

**Minnetonka
Economic Development Advisory Commission
Virtual Meeting
Minutes**

June 10, 2021

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, Lee Jacobsohn, Steven Tyacke, and Charlie Yunker were present. Jay Hromatka and Melissa Johnston were absent.

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 Stacie Kvilvang of Ehlers and Associates, and IT Assistants Gary Wicks and Joona Sundstrom.

3. Approval of EDAC April 29, 2021 Meeting Minutes

Tyacke motioned. Falk seconded the motion to approve the April 29, 2021 meeting minutes as submitted. Duginske Cibulka, Falk, Jacobsohn, Tyacke, and Yunker voted yes. Hromatka and Johnston were absent. Motion passed.

4. Wellington Management at 10901 Red Circle Drive

Gray gave the staff report. She requested commissioners review the financing request and make a recommendation to the city council.

In response to Jacobsohn's question regarding the applicant's request for \$350,000 for compliance efforts, Gray stated that income verification for the tenants of this proposal would not be as time consuming for Wellington Management as other projects it has worked on.

In response to Jacobson's question, Gray explained that tenants would be able to grow his or her income up to 140 percent of the qualifying rate before being required to pay rent at a higher affordable housing rate or market-rate rent.

Falk asked what mechanism would be used to prevent overcompensation of the look-back provision of the additional tax-increment amount. Kvilvang explained that an open-book process would be used with the developer. Upon stabilization, the results would be looked at and the performa recreated. If the anticipated threshold would be exceeded,

then the city would have the opportunity to share a reduction in the amount of tax increment to provide an upside for the developer doing well and reduce the amount of public assistance.

In response to Calvert's question, Gray and Wischnack explained that if a tenant's income would increase by 140 percent, then the rent would be raised to a higher affordable-housing-rate or market-rate rent depending on the amount of income. A tenant would not be required to physically move from the unit.

Casey Dziejewczynski, representing the applicant, stated that he appreciated working with Gray and Wischnack to calculate the anticipated amount of compliance costs. The applicant had requested the \$350,000 to cover the cost of 24 years of additional staff time used to verify the income restriction. He has worked with staff to reduce compliance costs with a one-year tenant recertification and deeper dive every five years to reduce the compliance costs. He hopes to have a well-integrated building of tenants with different income levels who will have the opportunity to increase their income. The applicant will no longer need the additional \$350,000 since staff has worked with him to decrease the compliance costs.

Steve Wellington, the applicant, thanked staff and EDAC commissioners for collaborating with the developer. He also appreciated planning staff helping to define Minnetonka's vision for the area. He is comfortable proceeding with the affordable component. He received a commitment from a construction lender. He would feel better if the construction market and price of lumber would stabilize, but it appears that things are lining up appropriately to begin construction on Sept. 1, 2021. He welcomed the commission's support.

Jacobsohn understood that the request for an additional \$2.78 million is due to the increase in construction costs. It sounds like there is a good relationship between staff and Wellington Management. If the city wants to have projects continue, then it will need to be flexible with its financial assistance.

Duginske Cibulka appreciates the reality of the price changes that are quite volatile at this time. She expected the increase in construction costs to be higher than requested by the applicant. She thought that the number and mix of affordable units relative to the market surveys were thoughtfully laid out and well done. Ehlers and Associates have done a nice job of evaluating the proposal very closely. The proposal is well thought out. The site will be an important component of the area with high visibility from Hwy 62. The proposal would create a visual gateway to the area of redevelopment and would connect nicely to where the SWLRT will be located. She is excited about the look, feel, and features of the project.

Falk agrees with commissioners. She calculated that the request would cover an additional 15 percent increase in construction costs, but increases in construction costs

are forecasted to increase by more than 20 to 22 percent. Mr. Dziejeczynski explained that a small contingency was included in the request when the construction costs were priced in January. The lumber, steel, and sheetrock increases have been increased exponentially. The increase in construction materials went up by \$2 million. The request would cover half of that. The applicant has tightened the screws on other components of the building while still making it an attractive project. As long as lumber does not increase in cost by another 200 percent, then the closing should work at this number. The project hopes to start construction in September.

Falk stated that the applicant's assessment is reasonable and considerate. She suggested that the applicant apply for energy-design assistance to help offset costs by doing more sustainable features. Mr. Dziejeczynski stated that Wellington Management applies for that assistance for every project and will definitely be doing so for this one.

Tyacke had a hard time understanding what has changed since the September presentation. A potential increase in the price of commodities could have been anticipated in September. Kvilvang stated that costs increased at an unprecedented rate. The proposal included a routine contingency increase amount for materials in the budget. Ehlers and Associates feel that the applicant's request is reasonable.

Chair Yunker felt that the request for \$2.78 million in tax-increment-finance (TIF) assistance is reasonable. The request is not overly burdensome. The look-back provision would ensure that the amount would be reasonable. He recommended not approving the \$350,000 for compliance efforts.

Gray continued the staff report.

Tyacke noted that the market is diminishing for three-bedroom units. He supports the proposed mix of units.

Calvert explained that councilmembers want verifiable data to determine the best mix of unit types. She noted that often people cannot afford more than an affordable studio apartment even if more than one person would live there. She learned from ICA food shelf staff that families are in need of two-bedroom and three-bedroom affordable apartments. Councilmembers want to make it possible for young families to be able to afford to live in Minnetonka.

Falk agrees with Calvert. The Marquette study is well-intentioned, but it is an example of correlation, not causation. She would like a study to see if families in Minnetonka are adequately housed or if, for example, there are five family members living in a two-bedroom apartment.

Jacobsohn was comfortable leaving it to the applicant to decide the mix of affordable housing units. He wants to make the applicant aware of the city's goals and completed

studies but did not want to dictate to the applicant the number of three-bedroom-affordable units. Many market shifts may occur as senior apartments and workforce housing units are completed near the SWLRT station.

Calvert agreed with Jacobsohn that the market would decide, but she would like to collect data on why and how often a family of five or six lives in a one-bedroom or two-bedroom affordable apartment. Wischnack announced that councilmembers, EDAC commissioners and planning commissioners will be invited to participate in a panel discussion by the Urban Land Institute on July 19, 2021 entitled Navigating Your Competitive Future. It will provide a great opportunity to ask questions regarding affordable housing and market-rate developments.

Tyacke noted that the affordable housing policy states that it is up to the developer to draw conclusions based on the data and determine the best mix of units. He felt it would be going beyond the scope of the policy to steer the developer into providing more three-bedroom units than shown as needed by the data.

Chair Yunker felt that the unit mix had been set for this project. There needs to be a broader discussion before three different bodies all chime in on the mix of affordable units for a project. He understood all of the challenges, but a lot of work has been put into getting the proposal to where it is right now. He favored trusting that the developer chose the best mix of affordable units for this project.

Chair Yunker summarized that a majority of commissioners agree to recommend approval of the mix of affordable units as proposed; recommend increasing the TIF note to \$2.78 million; and recommend denial of the request to provide \$350,000 for fund compliance efforts to the city council.

Tyacke opposed the recommendation to increase the TIF assistance amount to \$2.78 million to the city council.

Chair Yunker thanked the applicant and Kvilvang for attending the meeting.

5. Staff Report

- The SWLRT is hosting walking tours of projects along the line through June. The westbound lane on Green Circle Drive near Bren Road is closed through the 2021 construction season. Smetana Road from Feltl Road to Nolan Drive is closed until late summer. Work continues on the Minnetonka-Hopkins SWLRT bridge.
- Staff continues to work with Metro Transit quarterly. There are no planned route cuts through the summer. Discussions are ongoing to begin reinstating express service along the 394 corridor to downtown Minneapolis.

- Development updates include The Pointe, Minnetonka Station, Doran, Shady Oak Crossing, Wellington Apartments, Glen Lake Apartments, Ridgedale Area Park, the Minnetonka Police and Fire project, El Travieso, Dick's Sporting Goods, Duke's, and Culver's.
- The Elevate Business Hennepin County program has contracted with 25 professional advisors and offers pro-bono services to businesses in Hennepin County for free.
- Minnetonka is poised to receive about \$5 million in federal relief in the coming months. A survey will be done to gauge business community needs and the results will be presented to the EDAC and city council to determine how to use the funds.
- As of May 28th, all state COVID-19 restrictions related to businesses have expired.
- Staff partnered with a UMN graduate class to study how the local economy can be resilient to mass disruptions. The Minnesota GDP shrank 3.7 percent in 2020. Many businesses did not have a strong technical presence which made it hard to adapt. Unemployment spiked in Minnetonka in April to 8.1 percent. The study will look at recovery, resilience and preparedness efforts Minnetonka could provide to businesses.
- The federal government has implemented a moratorium on evictions until June 30, 2021. The state moratorium is in effect until June 15, 2021.
- Minnetonka Housing is allocating \$128 million for homeowners who need mortgage payment assistance.
- Hennepin County is allocating \$2.5 million of its second round of CDBG relief to Minnesota Housing to use for mortgage assistance.

6. Other Business

There is a presentation by the United Land Institute scheduled for July 19, 2021.

There is a boards and commissions dinner scheduled to be held on July 21, 2021.

The next EDAC meeting is scheduled to be held on July 8, 2021.

7. Adjournment

The meeting was adjourned at 7:27 p.m.