Minnetonka
Economic Development Advisory Commission
Virtual Meeting
Minutes

Feb. 25, 2021
6 p.m.

1. Call to Order

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

2. Roll Call

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

Councilmember Deb Calvert was present.

Staff present: Community Development Director Julie Wischnack, Economic Development and Housing Manager Alisha Gray, Economic Development Coordinator Rob Hanson, Financial Consultant Keith Dahl of Ehlers and Associates, and IT Assistants Gary Wicks and Joona Sundstrom.

3. Approval of EDAC Oct. 29, 2020 Meeting Minutes

<u>Hromatka motioned, Tyacke seconded the motion to approve the Oct. 29, 2020 meeting minutes as submitted. Duginske Cibulka, Falk, Hromatka, Jacobsohn, Johnston, Tyacke, and Yunker voted yes. Motion passed.</u>

4. Tax Increment Financing Renewal and Renovation District – Opus Area

Gray gave the staff report. She requested commissioners review the staff report and provide comments.

Tyacke asked for the consequences of the structures determined to be blighted or obsolete. Dahl explained that structurally substandard and obsolete buildings need to be identified to qualify the TIF District. The current property owner could continue to use the building as is, but it is identified to help establish the TIF district and determine the amount of TIF funds that would be generated to improve the infrastructure in the district.

Tyacke asked how the cost of street improvements would be distributed evenly between the property owners when the need for street improvements is triggered. Wischnack explained that the funds would be collected all at once.

Duginske Cibulka asked for clarification on a discrepancy between the report and letter from Ehlers on the number of buildings that have been identified as obsolete.
In response to Duginske Cibulka's question, Dahl explained that the seven buildings identified as obsolete will require renovation clearance. Staff has been fielding calls for

redevelopment on the sites with an orange dot. Since there is a redevelopment proposal for the site it meets the state statute requirement to be deemed obsolete.

Duginske Cibulka stated that it seems like the infrastructure improvements are being aligned with scenario two. She asked if the improvements are designed to accommodate current applications or additional projects forecasted in the future. Gray explained that the level of development described in scenario two is anticipated. The current number of units being proposed is nearing the number of units anticipated for 2040. The infrastructure improvements are designed to accommodate projected future growth in steps.

Chair Yunker asked how old the infrastructure is now. Wischnack answered that the water and sewer lines from the 1970s are in pretty good repair and the capacity is quite large. Work is needed and has been scheduled for lift stations in the area. Lighting, trails, and way-finding signs need to be updated.

Hromatka asked how 16 years for the district length was determined and for further clarification on how the city came up with projections for the number of units and number of jobs created within the two AUAR scenarios.

In response to Hromatka's questions, Gray explained that the state statute restricts the district's term to 16 years. Scenario one represents the comprehensive guide plan projection for the area and scenario two looks at the maximum amount of density that each parcel could support with its highest and best use.

Wischnack said that other markets similar to Minnetonka were looked at to help determine the intensity of development across the country.

Hromatka asked how much the tax increment revenue bonds would be expected to generate. Dahl referred to the presentation that shows $54 million of tax increment being generated over 16 years. That is including the four developments currently being proposed. It does not take into account future development on sites within the district. It is a conservative approach to estimating the amount of tax increment that would be generated. A conservative interest rate for the bonds would be four percent and result in $38 million. There would be enough to cover potential assistance to developments, get the affordability level that Minnetonka supports and have enough to pay for the public infrastructure. The number would go up if more developments would occur in the Opus Business Park area. Even if only two of the projects would move forward, there would still be enough increment to do the public infrastructure improvements adjacent to the TIF district, but not some of the other road improvements that have been contemplated. The amount can only go up from here to pay for more public infrastructure improvements.

In response to Duginske Cibulka's question, Dahl clarified that the $54 million is a future value based on the four developments being proposed on their generated increment. The $38 million is a present value based on a four percent interest rate over the 16-year term of the district. If the infrastructure improvements would be financed within the district and had an interest rate on the bond, then the city would be able to get a principle amount of $38 million. The $54 million would be enough to pay the principle and interest over time on the bonds.

Jacobsohn asked for the current municipal-bond-market rate. Hromatka answered that the market currently has historically low rates. The current rate for a Minnetonka deal is in the three percent to three-and-a-half percent range for 16 years.

Duginske Cibulka likes that the TIF district would prevent each property owner from being assessed for the improvements. Assessments could also impact the existing buildings. She was curious what the assessment amount would have been for each property owner. Wischnack estimated dividing the $16 million by each parcel's number of acres to get an idea of what each property would be assessed. The amount of frontage on the street that abuts the improvement is used to determine each assessment amount.

Gray asked for comments regarding utilizing a TIF renewal and renovation district to promote a variety of affordability options in the Opus area.

Tyacke complimented staff and Dahl on their creativity and for proposing the use of TIF revenue bonds to allow a range of affordable housing options and create funds for road improvements. The affordable housing options are a very good, positive feature of this option.

Jacobsohn noted that Opus looks like it is changing quite a bit. Having many different ranges of affordability is fantastic. The TIF renewal and renovation district is a great tool to provide housing affordability and deal with road and transportation issues within Opus that would always have to be addressed. This seems like a good way to get that started and help determine what Opus will look like in the future.

Chair Yunker likes the approach. It is clear that the best way to manage and respond to the changes that will take place in Opus is to take a regional approach. It will allow Minnetonka to manage the growth and handle foreseen and unforeseen infrastructure demands. Opus will be able to handle a lot of housing in a short amount of time. The district makes a lot of sense and is a very good approach.

Tyacke asked if this would be a fair approach for developers who submit an application later than others and, therefore, would not have as many remaining options for the level of affordable housing to choose from. Gray agreed that is a fair concern. Staff has been working with four developers since October and determined that many of the projects could not make the numbers work with the amount of assistance that Minnetonka would be able to provide. Staff determined that the projects could meet the basic policy themselves as a baseline with the five percent at 50 AMI and five percent at 60 AMI, but took one step further by requiring an applicant to meet the minimum and give an extra five percent in return for some assistance. The reason is to level out some of the ranges of affordability in Opus.

Wischnack added that, going forward, staff will look at the balance of the mix of affordability options. Managing the mixture of affordability ranges may be more of a priority than managing the policy in this case. Only 14 percent of the housing units in Opus right now have rent equal to the market rate. The mixture of affordable rates will continue to evolve. The goal will be to keep the level of affordability diverse.

Calvert stated that transit-oriented development is highly desirable and it makes sense to have affordable-housing units located in Opus which is near the SWLRT and major interstates. The concentration of affordable housing in one area of Minnetonka creates an initial concern for councilmembers, but it is understood that affordable housing is needed and warranted in that area. She has heard from residents who want more affordable housing and favor an ordinance rather than a policy, but the policy allows for more creative solutions similar to what is being considered tonight.

In respone to Hromatka's question, Wischnack stated that Minnetonka has approximately 23,500 households with a population of approximately 54,500 residents. Of the total number of households, 22 percent are considered affordable. In the last five to seven years, 4,000 multi-family units have been constructed with approximately 23 percent having some affordable component to them. Minnetonka as a whole still has no more than 22 percent of its housing units meeting affordable standards. The Opus properties alone consist of 62 percent affordable units which makes sense because of where it is located.

Hromatka asked if market-rate housing is needed. Wischnack listed the numerous market-rate, multi-family residential projects occurring near Ridgedale. The city's vacancy rate is still so low that the market is still in demand. There has been diversity in the type of multi-family residential housing being constructed in Minnetonka which includes senior, work force, and high-end luxury, multi-family housing units.

Tyacke asked if the developers on the west side would get a better deal paying for road infrastructure improvements than developers on the east side using TIF pooling funds. Gray explained that the initial west side projects would be funded because that is where development would be occurring first. Later, the other improvements would be made with the TIF pooling balance identified in the AUAR. The idea is that the west side would occur first and as development occurs on the east side, those street improvement projects may be able to be funded as well. Wischnack clarified that the projects within the TIF district would pay for the street improvements on the east side.

Wischnack explained that the TIF renewal and renovation district will be reviewed by the city council and each developer's contract will be reviewed by the EDAC again separately.

In response to Tyacke's question, Gray explained that none of the buildings can be demolished prior to a public hearing being held for the renewal and renovation district. If one project would move forward and be approved, then the project would not be able to begin demolition before a public hearing is held and the district is approved. That is why it makes sense to establish the district so development could occur when ready.

Hromatka supports creating the district. It would be a creative way to deal with the affordable housing goals and fund infrastructure improvements. He appreciates staff coming up with the viable solution.

Jacobsohn concurs with Hromatka.

Johnston concurs. Staff did a nice job putting the report together and laying out the information. She supports the creation of the district.

Duginske Cibulka agrees. She appreciates the creative thinking used to prevent too much of a burden being placed on the new developments in the area.

Falk concurs with commissioners. She felt the Kraus Anderson proposal is an exception that has its own separate structure for affordable housing and would set an unnerving precedent. She encouraged councilmembers to consider that further.

Chair Yunker also supports creation of the district to help manage the growth of the Opus area. He complemented staff on the creative solution.

Calvert appreciated the report being succinct, informative, and easy to understand.

5. Linden Street/Minnetonka Station (10400, 10500 and 10550 Bren Road East)

Gray gave the staff report.

Tyacke asked where the current numbers are now. Gray stated that the developer is present and may confirm her understanding that the applicant is in agreement with $553,000 for 10 percent of the units at 50 percent AMI.

Tyacke asked how an up-front payment would impact the return on investment. Dahl explained that the up-front assistance would not impact the developer's return. The developer is already at a reasonable rate of return in the year of stabilization, so the increase on the five percent of units at 50 AMI would be reasonable and the developer agreed. The amount of assistance agreed upon is $553,000. The project looks at the total development costs versus just the equity like a typical cash on cash would. The project is already at a reasonable rate of return. It provides an incentive to increase the amount of affordability.

Tyacke supports the proposal. He likes the design of the building and site plan. The renewable energy component and AUAR are amenities. The proposal offers a reasonable amount of affordable housing with 28 units at 50 percent AMI and is a good solution. He saw no negative effect to borrowing from the renewable fund and paying it back with the inner-fund loan, so that should be neutral. He recommends approval of the proposal with the condition that the developer's agreement fixes the $553,000 amount and other terms and conditions agreed upon by staff.

Johnston exited the meeting.

<u>Tyacke motioned, Jacobsohn seconded the motion to recommend that the city council approve items for the Linden Street/Minnetonka Station at 10400, 10500 and 10550 Bren Road East with the condition that a developer's agreement acceptable to staff is entered into. Duginske Cibulka, Falk, Hromatka, Jacobsohn, Tyacke, and Yunker voted yes. Johnston was absent. Motion passed.</u>

6. Staff Report

Hanson and Wischnack gave the staff report:

- Major progress was made in 2020 on the Green Line Extension. Utility work is nearly complete, 23 of 29 bridges are under construction, and new train vehicles are undergoing testing. The project experienced a setback in the Minneapolis portion and the expected completion has been moved to 2024. Construction updates are available at www.swlrt.org.
- Metro Transit local bus service trips have remained near pre-pandemic levels. Weekday service is now operating 186 trips carrying 310 passengers per day. The decrease is largely from the cut of express routes as commuters continue to work from home. Weekend service has only seen a three percent decrease in the number of trips from the same point in 2019.
- Developments in progress include The Pointe, Minnetonka Station, Doran (The Birke), Shady Oak Crossing, Legends (Dominium), KA Development, Wellington Apartment concept, Ridgedale Park project, the Minnetonka Police and Fire project, Opus AUAR Study, Dukes, and Dick's Sporting Goods.
- Hennepin County received 1,700 applications seeking $23 million in funding. All 157 eligible Minnetonka businesses that applied for funding received it and totaled more than $1.49 million.
- The Greater MSP Regional Recovery HUB has developed a tracking dashboard to display the progress of the regions' economic recovery by tracking details on industries, demographics, and health indicators.
- Thrive Minnetonka was distributed in February 2021 and has over 800 on-line subscribers and 1,300 by-mail subscribers.
- Minnetonka created a program to allow Homes Within Reach to provide $7,500 in grants for residents to make repairs to houses. About 30 houses have taken advantage and there are currently 11 homeowners in the application process.
- Minnetonka is expected to receive $150,000 in CDBG funds to be used for house rehabilitation.
- Minnetonka utilized $150,000 of the existing Development Fund balance to provide a one-time payment of up to $1,500 to assist a resident with rent and utility expenses.
- ICA spent $111,214 provided by Minnetonka to assist 84 households with an average amount of $1,323 for rent and utilities. In January, the city council approved an additional $25,000 in rent assistance.
- The federal administration has extended a ban on evictions that will remain in effect through March 31, 2021 and a ban on mortgage foreclosures until the end of June 2021.

7. Other Business

The next EDAC meeting is tentatively scheduled to be held March 11, 2021 at 6 p.m.

8. Adjournment

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