.

2. **Financing** – The developer has proposed to obtain permanent financing for 78% of the project and will bring the difference in as equity of approximately $3.8 million. This financing structure is in line for market rate apartment projects. Typically, permanent financing ranges from 70% - 80%.

3. **TIF Assistance**. Total TIF is 11% of TDC, which is a little higher than the typical high end of 10%. This is due mainly to the small size of the project, lending thresholds and lack of adequate return on the investment to the developer (see comments in #7 below).

4. **Acquisition Costs** – The land acquisition cost of the project is approximately $18,500 per unit. This figure is at the higher end of what we expect to see for a project with a higher amount of affordability in it. Typical range for market rate projects is $10,000 to $18,000 per unit.

5. **Developer Fee** – The proposed developer fee is 3% of the total development costs (TDC), which is in line with industry standards of 3% to 5%.

6. **Rents** – The rents for the 23 affordable units are in line with LIHTC restricted rent amounts and are noted below:

Unit Type	Monthly Rent	Unit Count	Size Sq. Ft.	Rent Sq. Ft.
Studio	$1,011	5	448	$2.26
Studio	$1,011	3	549	$1.84
1BR	$1,081	8	725	$1.49
2BR	$1,293	7	1,080	$1.20

   The market rate rents average $2.17 sq. ft., which is lower than many of the market rate rents we are seeing in newer developments within the City, however this is due to the small size of the project and the more limited common area amenity package.

7. **Operating Expenses** - The operating expenses of $3,928 per unit per year (before management fees, property taxes, and replacement reserves) are within the typical market range of $3,500 to $4,500 per unit per year. The proposed management fees of 4% of effective gross income is also reasonable for the product type (typical range of 3% to 6%).

8. **Return on Investment** – To determine if a project is "financially feasible", a developer typically requires one of two metrics; cash-on-cash (net cash divided by equity) or cash-on-cost (NOI divided by TDC). The developer indicated that they would like to achieve a cash-on-cash return of 8%, which is within industry standard of 8% to 10%. They meet this threshold in year 11 on an annual basis, but not until year 19 on a cumulative basis.

Recommendation:

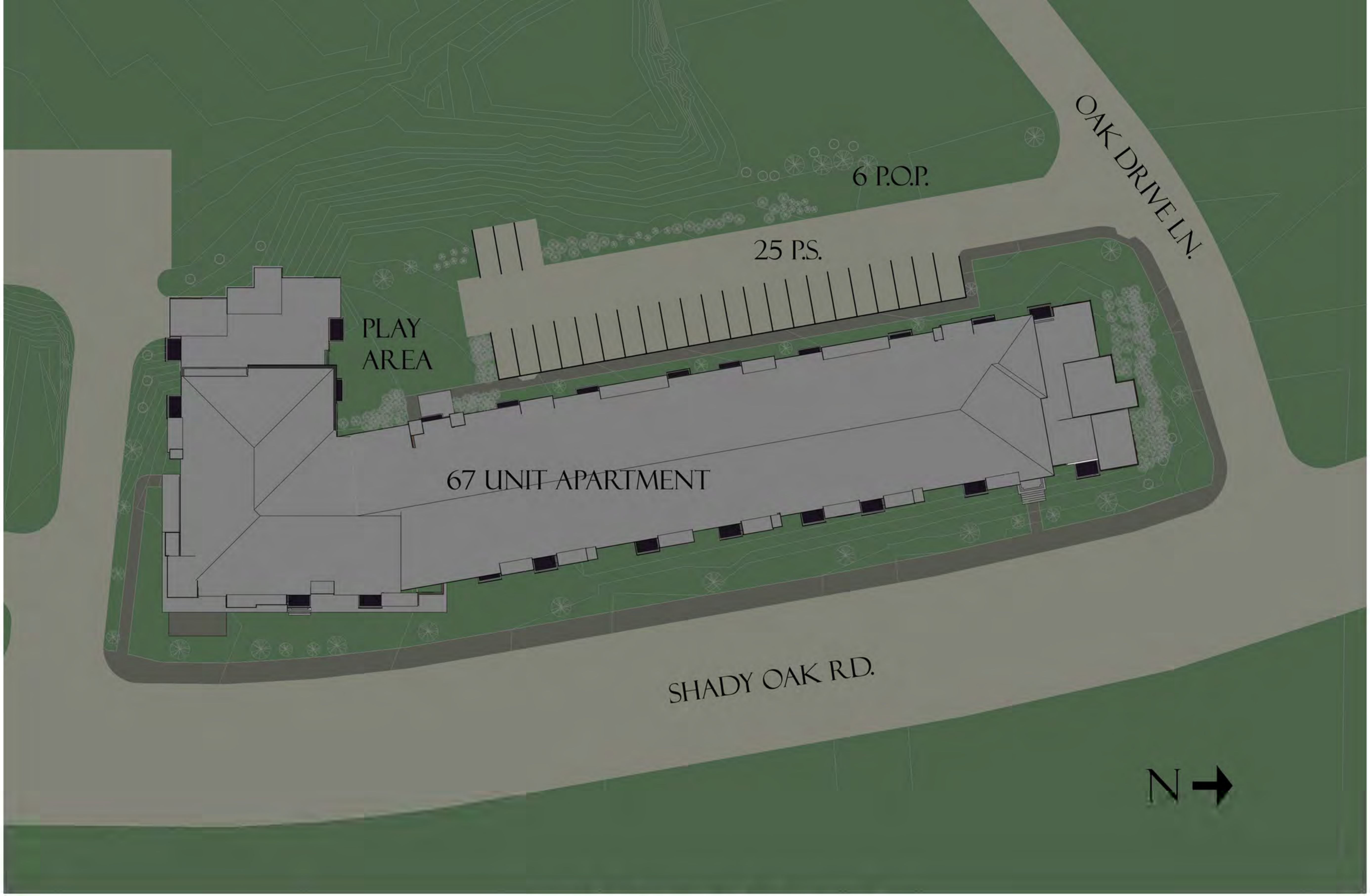
Based on our review of the developer's pro forma and under current market conditions, the proposed development may not reasonably be expected to occur solely through private investment within the near future due to the low returns noted. The cost associated with development of this project is only feasible through public financial assistance from the City. We conclude that TIF assistance in the amount of $1.9 million on a pay-as-you-go basis over an anticipated term of 20 years is supportable for this project. In addition, the City will use existing TIF dollars from Boulevard Gardens to reimburse themselves for relocation and environmental clean-up, if grant funds are not received.

Please contact me at 651-697-8506 with any questions.

Affordable Housing Production in Minnetonka

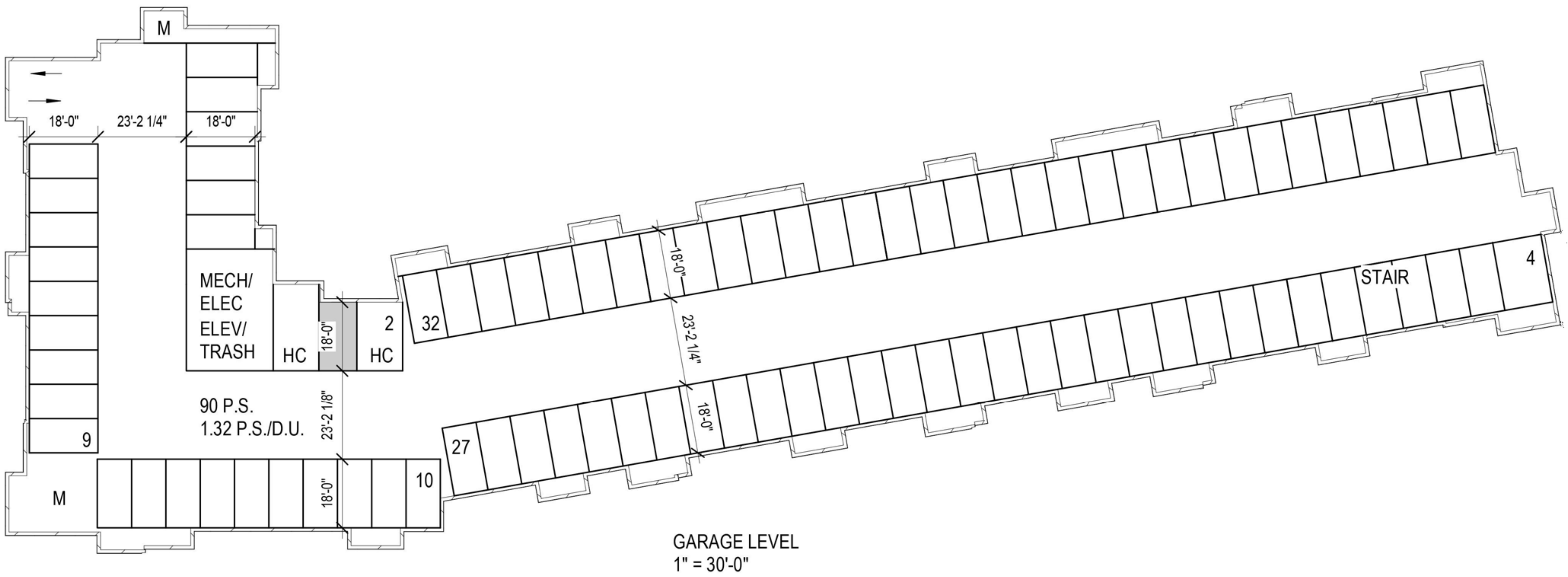
Name of Project	Number of Affordable Units	Number of Market Rate Units	Total Assistance (for affordable units)	Years of Affordability	Assistance per Unit, per Year	Affordability Level
Dominium	482	0	$7,809,000	30	$540	60% AMI
Homes Within Reach (2004-2012 grant years)	35	0	$1,740,000	99	$502	80% AMI
The Ridge	52	0	$1,050,000	30	$673	60% AMI
Shady Oak Redevelopment	23	52	$1,900,000 (est)	30	$2,753	30% of units at 60%AMI
West Ridge Market (Crown Ridge, Boulevard Gardens, Gables, West Ridge)	185	0	$8,514,000	30	$1,534	*Crown Ridge* —60% AMI Boulevard Gardens—60% AMI Gables—initially 80% AMI, now no income limit West Ridge—50% AMI
Beacon Hill (apartments)	62	48	$2,484,000	25	$1,602	50% AMI
Ridgebury	56	163	$3,243,000	30	$1,930	Initially--80% AMI, Now no income limit
Glen Lake (St. Therese, Exchange)	43	119	$4,800,000	30	$3,721	60% AMI
Cedar Point Townhomes	9	143	$512,000	15	$3,792	50% AMI
Tonka on the Creek	20	80	$2,283,000	30	$3,805	50% AMI
At Home (Rowland)	21	106	$2,500,000	30	$3,968	50% AMI
Applewood Pointe	9	80	$1,290,000	Initial Sale/Ongoing maximum %	$4,777	80% AMI
Doran (Marsh) - TIF Housing	35 (20% of units)	175	$4,800,000	30	$4,571	50% AMI

updated 01/03/2020



SITE PLAN SCALE: 1" = 20'-0"

6/18/19



6/18/19

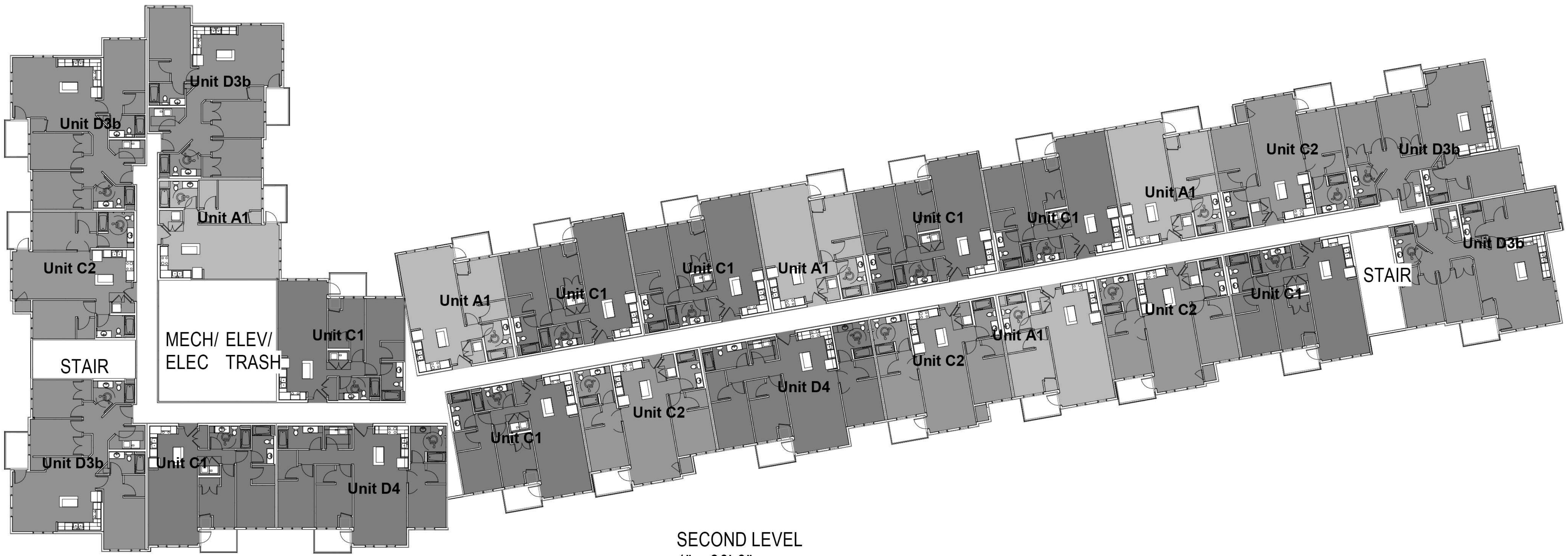
WHITTEN ASSOCIATES, INC.

SHADY OAK ROAD REDEVELOPMENT
MINNETONKA, MN

RON CLARK CONSTRUCTION

MAIN LEVEL
1" = 30'-0"

6/18/19



SECOND LEVEL
1" = 30'-0"

6/18/19

THIRD LEVEL
1" = 30'-0"

6/18/19

WHITTEN ASSOCIATES, INC.

SHADY OAK ROAD REDEVELOPMENT
MINNETONKA, MN

RON CLARK CONSTRUCTION

VIEW FROM THE NORTHEAST

6/18/19

WHITTEN ASSOCIATES, INC.

SHADY OAK ROAD REDEVELOPMENT
MINNETONKA, MN

RON CLARK CONSTRUCTION

VIEW FROM THE NORTHWEST

6/18/19

WHITTEN ASSOCIATES, INC.

SHADY OAK ROAD REDEVELOPMENT
MINNETONKA, MN

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VIEW FROM THE SOUTHWEST

6/18/19

NORTH ELEVATION

SOUTH ELEVATION

PARTIAL EAST ELEVATION

PARTIAL WEST ELEVATION

PARTIAL WEST ELEVATION

PARTIAL EAST ELEVATION

6/18/19

WHITTEN ASSOCIATES, INC.

SHADY OAK ROAD REDEVELOPMENT

MINNETONKA, MN

RON CLARK CONSTRUCTION

WEST ELEVATION

EAST ELEVATION

6/18/19

Policy Number 2.18
Tax Increment Financing and Tax Abatement

Purpose of Policy: This policy establishes criteria which guide the economic development authority and the city council when considering the use of tax increment financing and tax abatement tools in conjunction with proposed development.

Introduction

Under the Minnesota Statutes Sections 469.152 to 469.1799, the city of Minnetonka has the authority to establish tax increment financing districts (TIF districts). Tax increment financing is a funding technique that takes advantage of the increases in tax capacity and property taxes from development or redevelopment to pay public development or redevelopment costs. The difference in the tax capacity and the tax revenues the property generates after new construction has occurred, compared with the tax capacity and tax revenues it generated before the construction, is the captured value, or increments. The increments then go to the economic development authority and are used to repay public indebtedness or current costs the development incurred in acquiring the property, removing existing structures or installing public services. The fundamental principle that makes tax increment financing viable is that it is designed to encourage development that would not otherwise occur.

Under Minnesota Statutes, Sections 469.1812 to 469.1815, the city of Minnetonka has the right to abate property taxes. A city may grant an abatement of some or all of the taxes or the increase in taxes it imposes on a parcel of property if the city expects the benefits of the proposed abatement agreement to at least equal the costs of the proposed agreement. Abatement would be considered a reallocation or rededication of taxes for specific improvements or costs associated with development rather than a “refund” of taxes.

It is the judgment of the city council that TIF and abatement are appropriate tools that may be used when specific criteria are met. The applicant is responsible for demonstrating the benefit of the assistance, particularly addressing the criteria below. The applicant should understand that although approval may have been granted previously by the city for a similar project or a similar mechanism, the council is not bound by that earlier approval. Each application will be judged on the merits of the project as it relates to the public purpose.

TAX INCREMENT FINANCING

The Economic Development Authority (EDA), as authorized by the city, will be responsible to determine that (1) a project would not occur “but for” the assistance provided through tax increment financing; and (2) no other development would occur on the relevant site without tax increment assistance that could create a larger market value increase than the increase expected from the proposed development (after adjusting for the value of the tax increment). At the time of any application for a Comprehensive Guide Plan amendment, rezoning or site plan approval for a project, whichever occurs first, the applicant must divulge that TIF financing will be requested.

Projects eligible for consideration of tax increment financing include but are not limited to the following:

- Projects must be compatible with the Comprehensive Guide Plan (or acquire an amendment) and the development and redevelopment objectives of the city.

- Priority will be given to those projects which:

    - are within the “village areas” identified in the city’s most recently adopted Comprehensive Guide Plan;

    - are mixed use or residential in nature, and include affordable housing units which meet the city’s affordable housing standards;

    - contain amenities or improvements which benefit a larger area than the identified development;

    - improve blighted or dilapidated properties, provide cohesive development patterns, or improve land use transitions; or

    - maximize and leverage the use of other financial resources.

Costs Eligible for Tax Increment Financing Assistance

The EDA will consider the use of tax increment financing to cover project costs as allowed for under Minnesota Statutes. The types of project costs that are eligible for tax increment financing are as follows:

Utilities design	Site related permits
Architectural and engineering fees directly attributable to site work	Soils correction
Earthwork/excavation	Utilities (sanitary sewer, storm sewer, and water)
Landscaping	Street/parking lot paving
Streets and roads	Curb and gutter
Street/parking lot lighting	Land acquisition
Sidewalks and trails	Legal (acquisition, financing, and closing fees)
Special assessments	Surveys
Soils test and environmental studies	Sewer Access Charges (SAC) and Water Access Charges (WAC)

Title insurance	Landscape design

Forms of Assistance

Tax increment financing will generally be provided on a “pay-as-you-go” basis wherein the EDA compensates the applicant for a predetermined amount for a stated number of years. The EDA will have the option to issue a TIF Note with or without interest, where the principal amount of the TIF Note is equal to the amount of eligible project costs incurred and proven by the developer. In all cases, semi-annual TIF payments will be based on available increment generated from the project. TIF payments will be made after collection of property taxes.

Fiscal Disparities

TIF Districts will generally be exempt from the contribution to fiscal disparities. Tax revenues for fiscal disparities, generated by the TIF project, will be the responsibility of properties inside the district. The exception to this policy is when MN Statutes require that fiscal disparities be paid from within a TIF District, as is the case with Economic Development Districts.

TAX ABATEMENT

The tax abatement tool provides the ability to capture and use all or a portion of the property tax revenues within a defined geographic area for a specific purpose. Unlike TIF, tax abatement must be approved by each major authority under which the area is taxed, and therefore, usually only city property taxes will be abated. In practice, it is a tax “reallocation” rather than an exemption from paying property taxes. Tax abatement is an important economic development tool that, when used appropriately, can be useful to accomplish the city’s development and redevelopment goals and objectives. Requests for tax abatement must serve to accomplish the city’s targeted goals for development and redevelopment, particularly in the designated village center areas. At the time of any application for a Comprehensive Guide Plan amendment, rezoning or site plan approval for a project, whichever occurs first, the applicant must divulge that tax abatements will be requested.

Projects Eligible for Tax Abatement Assistance

Projects eligible for consideration of property tax abatement include but are not limited to the following:

- Projects must be compatible with the Comprehensive Guide Plan (or acquire an amendment) and the development and redevelopment objectives of the city; and

- Priority will be given to those projects which:

    - increase or preserve the tax base

    - provide employment opportunities in the City of Minnetonka;

- o provide, help acquire or construct public facilities;
- o finance or provide public infrastructure;
- o improve blighted or dilapidated properties, provide cohesive development patterns, or improve land use transitions; or
- o produce long-term affordable housing opportunities.

Fiscal Disparities

Tax revenues for fiscal disparities, generated by the abatement project, will be the responsibility of properties inside the district.

REVIEW PROCESS

All applications for TIF and tax abatement will be reviewed by city's community development director. After review by the city's financial consultant, the community development director may refer the request to the EDA. The EDA will hold appropriate public hearings and receive public input about the use of the financial tools. The EDA will provide a recommendation regarding the assistance to the city council.

The city council must consider, along with other development decisions, the request for assistance and will make the final decision as to the amount, length, and terms of the agreement.

Adopted by Resolution No. 2014-074
Council Meeting of July 21, 2014

Policy Number 2.14
Tax Increment Financing Pooling Funds

Purpose of Policy: This policy establishes evaluation criteria that guide the city council in consideration of use of tax increment financing pooling funds

Introduction

Under the Minnesota Statutes Chapter 469, at least 75 percent of tax increment in a redevelopment tax increment financing (TIF) district must be spent on eligible activities within the district, leaving up to 25 percent of the funds to be pooled and therefore eligible to be spent outside of the district, but within the project area.

An exception to the pooling funds is for affordable rental housing. The city may allow the pooling allowance to be increased to 35 percent, which can then go to finance certain affordable housing projects. The project may be located anywhere in the city, and not limited to the project area. Each financed project must be rental housing that is eligible for federal low income housing tax credits. The amount of the assistance is also limited to any amount that satisfies tax credit rules.

The council is aware that use of such TIF pooled funds may be of benefit to the city and will consider requests for pooled funds subject to this council policy. The council considers the use of these funds to be a privilege, not a right.

It is the judgment of the council that TIF pooled funds is to be used on a selective basis. It is the applicant's responsibility to demonstrate the benefit to the city, and that they should understand that although approval may have been granted previously by the city TIF pooled funds for a similar project, the council is not bound by that earlier approval.

Evaluation Criteria

The city will use the following criteria when evaluating a development proposal requesting the use of TIF pooled funds:

- The project supports reinvestment in an identified village center and addresses the goals set out in the comprehensive plan for that center.

- Priority will be provided for projects that are within a "regional" village center or support transit areas.

- Weight will be given when the proportion of affordability is greater than what is customary in other tax increment financed projects in the city, overall affordability of 20% of units (usually at 60% AMI for rental).

- The project may request both tax increment financing and pooling dollars as long as the project has provided data that "but for" the additional pooling dollars, this project would not occur.

- If the project is receiving funds from other sources, the pooled dollars would be the last source utilized unless it impacts other sources.

Other Provisions

- A project will not normally be given financing approval until all city planning and zoning requirements have been met. Planning and zoning matters may be considered simultaneously with preliminary approval of the financing.

- The city is to be reimbursed and held harmless for any out-of-pocket expenses related to the TIF pooling funds, but not limited to, legal fees, financial analyst fees, bond counsel fees, and the city's administrative expenses in connection with the application. The applicant must execute a letter to the city undertaking to pay all such expenses.

- The applicant will be required to enter into a development agreement with the city outlining the terms of the use of TIF pooled funds.

Adopted by Resolution No. 2011-039
Council Meeting of May 16, 2011

Policy Number 13.2
Affordable Housing Policy

Purpose of Policy: This policy establishes general procedures and requirements to govern the City's commitment to affordable housing.

Introduction

The City of Minnetonka has a long history of promoting diversity in the type and size of housing units in Minnetonka, including the production of new affordable rental and ownership opportunities.

This Policy recognizes the city's commitment to provide affordable housing to households of a broad range of income levels in order to appeal to a diverse population and provide housing opportunities to those who live or work in the city. The goal of this policy is to ensure the continued commitment to a range of housing choices by requiring the inclusion of affordable housing for low and moderate-income households in new multifamily or for-sale developments.

The requirements in this policy further the Minnetonka Housing Action Plan and city's Housing Goals and Strategies identified in the 2040 Comprehensive Plan.

Applicability and Minimum Project Size

This policy applies to all new multifamily rental developments with 10 or more dwelling units and all new for-sale common interest or attached community developments, (condominiums, townhomes, co-ops) with at least 10 dwelling units. This includes existing properties or mixed-use developments that add 10 or more units.

Calculation of Units

The number of Affordable Dwelling Units (ADUs) required shall be based on the total number of dwelling units approved by the city. If the final calculation includes a fraction, the fraction of a unit shall be rounded up to the nearest whole number.

If an occupied property with existing dwelling units is expanded by 10 or more units, the number of required ADUs shall be based on the total number of units following completion of expansion.

Affordable Dwelling Unit (ADU)

General Requirements.

<u>For projects not requesting a zoning change and/or comprehensive plan amendment and not receiving city assistance.</u>

- In multi-family rental developments, at least 5% of the units shall be affordable to and occupied by households with an income at or below 50% of the AMI.

- In attached for-sale common interest or attached community developments (condominiums, townhomes, co-ops), at least 10% of the units shall be affordable to and occupied by households with an income at or below 80% AMI.

For projects requesting a zoning change or comprehensive plan amendment without city assistance.

- In multi-family rental developments, at least 10% of the units shall be affordable to and occupied by households with incomes at or below 60% AMI, with a minimum of 5% at 50% AMI.

- In attached for-sale common interest or attached community developments (condominiums townhomes, co-ops), at least 10% of the units shall be affordable to and occupied by households with an income at or below 80% AMI.

For projects receiving city assistance.

- For multi-family rental developments, at least 20% of the units shall be affordable to and occupied by households with an income at or below 50% of the AMI; or at least 40% of the units shall be affordable to and occupied by households with an income at or below 60% AMI.

- In attached for-sale common interest or attached community developments (condominiums, townhomes, co-ops), at least 10% of the units shall be affordable to and occupied by households with an income at or below 80% AMI.

Calculation of AMI

For purposes of this policy, Area Median Income means the Area Median Income for the Twin Cities metropolitan area calculated annually by the Minnesota Housing Finance Agency for establishing rent limits for the Housing Tax Credit Program (multi-family ADU) and the Department of Housing and Urban Development (attached for-sale common interest or attached community developments, including: condominiums, townhomes, co-ops).

Rent Level Calculation (Multi- Family Rental Developments)

The monthly rental price for an ADU receiving city assistance shall include rent and utility costs and shall be based on fifty percent (50%) or sixty percent (60%) for the metropolitan area that includes Minnetonka adjusted for bedroom size and calculated annually by Minnesota Housing Financing Agency for establishing rent limits for the Housing Tax Credit Program. This does not apply to units not receiving city assistance.

For Sale Projects

The qualifying sale price for an owner-occupied dwelling unit shall include property taxes, homeowner's insurance, principal payment and interest, private mortgage insurance, monthly ground lease, association dues, and shall be based upon eighty (80%) AMI for the metropolitan area that includes Minnetonka adjusted for bedroom size and calculated annually by the Department of Housing and Urban Development.

Period of Affordability

In developments subject to this policy, the period of affordability for the ADUs shall be thirty (30) years.

Location, Standards, and Integration of ADUs

Distribution of affordable housing units. Unless otherwise specifically authorized by this policy, the ADUs shall be integrated within the development and distributed throughout the building(s). The ADUs shall be incorporated into the overall project unless expressly allowed to be located in a separate building or a different location approved by the city council.

Number of bedrooms in the affordable units. The ADUs shall have a number of bedrooms proportional to the market rate units. The mix of unit types shall be approved by the city.

Size and Design of ADUs. The size and design of ADUs shall be consistent and comparable with the market rate units in the rest of the project.

Exterior/Interior Appearance of ADUs. The exterior/interior materials and design of the ADUs in any development subject to these regulations shall be indistinguishable in style and quality with the market rate units in the development.

Non-Discrimination Based on Rent Subsidies

Developments covered by this policy must not discriminate against tenants who would pay their rent with federal, state or local public assistance, including tenant based federal, state or local subsidies, but not limited to rental assistance, rent supplements, and Housing Choice Vouchers.

Alternatives to On-Site Development of an ADU

The city recognizes that it may not be economically feasible or practical in all circumstances to provide ADUs in all development projects due to site constraints resulting in extraordinary costs of development. The city reserves the right to waive this policy if the developer requests a waiver and can provide evidence of extraordinary costs prohibiting the inclusion of ADUs. The city will review on a case-by-case basis to determine if the waiver is justifiable and granted.

Recorded Agreements, Conditions and Restrictions

A declaration of restrictive covenants shall be executed between the city, EDA and developer, in a form approved by the city's EDA attorney, which formally sets forth development approval and requirements to achieve affordable housing in accordance with this policy. The declaration shall identify:

- The location, number, type, and size of affordable units to be constructed;
- Sales and/or rental terms; occupancy requirements;
- A timetable for completion of the units; and
- Annual Tenant income and rent reporting requirements; and
- Restrictions to be placed on the units to ensure their affordability and any terms contained in the approval resolution by the city/EDA.

The applicant or owner shall execute all documents deemed necessary by the city manager, including, without limitation, restrictive covenants and other related instruments, to ensure affordability of the affordable housing unit within this policy.

The documents described above shall be recorded in the Hennepin County as appropriate.

Definitions

Affordable Dwelling Unit: A unit within a residential project subject to this policy that shall meet the income eligibility and rent affordability standards outlined in this policy.

Financial Assistance: Funds derived from the city or EDA, including but is not limited to fund from the following sources:

- City of Minnetonka
- Housing Redevelopment Authority (HRA) Funds
- Economic Development Authority (EDA) Funds
- Community Development Block Grant (CDBG)
- Reinvestment Assistant Program
- Revenue Bonds and/or Conduit Bonds
- Tax increment financing (TIF), TIF pooling, or tax abatement
- Land write downs
- Other government housing development sources

Adopted by Resolution 2019-060
Council Meeting of July 8, 2019