City Council Agenda Item #14C(2)
Meeting of December 4, 2017

Brief Description	Dominium Apartments funding inquiry
Recommendation	Discuss funding inquiry and provide feedback

Background

Dominium Apartments is proposing the redevelopment of an existing commercial property located at 11001 Bren Road East (Digi International). The current concept plan contemplates redevelopment of the existing Digi International site to construct 454 units of rental housing on the 9.4 acre site (the original concept contemplated 475 units). The proposed redevelopment includes a mix of workforce and senior housing units ranging from one to three bedrooms. The developer is proposing that all units would consist entirely of workforce and senior housing affordable to households earning up to 60% AMI ($54,240 for a family of four). The rents are structured to be capped at approximately 30% of the income level and range from $1,017 for a 1-bedroom, $1,221 for a two-bedroom, and $1,410 for a three-bedroom unit (inclusive of utilities).

The concept plan also includes common-space amenities, outdoor recreational space, underground parking and a boulevard with surface parking. Additionally, the site is located adjacent to the proposed Southwest LRT station. The concept plan includes additional trail connections and connections to the station platform.

Funding Inquiry

Dominium's financing sources, totaling approximately $114 million, include a request to the city to issue approximately $64 million in conduit bond debt, nearly $30 million in 4% low-income housing tax credits (LIHTC) equity, and $11 million in deferred fees. The developer will seek additional funding through Hennepin County and the Metropolitan Council to attract an additional $900,000 to the project. The project as proposed results in a gap of approximately $8.5 million dollars.

To fill the gap, the developer is requesting that the city participate financially by creating a new 26-year Tax Increment Financing (TIF) Housing District to generate up to approximately $7.6 million in assistance. Dominium's request also assumes a 2% annual inflation on the valuation. Historically, the city has not included inflation as a factor in the TIF calculation as it was not necessary to do so. For this project, the inclusion of inflation allows the developer to be repaid more quickly if the district performs well. If the district does not perform well the repayment risk remains with the developer because there is never a guarantee that a TIF district will pay out the projected increment. Without the inclusion of inflation, the financing gap increases by

$1,468,000. The attached memo from Ehlers further explains the financial request and explains inflation in greater detail.

Dominium would be responsible for finding ways to reduce costs and/or seek additional non-city financing to resolve the remaining financing gap of $880,000, assuming inflation of 2% is included in the TIF calculation. If inflation is not included the financing gap is $2,348,000 ($1,468,000 + $880,000).

The developer is requesting TIF assistance of up to $7,611,000. It is likely that the requested amount of assistance will fluctuate as Dominium refines the unit mix and site plan is revised (the latest concept plan from the November 16, 2017 planning commission meeting contemplates 454 units). Any assistance would be adjusted proportionately to reflect the demonstrated gap. Staff is proposing that any TIF assistance be structured as a pay-as-you-go TIF Note to ensure the TIF payment risk is the responsibility of the developer. The attached Council Policy 2.14 provides further guidance on the use of TIF. In addition, Policy 2.5 provides guidance on the issuance of tax-exempt financing.

EDAC Subcommittee Review – October 25, 2017

On October 25, EDAC Commissioners Isaacson, Yunker, and Jacobsohn met as a subcommittee to review the request using Council Policy 2.14, the council's policy on TIF Financing as a guide for the assistance request. The EDAC subcommittee expressed that the request for TIF assistance with 2% inflation was reasonable and concluded that it met the following criteria:

- The project is compatible with the Comprehensive Guide Plan as a proposed mixed-use development;
- The project would not occur "but for" the assistance;
- The project is in a high priority "village area" as identified in the Comprehensive Guide Plan;
    - Project is located in Opus and is a high priority "village area"
- The project includes affordable housing units, which meets the city's affordable housing standards;
    - 100% of units with rents at 60% AMI.
- The proposed project amenities will benefit a larger area than identified in the development; and
- The project will maximize and leverage the use of other financial resources.
    - Developer is proposing a mix of financing sources.

In addition, the EDAC subcommittee provided feedback on items for the EDAC to consider at the November 27 meeting. The EDAC subcommittee requested the following additional information:

- The commissioners asked staff to prepare an analysis on the historical context of property value inflation on a sample of Minnetonka multifamily projects. Staff analyzed the historical property valuation on Belgrove (1988-2017), Boulevard Gardens (1998-2017), and Claremont (1988-2017). The Belgrove and Claremont both experienced a 14% cumulative increase in valuation while Boulevard Gardens experienced an 11% cumulative increase in valuation. Both the Belgrove and Claremont apartments experienced short timeframes with a decline in valuation year over year. However, the cumulative individual valuations for the three properties is positive.

- The commissioners requested information on the existing and proposed housing developments in OPUS. The attached map includes an overview of housing in Opus. There are currently 1,030 units of existing housing (red), 332 units under construction (yellow), and 700 proposed (blue). The Southwest LRT Housing Gaps Analysis recommended the following housing production in Opus in 2015-2030
    - Rental
        - 120 units at 80-100% AMI
        - 340 units at 100%+ AMI
    - Ownership
        - 70 units entry-level
        - 70 units mid-market
    - Total of 600 rental and ownership units

  In addition, Minnetonka has currently met 50% (122 units) of the city’s 2011-2020 Livable Communities Affordable housing goals for production of new affordable (rental and ownership) and 136% (509 units) of the new lifecycle housing as of 2017.

  Lastly, recent housing data prepared for the 2040 comprehensive plan by Marquette Advisor’s indicated that Minnetonka lost approximately 2,200 units affordable to households earning <80% of the area median income between 2010 and 2015. It is anticipated that this trend will continue on naturally occurring affordable housing (NOAH) properties as rents continue to rise, vacancy rates remain historically low, and new households enter the market.

EDAC Review – November 27, 2017

The EDAC reviewed the TIF financing request at the November 27 meeting. The EDAC generally concurred that the request for the 26-year TIF Housing District, with the inclusion of two-percent inflation, met the requirements of the TIF policy and that the request was consistent with the city's treatment of similar projects. The commissioners did concur that the remaining $880,000 gap should be Dominium's responsibility to solve. The attached unapproved minutes from the November 27, 2017 meeting cover the commissioner's feedback in greater detail.

Recommendation

The project concept by Dominium will help meet the city's affordable housing goals outlined in the 2008 Comprehensive Guide Plan, the city's 2011-2020 affordable housing goals, and new housing construction needs identified in the Southwest Corridor Housing Strategy.

Staff recommends the city council review the funding inquiry and provide feedback on the request. No formal recommendation is requested at this time. If the developer submits a formal planning application and financing request, a detailed financial analysis would be prepared and presented to the EDAC and city council to consider at a future date.

Next Steps

- Developer submits formal application
- TBD – Prepare a development agreement

Submitted through:
Geralyn Barone, City Manager
Julie Wischnack, AICP, Community Development Director

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

Additional Information

Memo from Ehlers

Dominium Financial Request

EDAC Unapproved Minutes – November 27, 2017

TIF Policy

Tax Exempt Financing Policy

Opus Area Housing

History of Affordability and Assistance

Minnetonka Housing Action Plan (2011-2020 Affordable Housing Goals)

Southwest LRT Corridor Housing Strategy

Southwest LRT Housing Gaps Analysis

Memo

To: Alisha Gray, Economic Development and Housing Manager

From: James Lehnhoff & Stacie Kvilvang - Ehlers

Date: November 20, 2017

Subject: Digi Site Redevelopment – Dominium Project Proposal Review

The City of Minnetonka requested that Ehlers review the development pro forma and Tax Increment Financing (TIF) request from Dominium for their proposal to construct 475 affordable apartments at 11001 Bren Road East. The existing office building would be demolished and replaced with 210 general occupancy apartments and 265 age-restricted apartments. All of the apartments would be affordable to households at or below 60% of area median income (AMI). If the number of units change, the analysis would be updated and the TIF calculation adjusted accordingly.

To help close a nearly $8.5 million financing gap, Dominium requested that the City create a new 26-year Housing TIF District with a 2% inflationary factor to generate up to $7,611,000 of TIF assistance. The remaining gap amount would need to be filled through a combination of project cost reductions and other non-City sources. The project must comply with the statutory required income restrictions for the term of the Housing TIF District (statutes do not require rent restrictions). However, the City has extended the compliance period to 30 years and required rent restrictions in prior projects. The 2017 income limits as calculated by the United States Department of Housing and Urban Development are:

Income Limit by Household Size	
Household Size	**60% AMI Income Limit**
1	$37,980
2	$43,440
3	$48,840
4	$54,240

We have reviewed the project based on general industry standards for construction, land, and project costs; affordable rental rates and operating expenses; developer fees; available funding sources; underwriting criteria; and, project cash flow. The development pro forma assumptions are generally reasonable and within industry standards. The site acquisition costs of approximately $21,000 per unit are above the typical range of $5,000 to $15,000 per unit found in similar affordable apartment projects throughout the metro area. Dominium contends that the higher site costs relate, in part, to the existing buildings on the site and market demand for locations near future LRT stations.

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Dominium has maximized the first mortgage and 4% low-income housing tax credits (LIHTC). They expect to apply for at least $900,000 in additional public resources from such entities as Hennepin County and the Metropolitan Council. Nevertheless, the project currently has a remaining demonstrated funding gap of $880,000 as noted in the table below. Dominium will need to reduce costs and/or seek other non-City sources to fill the remaining gap.

Proposed Sources and Uses			
Sources	**Amount**	**Per Unit**	**% of Cost**
First Mortgage	$64,020,000	$134,779	56%
TIF Note Request (26 years with 2% Inflation)	$7,611,000	$16,023	7%
4% LIHTC	$29,924,000	$62,998	26%
Met Council/Hennepin County TOD	$500,000	$1,053	0%
Hennepin County HOME Funds	$400,000	$842	0%
Deferred Developer/Contractor Fee (79% of total fees)	$10,819,427	$22,778	9%
Gap (TBD)	$880,000	$1,853	1%
Total	**$114,154,427**	**$240,325**	**100%**
Uses	**Amount**	**Per Unit**	**% of Cost**
Acquisition Costs	$10,000,000	$21,053	9%
Construction Costs	$79,587,222	$167,552	70%
Professional Services	$2,868,195	$6,038	3%
Financing Costs	$2,347,395	$4,942	2%
Contractor Fee	$4,578,785	$9,640	4%
Developer Fee	$9,091,788	$19,141	8%
Cash Accounts/Escrows/Reserves	$5,681,042	$11,960	5%
Total	**$114,154,427**	**$240,325**	**100%**

TIF Inflation Implications

The requested TIF assistance of $7.611 million assumes 2% annual inflation in valuation. Including inflation helps reduce the gap from $2.348 million to the current $880,000 and is a strategy that has been employed in other communities on other Dominium projects (however the TIF term has typically been only been 15 years).

The risk of including inflation remains with the developer. When calculating the potential value of the TIF for a development project, it is common to assume 0% inflation in valuation during the term of the District. This is the most conservative method to estimate future TIF because the TIF is calculated not only on the property valuation, but is also based upon the overall tax rate of the City. In calculating annual TIF, the City must use the *lesser* of the frozen overall tax rate when the district was certified or the current tax rate. When overall property valuations are increasing in the City, the City's overall tax rate will likely go down. Likewise, if property valuations are decreasing (like the recent recession), the City's overall tax rate will likely go up. What this means is that over the term of a TIF district, the TIF will be calculated based upon the frozen rate and the current rate, depending upon which is lowest. As noted in the charts on the following page, if the City's overall tax rate were to decrease by 3.15 percentage points, the property's valuation would need to increase by approximately 5.5% in order to generate the same amount of TIF:

0% Inflation						
Year	% Increse in Market Value	Market Value	Captured Tax Capacity	Tax Rate	Reduction in Tax Rate (From Frozen)	Tax Increment
2017	0%	$85,500,000	431,780	116.838%	0.000%	$504,483

2% Inflation						
Year	% Increse in Market Value	Market Value	Captured Tax Capacity	Tax Rate	Reduction in Tax Rate (From Frozen)	Tax Increment
2017	5.5%	$90,202,500	443,536	113.685%	-3.153%	$504,234

For comparison purposes, the following chart shows the result of assuming 0%, 1%, and 2% inflation on the estimated present value of TIF for the development:

TIF Inflation Scenarios			
	TIF Inflation Assumption		
Sources	***2%***	***1%***	***0%***
First Mortgage	$64,020,000	$64,020,000	$64,020,000
TIF Note Request (maximum 26 year term)	**$7,611,000**	**$6,826,000**	**$6,143,000**
4% LIHTC Equity	$29,924,000	$29,924,000	$29,924,000
Other Non-City Public Sources (e.g. Met Council, Hennepin Cty)	$900,000	$900,000	$900,000
Deferred Developer/Contractor Fee (79% of total fees)	$10,819,427	$10,819,427	$10,819,427
Remaining Gap (TBD)	**$880,000**	**$1,665,000**	**$2,348,000**
Total	**$114,154,427**	**$114,154,427**	**$114,154,427**
Uses	**$114,154,427**	**$114,154,427**	**$114,154,427**

The City's TIF Districts are structured with a "pay-as-you-go" TIF Note. With this type of structure, the City does not provide up-front funding. The developer seeks the funding either through their first mortgage or a second mortgage for the TIF amount. Therefore, the risk of the TIF being generated is borne by the developer, not the City. If the TIF is inadequate to repay the TIF Note in full, the City has no obligation to make up the shortfall. If we look at the difference in allowing inflation, Dominium has $785,000 at risk if the City allows 1% annual inflation. Likewise, if the City allows 2% annual inflation, Dominium has approximately $1.47 million at risk.

Overall, Dominium is making payments on both their first and second (TIF) mortgages. Both of these mortgages require certain debt coverage (typically 120% to 125%) to provide banks the comfort that the revenues generated will be adequate to repay the mortgages. In review of their coverage on both mortgages, they have approximately 120% coverage (even at the 2% inflation on the TIF). If for whatever reason the development falls below the required coverage, the developer is still able to make the payments, they just receive less profit. If the coverage falls below 100%, typically their financing parameters are full recourse, meaning that the developer has to make the payment from other sources, regardless.

Excluding inflation in the sizing of a TIF Note is a common approach because it reduces risk to the developer. The developer is more likely to realize the full value of the TIF Note because it doesn't rely on ever increasing property values and, in reality, the TIF Note is likely to be repaid early. With or without inflation, the primary risk remains with the developer because there is never a guarantee that a TIF District will produce the projected amount of increment.

Including or excluding inflation is solely the City's decision. When a developer, like Dominium, has substantial experience, strong organizational finances, and is well-capitalized, there is less concern about their ability to manage or absorb a potential future shortfall. Dominium has acknowledged the risk associated with including inflation, and other communities have permitted inflation to help close up-front gaps when justified by a project.

Please contact either of us at 651-697-8500 with any questions.

DOMINIUM℠

October 23, 2017

Julie Wischnack & Alisha Gray
Community Development – City of Minnetonka
14600 Minnetonka Boulevard
Minnetonka, MN 55345

Re: Proposed Redevelopment of Digi International HQ, 11001 Bren Road East

Dear Julie and Alisha,

Dominium is proposing to build a multifamily apartment community on the site located at 11001 Bren Road East, the current headquarters of Digi International Inc. If approved, this would be Dominium's second multifamily apartment community in Minnetonka. Dominium, founded in 1972 and headquartered in Plymouth, MN, specializes in high quality rental housing. Dominium also has a professional management company that manages our 28,000 apartment homes across the U.S. We are excited about the opportunity to make a significant investment in to the City of Minnetonka and contribute to the redevelopment and transformation of the Opus campus area into a transit-friendly, walkable, and diverse mixed-use neighborhood.

Proposed Development

Directly adjacent to the planned Opus Station on the Metro Transit Green Line Light Rail Extension, the proposed development would consist of two projects on the 9.4 acre site: a 265-unit independent living senior community and a workforce community of two approximately 105-unit buildings. The buildings are oriented to minimize density near the townhome neighbors to the north and maximize the features of the site, including mature trees and a small wetland to the north, the proximity to the LRT stop to the east, and the public walking path to the south.

The proposed development would also contribute to the other recent developments that are bringing additional housing to the area that has to date has predominantly been comprised of office space. This project would help accelerate the demand created for services that typically follow the development of new housing units, adding amenities and retail businesses that all nearby residents can enjoy.

These communities would also make a major impact in maintaining the affordability of the neighborhood well into the future, with all units reserved for tenants at the 60% Area Median Income (AMI) level. In the metro region, a family of four at the 60% AMI level can make up to $90,400 per year; rents are capped at about $950 for a one bedroom home, $1,150 for a two bedroom, and $1,350 for a three bedroom. See below for the planned unit mix (mix subject to change):

Senior Community	
Unit Type	**# of Units**
One-bedroom, one bath	70
Two-bedroom, two bath	135
Three-bedroom, two bath	60

Workforce Community (2 buildings)	
Unit Type	**# of Units**
One-bedroom, one bath	45
Two-bedroom, two bath	90
Three-bedroom, two bath	75

Financing Details

The proposed development is expected to exceed $112 million in total development costs. Due to the nature of having the rents capped at affordable levels, and increasing land prices as discussed in the City's 2030 Comprehensive Plan, the project is left with a funding gap (after maximizing the first mortgage proceeds and tax credit equity) which would need to be filled in order to make this project feasible. As such, the development will be applying to a variety of additional sources of funding to fill this gap, including several local public grants and loan programs. These funding opportunities are as follows:

1. Metropolitan Council Transit Oriented Development (TOD) funds
2. Metropolitan Council Local Community Development Account (LCDA) funds
3. Hennepin County Transit Oriented Development (TOD) funds
4. Hennepin County HOME funds
5. Minnesota Department of Employment and Economic Development (DEED) Brownfield and Cleanup funds

While Dominium is hopeful in receiving awards for these funds, all of the sources above have been oversubscribed in several of the recent funding rounds. Since the development does qualify well for some of these programs, we are assuming being awarded $900,000 between these funding opportunities.

Benefits to City from the Proposed Development

In connection with the proposed development, the City would receive several benefits. Among these are financial benefits which are summarized below.

Financial Benefits to City	
Water Equivalency Charge	$867,100
Sewer Equivalency Charge	$488,000
Park Dedication Fees	$2,375,000
Tax-Exempt Bond Fees	$84,000
TIF Administrative Fees *(over TIF term)*	$1,663,000
Building Permit & Plan Review Fees	$523,000
Total	**$6,000,100**

Also, as required and planned for in partnership with the Metropolitan Council, the City of Minnetonka has goals for affordable rental housing production for seniors and families, especially near fixed transit. This development would provide a significant number of high-quality affordable housing units for 30 years towards those goals, adding housing options to the neighborhood to balance the luxury market-rate development pressure that accompanies transit investment.

Request for City Assistance

We are requesting the following funds from the City of Minnetonka:

1. Tax Increment Financing (TIF)
   a. 26 year term
   b. 2% inflation on property taxes to calculate amount of TIF Note
   c. TIF Note Amount - $7,491,000
   d. 30 year affordability term
2. Other Assistance
   a. $1,000,000 deferred payment of park dedication fees
   b. Note from City of $1,000,000
   c. 30-year term
   d. No payments until maturity
   e. "Last in Dollars"
      i. If Dominium receives more than $900,000 from the local sources of funding described above, it will reduce its $1,000,000 request to the City dollar-for-dollar.

Please contact us with any questions or comments. We sincerely appreciate the consideration of the City and look forward to continuing our work together on this proposed redevelopment.

Best Regards,

Ryan Lunderby
Vice President & Project Partner
(763) 354-5634
rlunderby@dominiuminc.com

CC:
Willy Boulay, Dominium
Ahmed Abdelhameed, Dominium

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.

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;

- provide, help acquire or construct public facilities;
- finance or provide public infrastructure;
- improve blighted or dilapidated properties, provide cohesive development patterns, or improve land use transitions; or
- 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 2.5
Tax Exempt Financing for Industrial Development, Health Care Facilities, Multi-Family Housing, and 501 (c)(3) Projects
(Private Activity Tax Exempt Financing)

Purpose of Policy: This policy establishes factors that guide the city council in consideration of applications for tax exempt financing for industrial development, health care facilities, multi-family housing developments, and qualified 501 (c)(3) projects.

Introduction

Under the Minnesota Municipal Industrial Development Act, Minnesota Statutes Sections 469.152 to 469.165 (the "IDR Act"), the city of Minnetonka has the authority to issue industrial development and health care facility bonds or notes to attract or promote economically sound industry, commerce, and health care in the city.

Under Minnesota Statutes, Chapter 462C (the "Housing Act"), the city is authorized to issue housing revenue bonds to finance multi-family residential housing projects for low and moderate income persons and elderly persons. Projects must be embodied in a Housing Program, as defined in the Housing Act.

Additionally, the city may issue tax exempt financing for qualified 501 (c)(3) entities for various project types including housing, health care, nursing homes and educational facilities.

The council is aware that such financing for certain private activities may be of benefit to the city and will consider requests for tax exempt financing subject to this council policy. The council considers tax exempt financing to be a privilege, not a right.

It is the judgment of the council that tax exempt financing is to be used on a selective basis to encourage certain development that offers a benefit to the city as a whole, including significant employment and housing opportunities, as well as for those projects that may be carried out through a qualified non-profit organization. It is the applicant's responsibility to demonstrate the benefit to the city, both in writing and at the public hearing(s). The applicant should understand that although approval may have been granted previously by the city for the issuance of financing for a similar project or a similar debt structure, 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 of the Housing Act or the IDR Act and benefit to the city at the time the request for financing is being considered.

Part A: Standards

Applications must meet all of the following standards to be eligible for consideration:

- At the time of any application for a guide plan amendment, rezoning or site plan approval for a project, whichever occurs first, the applicant must divulge that private activity tax exempt financing will be requested.

- The project must meet the objectives of and be otherwise consistent with the IDR Act or the Housing Act and any other controlling laws.

- The projects must comply with all applicable federal, state, regional, and city laws, including compatibility with the Comprehensive Guide Plan and the development plans and objectives of the city, as well as applicable zoning and land use regulations and ordinances.

- A project application must demonstrate financial feasibility and adequate bond holder security through credit enhancement, rating or a financial review by a third party accounting firm or the city's financial advisor.

- Industrial and health care projects must not be speculative, i.e., they must either be for the applicant's sole use or 60 percent of the square footage must be pre-leased.

- The principal amount of the tax-exempt obligations will be limited to the sum of costs that are financeable with tax-exempt obligations under state and federal law. The proceeds of the tax-exempt obligations cannot be used for working capital expenditures. Capital equipment may be financed with the proceeds of tax-exempt obligations only if the City Council finds the equipment to be essential to the new, redeveloped or expanded business.

Those applications which exceed the minimum standards will generally be considered more favorably than those which only meet these standards.

Part B: Additional Review Standards
Those applications meeting all of the standards listed above will be further reviewed to determine compliance with the following additional review standards. Applications meeting more of the following standards will generally be considered before those which just meet some of them or meet them less extensively:

- Facilitation of the city's development or redevelopment objectives.

- The number and type of additional jobs created or retained in the city.

- For housing projects, the number, type and affordability of new or newly available housing units.

- The projected increase in property tax revenue.

- The amount of equity participation above 10 percent.

- The quality of the project, as represented by renderings, site plans, the applicant's record of development, etc.

- The project's impact on additional city services.

- For projects located outside of the city, the benefit the project brings to the region, including the number of Minnetonka residents and/or businesses served.

The view of individuals and businesses expressed at the public hearing(s) on the project will also be considered.

Part C: Other Provisions

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

- City officials will not deliver documents for the issuance of tax exempt obligations until all required fees have been paid by the applicant to the city and special counsel to the city has issued a favorable opinion on those matters for which special counsel is responsible.

- The council resolution giving preliminary approval to a project must specify:

  - That the approval given terminates at the end of the calendar year from the date of the resolution and may be renewed only upon request of the applicant.

  - That the applicant agrees to pay all required fees and reimburse the city for any and all costs incurred by it in the financing.

  - That the city reserves the right in its sole discretion to withdraw the preliminary approval at any time prior to the issuance of tax exempt obligations for the project upon its determination that the purposes of the appropriate Act and this policy would not be served thereby, or if any material misstatement is made. The council's decision on this matter is uncontestable.

- The director of community development, under the direction of the city manager, is responsible for the administration and processing of applications for tax exempt financing. The director of community development is to prepare and revise, from time to time, necessary application forms and informational material in order to carry out the objectives of the policy.

- The following fees for the processing of applications are established:

  - A non-refundable application fee of $3,500, and

    An administrative fee equal to one-eighth of one percent (.125%) of the principal amount of the bonds. The application fee must accompany the original application. The administrative fee must be paid at or prior to delivery of the bonds to the original purchaser. The proceeds of the administrative fee must be deposited in a special fund of the city to be used to defray administrative costs of the city in the administration of private activity financing.

- The applicant must select a financial advisor acceptable to the city or an underwriter to assist the applicant in preparing all necessary application documents and materials. The financial adviser will subject a letter that establishes the financial feasibility of the project. Applications may, in the alternative, include a signed letter from a responsible financial institution or underwriter indicating that the project is economically feasible and viable and stating that bonds can be successfully sold for the project or that an individual or institution intends to purchase all of the bonds.

  The applicant must receive approval from the appropriate state agencies, secure financing by the end of the calendar year in which approval was given and commence construction within one year of the date of the resolution giving preliminary approval to the project or the housing program. Upon application, the council may approve an extension of the preliminary approval.

- The city is to be reimbursed and held harmless for any out-of-pocket expenses related to the tax exempt financing including, 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 even if they exceed the deposit.

Part D: Miscellaneous Matters

Refundings

The council will approve the refunding of a tax-exempt issue only upon a showing by the applicant of substantial debt service savings and/or the removal of bond covenants significantly impairing the financial feasibility of the project.

For each application for refunding, the non-refundable application fee must be paid together with any city expenses in excess of that fee. If the administrative fees listed in paragraph 5 of Part C were paid for the original bond issue, no new administrative fees are required. If the administrative fees were not paid for the original bond issues, they must be paid for the refunding issue.

Subsequent Proceedings

Where changes to the underlying documents or credit facilities of outstanding bond issues are to be made and require council action, no administrative fee is charged but a non-refundable fee of $2,500 must be deposited with the city to cover administrative costs. No formal application form is required.

Arbitrage and Reporting

The city must be copied on any reporting to bondholders and/or trustees that the borrower produces. The borrower must also undertake arbitrage calculations every five years or more often if required for legal compliance, and copy the city with these calculations.

IRS Examination/Audit

If the borrower is subject to an IRS examination/audit on the tax exempt financing, the city's bond counsel must be involved in a timely fashion on any responses to IRS inquiries. The borrower will reimburse the city for any costs the city occurs related to the examination/audit.

Issue by Another Political Subdivision (Host Approval)
The city will consider requests for approval of tax exempt financing by another political subdivision for projects located in the city of Minnetonka. In these cases, a non-refundable application fee of $250 must be paid and all procedures followed through the approval of the preliminary resolution. No administrative fee is charged.

City as Issuer for Another Political Subdivision
The city may consider requests for tax exempt financing for projects located in another city. Host approval must first be given by the jurisdiction in which the project is located. All projects must meet the city's standards as deemed applicable by the Community Development Director, and application and administrative fees will be collected as called out in Part C.

Deadlines
The council conducts all tax exempt financing matters at regularly scheduled council meetings generally held on the second and fourth Monday of each month. Documents for council consideration must be at the city office ten days preceding the council meeting at which the matter is to be considered. No exceptions to this requirement will be made. In the case of a publicly offered bond issue, the documents, when submitted, may specify a maximum price and maximum effective interest rate if prices and rates have not yet been established.

Public Hearings
Published and mailed notice of any required public hearing may be set and arranged administratively by city staff.

Economic Development Authority as Issuer
Regarding any tax exempt financing for which the Minnetonka Economic Development Authority (EDA) is to be the issuer, the EDA is to follow the adopted council policy applicable to such financing.

Adopted by Resolution No. 84-7547
Council Meeting of August 6, 1984

Adopted by Resolution No. 84-7563
Council Meeting of August 27, 1984

Amended by Council Motion
Council Meeting of November 18, 1985

Amended by Resolution No. 97-104
Council Meeting of July 28, 1997

Amended by Resolution No. 2003-077
Council Meeting of August 25, 2003

Amended by Resolution No. 2015-019
Council Meeting of March 23, 2015

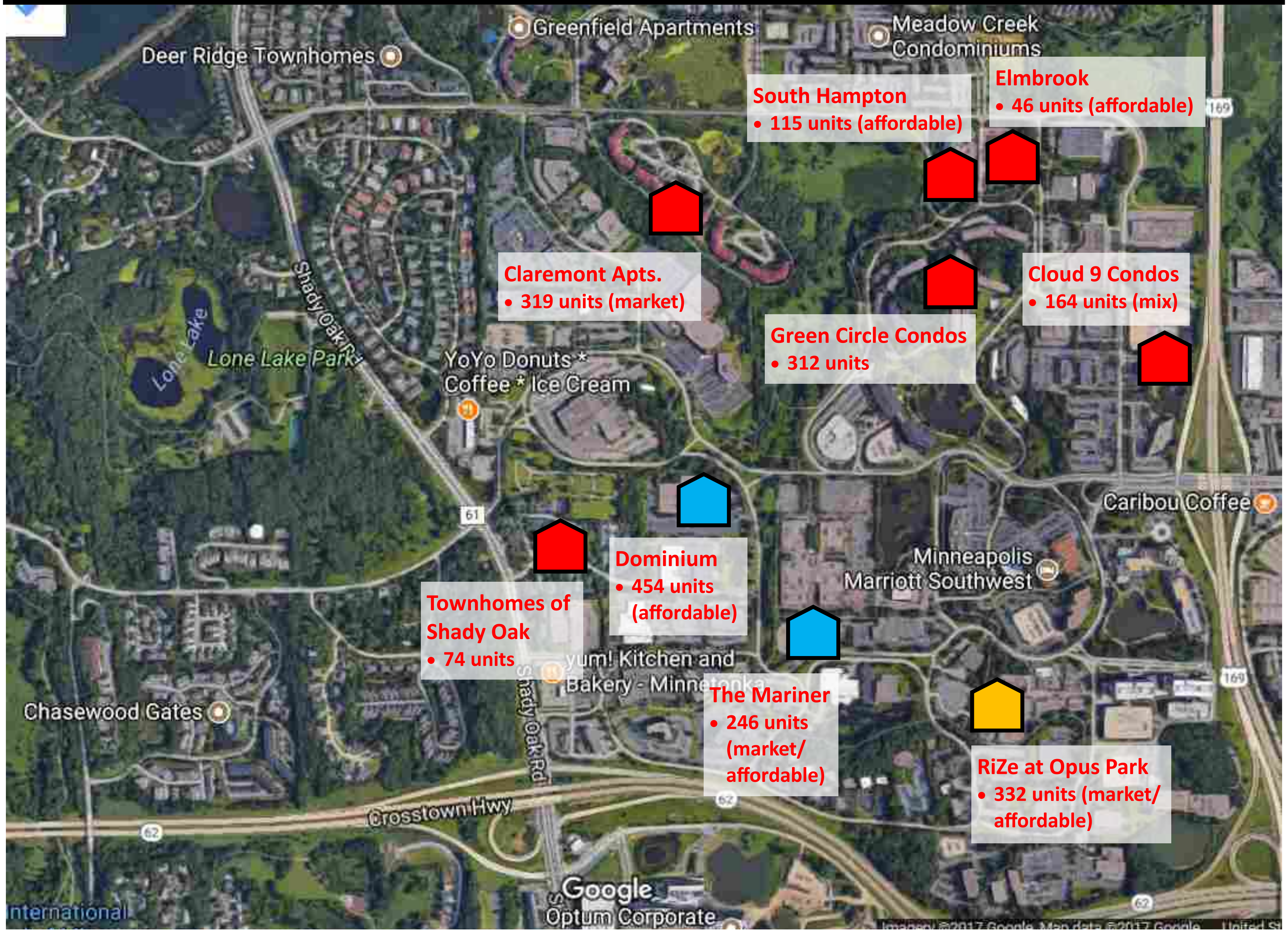
Opus Housing

November 2017

1,030 existing units

332 units under construction

700 units proposed



ASSISTANCE TO AFFORDABLE HOUSING PROJECTS

Name of Project	Number of Affordable Units	Total Assistance	Years of Affordability	Assistance per Unit per Year	Affordability Level
Dominium	475	$7,611,000 (est)	30	$534	60% AMI
Shady Oak Redevelopment	49	$1,209,000 (est)	30	$822	60% AMI
Newport Partners (Mariner)	55	$556,179 (est)	30	$337	60% AMI
Tonka on the Creek	20	$2,283,000	30	$3,805	50% AMI
Applewood Pointe	9	$1,290,000	Initial Sale/Ongoing maximum %	$4,777(est)	80% AMI
At Home (Rowland)	21	$2,500,000	30	$3,968	50% AMI
Cedar Point Townhomes	9	$512,000	15	$3,792	50% AMI
Glen Lake (St. Therese, Exchange)	43	$4,800,000	30	$3,721	60% AMI
Ridgebury	56	$3,243,000	30	$1,930	Initially--80% AMI Now—No income limit
Beacon Hill (apartments)	62	$2,484,000	25	$1,602	50% AMI
West Ridge Market (Crown Ridge, Boulevard Gardens, Gables, West Ridge)	185	$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
The Ridge	52	$1,050,000	30	$673	60% AMI
Homes Within Reach (2004-2012 grant years)	35	$1,740,000	99	$502	80% AMI

MINNETONKA HOUSING ACTION PLAN
FOR THE YEARS 2011-2020
METROPOLITAN LIVABLE COMMUNITIES ACT

Introduction

In 1995, the Minnesota Legislature created the Livable Communities Act (LCA) to address the affordable and life-cycle housing needs in the Twin Cities metropolitan area. When the LCA was established, Minnetonka was one of the communities to sign up to participate in the program, negotiating a series of affordable and lifecycle housing goals with the Metropolitan Council for 1996-2010.

In August 2010, the Minnetonka City Council passed a resolution electing to continue participating in the LCA for the years 2011-2020. As part of that resolution, the city agreed to the following affordable and lifecycle housing goals:

New Affordable Units (rental and ownership)	246 to 378
New Lifecycle Units	375 to 800

The purpose of this Housing Action Plan is to outline the steps and tools that the city may use between the years 2011-2020 to help meet its LCA goals.

Overview of Minnetonka Housing Trends

Development Conditions

Minnetonka is a desirable community in which to live. Its natural environment, good schools, and homes on large lots contribute to the attraction of Minnetonka as a great place to live, work and play. As such, the demand for these community attributes has led to increased home values that have risen to the point that most single-family homes, despite their age, are not affordable to low and moderate income families. Land values, in particular, have increased substantially, making it difficult for developers to build affordable and mid-priced single-family homes.

Additionally, Minnetonka is a fully developed city with little vacant or underdeveloped land available for new housing development. With the combination of increasing land values and little developable land, most of the affordable homes in the community are rental units and for-sale condominiums and townhomes.

Aging of the Population

One of the biggest demographic shifts affecting this nation is the aging of the “baby boomer” generation (the large generation of people born between 1946 and 1964). This trend is already apparent in Minnetonka, where the median age in 2007 was 52 years old and 44% of the households were age 55 and older. As the population continues to age, housing location, types, and proximity to public transit or transit alternatives will become increasingly important.

Preservation and Rehabilitation of the Existing Housing Stock

Much of Minnetonka's single-family housing stock was built between 1950 and 1970 while most multi-family housing was built in the 1970s and 1980s. As the housing stock continues to age, additional maintenance and repairs will be needed in order to keep homes in adequate condition and to preserve neighborhood character. Older homes may need to be updated in order to attract younger families to the community. Also, as both Minnetonka's population and housing age, older residents may require increased support through funding and in-kind service programs that will help them to maintain and make necessary repairs to ensure that their homes are safe, accessible, energy efficient, and habitable.

While not all older homes are affordable, older homes tend to be the more affordable housing stock in Minnetonka. The preservation of these homes is critical to providing homeownership opportunities for those who could normally not afford to live in the community.

Current Housing Conditions

In 2007, there were approximately 22,500 housing units in Minnetonka, of which 76.6% are owner-occupied. The housing stock includes a mix of the following types:

- 57% single-family
- 20% condominium/townhome
- 18% general-occupancy rental
- 5% senior (including independent and assisted living facilities)

Land values in Minnetonka continue to greatly influence the cost of housing. In Minnetonka, land accounts for about one-third of a home's total value, thus making up a large proportion of the home value. For a single-family home, the median value is $326,850, with only about 1% of the single-family homes valued under $200,000. The median value of Minnetonka's multi-family for-sale homes (i.e. condominiums and townhomes) in 2007 was $200,000. Multi-family homes contribute to the bulk of the city's affordable for-sale housing stock because they are generally more affordable than Minnetonka's single-family detached homes.

The average monthly rents at Minnetonka's market-rate multi-family apartments are much higher than other market-rate apartments in the metropolitan area. In the 1st Quarter 2007, Minnetonka's average apartment rents were $1,106 compared to the metropolitan area's average apartment rental rate of $876. Additionally, only about 20% of Minnetonka rental units are considered affordable under the Metropolitan Council's definition.

Housing Goals

In addition to the city's agreement to add new affordable and lifecycle housing units as set out in the 2011-2020 affordable and lifecycle housing goals with the Metropolitan Council, the city's 2008 Comprehensive Plan update also provides a series of housing goals that the city will be working towards achieving. These goals include:

1. Preserve existing owner-occupied housing stock.
2. Add new development through infill and redevelopment opportunities.
3. Encourage rehabilitation and affordability of existing rental housing and encourage new rental housing with affordability where possible.
4. Work to increase and diversify senior housing options.
5. Continue working towards adding affordable housing and maintaining its affordability.
6. Link housing with jobs, transit and support services.

More details on these goals as well as action steps are provided in the 2008 City of Minnetonka Comprehensive Plan Update.

Tools and Implementation Efforts to Provide Affordable and Lifecycle Housing

Housing Assistance Programs

The purpose of housing assistance programs is to provide renters or homeowners help in obtaining a housing unit. These programs can be federal, state, or local programs. For the years 2011-2020, Minnetonka anticipates the following programs will be available to Minnetonka residents.

<u>Section 8 Voucher Program</u>
The Section 8 Voucher Program is funded by the U.S. Department of Housing and Urban Development (HUD), and administered by the Metro HRA on behalf of the city. The program provides vouchers to low income households wishing to rent existing housing units. The number of people anticipated to be served depends on the number of voucher holders wishing to locate in Minnetonka as well as the number of landlords wishing to accept the vouchers.

<u>Shelter Plus Care</u>
The Shelter Plus Care program is another federal program administered by the Metropolitan Council and sometimes the City of St. Louis Park. This program provides rental assistance and support services to those who are homeless with disabilities. There are a small number of these units (less than 10) in the city currently, and it is unlikely there will be any more added.

<u>Minnesota Housing Finance Agency Programs</u>
The Minnesota Housing Finance Agency (MHFA) offers the Minnesota Mortgage Program and the Homeownership Assistance Fund for people wishing to purchase a

home in Minnetonka. The Minnesota Mortgage Program offers a below market rate home mortgage option, while the Homeownership Assistance Fund provides downpayment and closing cost assistance. It is unknown how many people are likely to use these services as it seems to depend on what the market conditions are.

Homes Within Reach

Homes Within Reach, the local non-profit community land trust, acquires both new construction and existing properties for their program to provide affordable housing in the city. Using a ground lease, it allows the land to be owned by Homes Within Reach and ensures long-term affordability. Additionally, if rehabilitation is needed on a home, Homes Within Reach will rehabilitate the home before selling the property to a qualified buyer (at or less than 80% area median income). It is anticipated that approximately three to five homes per year will be acquired in Minnetonka as part of this program.

City of Minnetonka First Time Homebuyer Assistance Program

In 2010, the city levied for funds to begin a first time homebuyer assistance program. The program is anticipated to begin in 2011. General program details include funds for downpayment and closing costs of up to $10,000, which would be structured as a 30 year loan and available to those at incomes up to 115% of area median income or those that can afford up to a $300,000 loan. The number of households to be assisted depends on the amount of funding available for the program. Currently, this program is anticipated to be funded with HRA levy funds.

Employer Assisted Housing

Through employer assisted housing initiatives, Minnetonka employers can help provide their employees with affordable rental or home ownership opportunities. There are several options that employers can use to both increase the supply of affordable housing, as well as to provide their employees with direct assistance by:

- Providing direct down payment and closing cost assistance
- Providing secondary gap financing
- Providing rent subsidies

No employer assisted housing programs have been set up to date; however, it is a tool that the city has identified in the past as an opportunity for those who work in Minnetonka to live in Minnetonka.

Housing Development Programs

Housing development programs provide tools in the construction of new affordable housing units—both for owner-occupied units as well as rental units.

Public Housing

There are currently 10 public housing units, located in two rental communities, which offer affordable housing options for renters at incomes less than 30% of area median income. The Metropolitan Council and Minneapolis Public Housing Authority administer the public housing program on behalf of the city. It is not anticipated that more public housing units will be added to the city.

HOME Program

HOME funds are provided through Hennepin County through a competitive application process. The city regularly supports applications by private and non-profit developers that wish to apply for such funds. Homes Within Reach has been successful in the past in obtaining HOME funds for work in Minnetonka and suburban Hennepin County.

Other Federal Programs

The city does not submit applications for other federal funding programs such as Section 202 for the elderly or Section 811 for the handicapped. However, the city will provide a letter of support for applications to these programs.

Minnesota Housing Finance Agency Programs

The Minnesota Housing Finance Agency (MHFA) offers a variety of financing programs, mainly for the development of affordable rental housing. Similar to federal programs, the city does not usually submit applications directly to MHFA; however, it will provide letters of support for applications to the programs.

Metropolitan Council Programs

The Metropolitan Council, through participation in the LCA, offers the Local Housing Incentives Account and Livable Communities Demonstration Account programs to add to the city's affordable housing stock. Over the past 15 years, the city has received nearly $2 million in funds from these programs, and will continue to seek funding for projects that fit into the criterion of the programs.

Twin Cities Habitat for Humanity

The Twin Cities Habitat for Humanity chapter has had a presence in Minnetonka in the past, completing four affordable housing units. At this time there are no projects planned for Minnetonka, as land prices make it significantly challenging unless the land is donated. The city is willing to consider projects with Habitat for Humanity in the future to assist those with incomes at or below 50% of area median income.

Tax Increment Financing

Minnetonka has used tax increment financing (TIF) to offset costs to developers of providing affordable housing in their development projects. The city will continue to use TIF financing, as permitted by law, to encourage affordable housing opportunities. Unless the state statutes provide for a stricter income and rental limit, the city uses the Metropolitan Council's definition of affordable for housing units.

Housing Revenue Bonds

The City has used housing revenue bonds for eight rental projects since 1985. Housing revenue bonds provide tax exempt financing for multi-family rental housing. The bond program requires that 20 percent of the units have affordable rents to low and moderate income persons. The city will continue to use housing revenue bonds for projects that meet housing goals and provide affordable units meeting the Metropolitan Council's guidelines.

Housing and Redevelopment Authority (HRA) Levy
By law, the city's Economic Development Authority (EDA) has both the powers of an economic development authority and a housing and redevelopment authority (HRA). It can use these powers to levy taxes to provide funding for HRA activities, including housing and redevelopment. The city first passed an HRA levy in 2009 to support Homes Within Reach, and now uses the funds to support its own housing rehabilitation and homeownership activities for those at 100-115% of area median income.

Community Development Block Grant (CDBG) funds
CDBG funds are allocated to the city by HUD each year. Based upon the needs, priorities, and benefits to the community, CDBG activities are developed and the division of funding is determined at a local level. CDBG funds are available to help fund affordable housing.

Livable Communities Fund
In 1997, special legislation was approved allowing the City to use funds remaining from Housing TIF District No. 1 for affordable housing and Livable Communities Act purposes. The city can use these funds to help achieve its affordable housing goals.

Housing Maintenance and Rehabilitation

As the city's housing stock continues to age, a number of programs are already in place to help keep up the properties.

Minnesota Housing Finance Agency Programs--Rental
The Minnesota Housing Finance Agency (MHFA) offers a variety of financing programs, for the rehabilitation of affordable rental housing. The city does not submit applications for these programs as the city does not own any rental housing; however, it will provide letters of support for those wishing to apply.

Minnesota Fix-up Fund
The Minnesota Housing Fix-Up Fund allows homeowners to make energy efficiency, and accessibility improvements through a low-interest loan. Funded by MHFA, and administered by the Center for Energy and Environment, the program is available to those at about 100% of area median income.

Community Fix-up Fund
The Community Fix-Up Fund, offered through Minnesota Housing, is similar to the Fix-Up Fund, but eligibility is targeted with certain criteria. In the city, Community Fix-Up Fund loans are available to Homes Within Reach homeowners, since community land trust properties cannot access the Fix-Up Fund due to the ground lease associated with their property.

Home Energy Loan

The Center for Energy and Environment offer a home energy loan for any resident, regardless of income, wishing to make energy efficiency improvements on their home.

Emergency Repair Loan

Established in 2005, the City's Emergency Repair Loan program provides a deferred loan without interest or monthly payments for qualifying households to make emergency repairs to their home. The amount of the loan is repaid only if the homeowner sells their home, transfers or conveys title, or moves from the property within 10 years of receiving the loan. After 10 years, the loan is completely forgiven. This loan is funded through the City's federal Community Development Block Grant (CDBG) funds in order to preserve the more affordable single-family housing stock by providing needed maintenance and energy efficiency improvements. The program is available to households with incomes at or below 80% of area median income. On average, 10 to 15 loans are completed each year.

City of Minnetonka Home Renovation Program

In 2010, the city levied for funds to begin a home renovation program. The program is anticipated to begin in 2011. This program would be similar to the existing federal community development block program (CDBG) rehabilitation program. The challenge with CDBG funding involves the maximum qualifying household income of 80% of AMI, Use of HRA funds, would allow the City of Minnetonka Home Renovation Program more flexibility to include households up to 115% AMI, which equates to 82% of all Minnetonka households. The program would be geared toward maintenance, green related investments and mechanical improvements. Low interest loans would be offered up to $7,500 with a five year term.

H.O.M.E. program

The H.O.M.E. program is a homemaker and maintenance program that is designed to assist the elderly. The H.O.M.E. program assists those who are age 60 and older, or those with disabilities with such services as: house cleaning, food preparation, grocery shopping, window washing, lawn care, and other maintenance and homemaker services. Anyone meeting the age limits can participate; however, fees are based on a sliding fee scale. Nearly 100 residents per year are served by this program.

Home Remodeling Fair

For the past 17 years, the city has been a participant in a home remodeling fair with other local communities. All residents are invited to attend this one day event to talk to over 100 contractors about their remodeling or rehabilitation needs. Additionally, each city has a booth to discuss various programs that are available for residents. Approximately 1,200 to 1,500 residents attend each year.

Local Official Controls and Approvals

The city recognizes that there are many land use and zoning tools that can be utilized to increase the supply of affordable housing and decrease development costs. However, with less than two percent of the land currently vacant in the city, most new projects will be in the form of redevelopment or development of under-utilized land. New infill development and redevelopment is typically categorized as a planned unit development (PUD), which is given great flexibility under the current zoning ordinance.

<u>Density Bonus</u>
Residential projects have the opportunity to be developed at the higher end of the density range within a given land use designation. For example, a developer proposing a market rate townhouse development for six units/acre on a site guided for mid-density (4.1-12 units/acre) could work with city staff to see if higher density housing, such as eight units/acre, would work just as well on the site as six units/acre. This is done on a case by case basis rather than as a mandatory requirement, based on individual site constraints.

<u>Planned Unit Developments</u>
The use of cluster-design site planning and zero-lot-line approaches, within a planned unit development, may enable more affordable townhome or single-family cluster developments to be built. Setback requirements, street width design, and parking requirements that allow for more dense development, without sacrificing the quality of the development or adversely impacting surrounding uses, can be considered when the development review process is underway.

<u>Mixed Use</u>
Mixed-use developments that include two or more different uses such as residential, commercial, office, and manufacturing or with residential uses of different densities provide potential for the inclusion of affordable housing opportunities.

<u>Transit Oriented Development (TOD)</u>
TOD can be used to build more compact development (residential and commercial) within easy walking distance (typically a half mile) of public transit stations and stops. TODs generally contain a mix of uses such as housing, retail, office, restaurants, and entertainment. TODs provides households of all ages and incomes with more affordable transportation and housing choices (such as townhomes, apartments, live-work spaces, and lofts) as well as convenience to goods and services.

Authority for Providing Housing Programs

The City of Minnetonka has the legal authority to implement housing-related programs, as set out by state law, through its Economic Development Authority (EDA). The EDA was formed in 1988; however, prior to that time, the city had a Housing and Redevelopment Authority (HRA).