Unofficial
Minnetonka
Economic Development Advisory Commission
Virtual Meeting
Minutes

Oct. 29, 2020
6 p.m.

1. Call to Order

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

2. Roll Call

EDAC commissioners Ann Duginski Cibulka, Jay Hromatka, Lee Jacobsohn, Melissa Johnston, and Charlie Yunker were present. Maram Falk and Steven Tyacke were absent.

Councilmember Deb Calvert was present.

Staff present: Economic Development and Housing Manager Alisha Gray, Economic Development Coordinator Rob Hanson, IT Assistant Gary Wicks, and Financial Consultant Keith Dahl of Ehlers and Associates.

3. Approval of EDAC Sept. 17, 2020 Meeting Minutes

<u>Hromatka motioned, Jacobsohn seconded the motion to approve the Sept. 17, 2020 meeting minutes as submitted with a change from "\$38,000 million" to "\$3.8 million" on Page 2. Duginski Cibulka, Hromatka, Jacobsohn, Johnston, and Yunker voted yes. Falk and Tyacke were absent. Motion passed.</u>

4. Minnetonka Station at 10400, 10500 and 10550 Bren Road East

Gray gave the staff report.

Hromatka asked how the proposal's affordable units compare to others in Opus. Gray explained that Dominium is different because it is a tax-credit project. Dominium has 482 units of affordability that break down to \$540 per unit, per year. The Rize did not receive any city assistance. The Rize has 10 percent of its units at 80 percent AMI. The Wellington proposal came in roughly at \$3,000 a unit with two phases totaling 87 affordable units and 348 market-rate units. The Ehlers' report recommends \$1.8 million for Minnetonka Station which would bring it down to approximately \$1,000 per unit.

Keith Dahl, municipal consultant and financial advisor with Ehlers and Associates, representing the city, stated that:

- The proposal still has a few moving pieces and he is still working with the developer.

- The developer maximized the request based on a TIF district with a 26-year term. He did not feel that would be necessary for the project. Over 26 years, the project could potentially generate $9 million.
- After reviewing the budget, pro forma against industry standards for construction, land acquisition, project costs, and return on investment he would expect the developer to achieve stabilization within year four. After year four, TIF assistance would end because the project would have met the industry standard for a return on an investment and would no longer need public assistance. In year four, $1.85 million could potentially be generated in tax increment. That is Ehlers' current recommendation, but it still might change.

Jacobsohn asked if the developer listing 75 percent for the first mortgage and Ehlers' recommending 65 percent for the first mortgage also impacted the change. Dahl answered affirmatively. Dahl stated that typically it would be 70 to 75 percent. Based on the net operating income and potential to maximize the first mortgage, the analysis saw that that could be increased a little further. The developer does not have to do that, but it would be one way to help fill the gap in sources. With the current calculation, Ehlers recommends 70 percent.

Chair Yunker clarified with Dahl that the difference comes from the four-year time frame versus 26-year time frame of the TIF district.

In response to Duginski Cibulka's question, Dahl explained that the replacement reserves and management fee had been included in the operating costs before the management fee, property taxes, and replacement reserves. With that calculation changed, the operating expenses are within a typical amount of $38,000 per unit per year and within the threshold for the project.

Scott Richardson, representing Linden Street, the applicant, stated that:

- As far as mortgage sizes are concerned, he is involved in the capital markets every day. Covid has shrunk loan-to-cost ratios and mortgage sizes. Back in Feb., 70 percent to 75 percent loan to cost would have been a viable scenario, but, unfortunately, that has changed to 65 percent to 70 percent. In today's market, 75 percent would not be doable.
- The applicant is working on purchasing the site and is excited by its proximity to the future SWLRT station. It would also be connected to the trail system on the north and west sides.
- The applicant is contemplating installing a solar array on the roof.
- There would be public art along Bren Road East. He thinks it would be important because of the visibility of the location.
- It would be a very high-quality project.
- Dominium has a totally different capital stack. The tax credit world has very little to do with the way that this deal, which would be predominately a market-rate deal, would be financed.

Mike Krych, of BKB Group, stated that:

- He is excited about the project.

- It would provide a lot of community benefit.
- The applicant is integrating the proposal's plans with the city's vision for Opus in the future as provided in the comprehensive guide plan.
- The proposal would help the city reach its goals related to transit, community representation, and greater sustainability.
- The design would be high quality and a great representation that other projects could strive towards.

In response to Calvert's questions, Mr. Richardson stated that there would not be three-bedroom units, but there would be large, two-bedroom units. He clarified that the correct number of units should be 279 in the proposal materials. In reference to return on cost, six would not work for the applicant. Six-and-a-half to seven may work. The applicant would be paying the current market rate for the property.

Duginski Cibulka agreed with what the applicant said regarding mortgages. Every deal happening now is dealing with a loan to cost challenge. She thought that the $1.85 million may change. She asked if the applicant should return when more information is known. Mr. Richardson would be open for returning to the EDAC, but he deferred to city staff. Gray agreed that the proposal would evolve. Ehlers' staff is working to make sure the city will be treating each proposal equally. Mr. Richardson noted that the amount being recommended is less than a third received by another project that was reviewed a couple weeks ago and would be located across the street. He did not want to end up in a position competing against a project across the street with the other project having received three times more assistance from the city even though both projects are doing 20 percent affordable at 50 percent AMI. He did not expect to be in a better position than anyone else, but he did not want to be disadvantaged.

Jon Commers, project consultant for the development team, stated that:

- He appreciated the dialogue he has had with the Ehlers team since they reviewed Ehlers' draft report on Monday. He looks forward to discussing with them more aspects of the report.
- He discussed framing the partnership between the applicant and the city as a vehicle to produce public benefit. The affordable piece would allow many people to utilize the proposal's proximity to trails, location to the SWLRT, public art, and solar array. The recommendation in its current form does not provide the kind of partnership required to unlock that basket of benefits.

Dahl noted that Ehlers does not use a per-unit-per-year metric to base the size of assistance. Ehlers looks at a proposal's return on investment and would not create a return on an investment for one project that would be larger than another project. Ehlers works with each applicant to determine the amount of return each proposal hopes to achieve. He will continue to work with the applicant and city staff.

Hromatka agreed that it is a little premature to make a recommendation to the city council since there are too many unknowns. The concept and visual plan are all good, but there are too many unknowns related to the financial aspect.

In response to Johnston's question, Gray answered that she understands that commissioners felt it would be premature to provide feedback on the financial information. She requested feedback on the mix of units, number of units, and if the affordability would be reasonable for the site.

Johnston asked if the proposal complies with the comprehensive guide plan. Gray answered affirmatively.

Jacobsohn felt that the proposal would meet the city's affordability and housing objectives. A clearer financial picture will come into focus once Ehlers staff and the applicant have more discussions. It would be valuable to know what the impact of some of the other components would be. He liked the solar array, but wanted to know if that would impact the financing request. It would be beneficial to know what other benefits, along with providing affordability, the assistance would fund.

Mr. Richardson agreed that is a great idea. He asked for guidance on a format that would be best to present the information to the group. He will work with staff to create a list of the features and amenities.

Hromatka asked if the TIF district already exists or if it would be created. Gray explained that either a new TIF district would be created or TIF pooling funds would be utilized, but not both. Gray noted that this is a preliminary review of the proposal. It would be reviewed by the EDAC again.

Hromatka asked if Linden Street factored in the impact Covid is having. Mr. Richardson stated that similar markets are slow. Their apartment buildings are capturing a high percentage of folks who tour the apartments, but leasing of apartments is off by 75 percent compared to leasing rates before Covid. He hopes Covid would be resolved by the time this proposal would start leasing. Dahl explained that the four years would start at stabilization which usually occurs three years after construction is completed.

Hromatka likes the proposal's concept and felt that the number of affordable units is in line with the city's affordable housing goals. He would support the project once the numbers come together.

Johnston agreed.

Duginski Cibulka concurred. She was excited for the solar array. She likes the care taken to connect with the trails. The aesthetic view would be attractive. She looks forward to reviewing the proposal again.

Chair Yunker concurred with commissioners. He thanked the applicants and Dahl for attending the meeting.

5. Doran Development Concept Plan

Gray gave the staff report. The applicant did not request financial assistance from the city.

Tony Kuechle, representing the applicant, Doran Development, stated that:

- The staff report did a good job outlining the proposal.
- The proposal is now focusing on 365 units instead of 400 units. The applicant met with neighbors and received comments at the planning commission meeting.
- Modifications have been made to the plan including adding a privacy fence along the north property line. The multi-use trail was moved away from the townhouses on the north side and the setback was increased to 70 feet.
- The applicant wants to provide a different level of affordability not yet provided in Opus and is proposing ten percent of the units at 80 percent AMI.
- He noted that councilmembers support the proposal having affordable units with three bedrooms. The proposal would provide more of the large units to be affordable units. At this density level, 38 units would be able to be affordable without a subsidy.
- The applicant plans on utilizing capital stacking and pace financing which would require the project to exceed the energy code by 20 percent.
- He was available for questions.

Hromatka asked Calvert if the six-story building would fit in the area. Calvert stated that there is a consensus that transit-oriented development is needed. She prefers to build up in some areas instead of out to provide density and allow preservation of large lots. The Metropolitan Council set aggressive housing goals. More affordable housing units are needed in the city.

Mr. Kuechle stated that this proposal is probably the least dense project being proposed for Opus. The plan was designed to preserve an acre-and-a-half to two acres of the property that has a stormwater pond and large trees located on it. Preserving that area is what would cause the need for the building to be six stories.

Chair Yunker noted that the affordable housing policy was put in place for a reason. He would need a compelling reason to give the city council to recommend an exception. It seems strange to have all this development happen at one time, but he thought the layout would help Opus keep the large-lot character. He believes the proposal would fit the character of the area.

Calvert agreed that the affordable housing policy was passed for a reason. It is not a requirement, it is a policy, but the goals were put in place because there is a need.

Jacobsohn agreed. He noted that 80 percent AMI is a piece that is missing in a lot of the projects currently being proposed for Opus. While it is not in the policy, maybe an answer may be 20 percent of units at 80 percent AMI. Some flexibility may make sense for this project, but he agreed that the policy is in place for a reason.

In response to Johnston's question, Gray learned that another project of Doran's, The Birke, was successful leasing the affordable units right away. That project has 50 percent AMI and a new TIF district.

Mr. Kuechle stated that he was very happy with the response in leasing of the affordable units and market-rate units for The Birke. More units will become available in December.

Chair Yunker noted that commissioners are, in general, comfortable with the concept plan, but want it to meet the standards of the affordable housing policy. He thanked Mr. Kuechle for participating at the meeting.

6. Community Development Block Grant

Hanson gave the staff report.

Johnston stated that she supports the amendment and then exited the meeting.

Hromatka asked how many Homes Within Reach (HWR) houses are currently in Minnetonka. Hanson answered that there are 62 HWR houses in Minnetonka. The money in the fund have different deadlines of when it needs to be used or returned based on when the city received the money. Gray provided that the HRA Levy is a separate pool of money.

Hromatka asked how the 62 HWR residents would be made aware of the CDBG funds. Hanson explained that staff has been working with HWR staff. HWR staff favors grants in the amount of $10,000 since many emergency repairs cost at least that much to fix. Interest has already been expressed by HWR residents. Hanson talked to a HWR resident and let them know that this was being discussed. Additional notifications will be made as the program develops. Gray noted that staff could mail each HWR resident a notification.

Jacobsohn noted that the funds would be used for critical repairs and not aesthetic home improvements. Hanson agreed. The funds would be used for necessary repairs to roofs, heating systems, and etc.

Jacobsohn asked how a request for assistance in paying for emergency repairs would be handled today. Hanson explained that the homeowner could apply for one of the existing home programs. The wait list for the CDBG program is extensive. The homeowner could also apply for assistance from the HRA program which is structured more like a traditional loan.

Hromatka suggested a two-phased approach. The first phase would have $3,750 of grant dollars available for emergency repairs to almost every house in HWR. If there would be remaining funds, then phase two would accept applications for requests up to $7,500 total. He saw a fairness issue. The funds should be available to all of the HWR houses in Minnetonka instead of the select few who request the funds first.

Calvert felt that is a fair point, but there is a balancing act involving the grant amount being sufficient to cover the cost of the repair. She asked if two phases would require more funds to be spent on administrative costs. Gray noted that using two phases may make it more difficult to use the dollars before the lose-it deadline. Scoring and prioritizing projects most in need could be looked at to prevent solely a first-come, first-served allocation basis. The amount allocated to administration costs is already the most allowed.

Chair Yunker supports HWR. He saw the grants as an investment in Minnetonka's HWR housing stock. He noted the challenges in acquiring new properties given the high cost of houses. This could be a good use of the funds now to maintain the HWR houses in Minnetonka. The types of emergency repairs that the grants would cover could be listed such as roofs, windows, HVAC, plumbing, and electrical which are all high-ticket items, but the houses would not be habitable without those functioning items. He suggested that a percentage of the cost of a repair could be provided by the grant. Then the need would also be identified and a round two could be completed if there would still be funds available.

Hromatka supports HWR. It is needed. He found out recently how much it would cost to reshingle a roof. There are a number of HWR houses that need roofs and furnaces and are necessary in order for the housing stock to remain viable. He did not agree with using the funds for kitchen countertops or cabinets. He likes the concept of creating a list of what the funds could be used for, a list of items fundamental to the viability of the housing stock.

Jacobsohn likes the idea of creating a list of fundamental needs that the grants could cover. He suggested partial participation by a homeowner who would cover 10 percent of the cost and the grant would cover the other portion which would fit with HWR's goals of providing quality, safe housing. Hanson noted that another CDBG program lists eligible repair items to include plumbing, electrical, painting, windows, roof, and accessibility improvements.

Duginski Cibulka felt that it has been a good discussion. She supports putting the money to good use. The existing HWR program is vital. She likes the idea of the homeowner paying a portion of the repair to model the overall HWR program. She suggested expanding the list of emergency repairs that would be covered and identifying cosmetic changes that would not be covered.

Gray appreciated the discussion.

Hromatka liked the idea of the HWR homeowner contributing to the cost of a repair, but a lot of residents may not have the funds to pay for 10 percent of the cost to fix a roof, so the homeowner may put the repair off again. He was afraid it would limit homeowners' access to the grant dollars.

Hromatka motioned, seconded by Duginski Cibulka to recommend that the city council approve the CDBG Action Plan allocating $207,500 of CDBG funds to the Rehabilitation Grant Program (HWR residents) to be used for emergency repairs consistant with CDBG guidelines for improvements to a house for emergency-type items and based on needs of the applicants and not for cosmetic-only purposes and the remaining $11,917.56 of CDBG funds to be allocated for administration costs. Duginski Cibulka, Hromatka, and Yunker voted yes. Jacobsohn voted no. Johnston, Falk, and Tyacke were absent. Motion failed.

Calvert noted that commissioners' comments are reflected in the minutes and videos and councilmembers will review that information.

7. Staff Report

Gray gave the staff report:

- The Green Line Extension is currently working on the Opus Station platform, Shady Oak Station platform, excavation and construction of the Hwy 62 tunnel, and construction of the Smetana/Feltl Road bridges. Construction updates are available at www.swlrt.org.
- Metro Transit has seen a ridership increase of 31 percent since spring. Weekend service increased ridership by 55 percent. Metro Transit expects a drop in fare revenue of $240 million in 2020.
- Developments in progress include The Pointe, Minnetonka Station, The Mariner, The Luxe, Doran (The Birke), Shady Oak Crossing, Legends (Dominium), Shady Oak Office Center, Ridgedale Park project, the Minnetonka Police and Fire project, and an environmental assessment of the Opus area.
- Hennepin County had 2,300 businesses apply for CARES grant money. Of those, there were 68 Minnetonka applications that are eligible and in line to receive funding. Minnetonka businesses have received over $760,000 in assistance.
- Minnetonka received a grant to hire a consultant to advertise businesses in Glen Lake.
- The federal administration and CDC put forward an eviction moratorium that will remain in effect through the end of 2020.

8. Other Business

The next EDAC meeting is tentatively scheduled to be held Nov.12, 2020 at 6 p.m.

9. Adjournment

Jacobsohn moved, Hromatka seconded a motion to adjourn the meeting at 8 p.m. Motion passed unanimously.