CITY OF MINNETONKA

Agenda
Minnetonka City Council
Study Session
Monday, August 16, 2021
6:30 p.m.
Minnetonka Community Center – Dining Room

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1. Reports from City Manager & Council Members
2. 2022 Preliminary Budget Review
3. 2022-2026 EIP Follow-Up
4. Adjournment

The purpose of a study session is to allow the city council to discuss matters informally and in greater detail than permitted at formal council meetings. While all meetings of the council are open to the public, study session discussions are generally limited to the council, staff and consultants.

Study Session Agenda Item #2
Meeting of August 16, 2021

Title:	**2022 Preliminary Budget Review**
Report From:	Darin Nelson, Finance Director
Submitted through:	Geralyn Barone, City Manager Mike Funk, Assistant City Manager

Action Requested:	Review preliminary 2022 budget and levies and provide feedback

Summary Statement

We are pleased to propose to the city council a 2022 levy and budget consistent with our strategic goals and community values. Within that framework, the budget recommendations presented are both forward looking and responsive to the community and the city council's concerns, specifically to ensure that city services are maintained. The proposal aligns with the reaffirmation by a considerable majority of Minnetonka community survey respondents that they would support an increase in taxes to maintain city services. The recommendations are built using long-term forecasts including a conservative eye to changes in the national economy and technology.

As always, the City of Minnetonka will continue to provide the excellent services our residents and businesses have come to expect, and at a reasonable value, both in 2022 and well into the future.

Strategic Profile Relatability

☒Financial Strength & Operational Excellence
☒Sustainability & Natural Resources
☒Infrastructure & Asset Management
☒Safe & Healthy Community
☒ Livable & Well-Planned Development
☒ Community Inclusiveness
☐ N/A

The annual budget impacts each of the city's six strategic priorities. Each strategic priority will be covered in detail under the background section.

Background

As outlined in this report, staff recommends increasing the preliminary city levy for 2022 by 5.6 percent. Also as indicated in the preliminary Economic Improvement Program (EIP) presented to the council in June is a $25,000 increase for HRA (Housing and Redevelopment Authority) supported programs.

The city's proposed levy increase of 5.6 percent is likely to place Minnetonka's levy increase among the middle to upper third of a group of similar metro cities.

Our Public Process

The purpose of this study session is to review key budget issues and provide direction on the 2022 preliminary tax levy and city budget, which the city council must set and certify to the county by September 30, 2021 as required by state law. The city calendar currently provides for the council to adopt its preliminary levies on September 13. The preliminary levy establishes the maximum amount the city can levy for 2022.

This initial budget study session focuses on the bigger picture. Guided by these discussions, detailed budget requests will be reviewed in November and the final budget adopted in December. At the November 15 study session, staff will have more complete information regarding revenues and expenses for the current year, along with any additional information available to forecast 2022. The final 2022 levy may be less than the preliminary amount, but cannot be greater.

Minnetonka always encourages input on its budget from the public. In addition to the public budget discussion scheduled and published on proposed tax notices by Hennepin County for December 6, residents and businesses will again have the opportunity to provide feedback via multiple avenues, all of which are publicized on the city's website and in the *Minnetonka Memo*. Comments will be shared with council as budget options are considered, and updated information will consistently be posted in the *Memo* and on the city's website.

Strategic Profile

As previously mentioned, the annual budget impacts each of the city's six strategic priorities. Each strategic priority, its purpose and its budget impact are detailed below.

Financial Strength and Operational Excellence

This strategic priority focuses on the long-term financial position and providing innovative, responsive, quality city services at a level that reflects community values and is supported by available resources.

The development of the 2021 budget was directly impacted by the COVID-19 pandemic. The city was guarded in the preparation of the 2021 budget, not knowing what immediate or long-term effects would impact residents and businesses. Prior to the pandemic, long-range projections estimated the 2021 levy increase would be 5.6 percent. Understanding that many residents and businesses were likely to experience severe financial pressures, the city made a prudent decision to reduce the levy increase to 3.5 percent. This was made possible by delaying some capital purchases and improvements and also by utilizing federal Coronavirus Relief Funds (CRF) to offset current and future levies.

During last year's budget process, the levy projection for 2022 also called for a 5.6 percent increase; the proposed preliminary budget is consistent with that projection. The city is cognizant that the pandemic and its fallout is still affecting many residents and businesses. This levy increase is required to maintain the city's quality level of services and maintain infrastructure investments.

Approximately 2.3 percent of the 5.6 percent levy increase is related to the Capital Improvements Program (CIP). This increase restores a portion of the capital levy that was reduced last year.

The 2022 budget requests the addition of two information technology (I.T.) staff to aid in the ever increasing need and reliance on both I.T. infrastructure and software applications. The conversion to a city-wide telework model and the new public safety facility have also added to the workload. These two positions add approximately $192,000 to the 2022 budget, which includes wages, benefits and equipment.

The budget is also built with a two percent inflationary factor for non-personnel costs. The June Twin Cities Consumer Price Index (CPI) is up 4.6 percent from a year ago. It is anticipated that prices will moderate as we move into 2022. In comparison to this time last year, the CPI was slightly negative. The 2021 budget was built with a zero percent inflationary factor for supplies and other services charges.

Safe and Healthy Community

This strategic priority focuses on developing programs, policies and procedures that enhance the community's well-being and partner with the community to provide engagement opportunities and build trust. It also focuses on sustaining prevention programs, hazard mitigation and rapid emergency response.

The fire department has applied for a federal Staffing for Adequate Fire and Emergency Response (SAFER) grant which would increase the number of full-time employees from 11 to 24 and would strengthen response times and provide additional staff to ensure effective operations. The grant would provide 100 percent funding for 13 firefighters for three years. After that point, the city would be responsible for the annual cost. The city is still waiting to hear if the grant award was successful.

If the grant award is not successful, the fire department will still be dealing with staffing and response-time challenges. Understanding that the cost of thirteen firefighters has a significant budget impact, staff is proposing moving forward with the hiring of nine full-time firefighters. This has a budget impact of about $950,000 for 2022.

The police department is working with the Minnetonka School District on the potential of hiring another school resource officer (SRO). If this proposal comes to fruition, the school district would pay about $116,000 or 10 months of the officer's salary and benefits. In addition to traditional resource officer duties, the SROs would aid in offsetting traffic control that has historically been provided on a daily basis by other off-duty officers. The remaining cost to the city is $23,200.

As part of police reform initiatives, the department will be implementing a mandatory annual check in with a mental health professional for all officers. This program "Check Up from the Neck Up" promotes officer wellness and provides the necessary support to carry out the department's mission. The annual cost is approximately $25,000.

In 2020, the police department experienced an increase in mental health crisis related incidents. This trend is expected to continue into the future. Currently, the city in partnership with the City of Plymouth and Hennepin County are sharing the cost of one full-time social worker. The City of Plymouth is pursuing a dedicated social worker, which would require the city to pick up Plymouth's current one-third share of the existing social worker at a cost of $30,000. This program change by the City of Plymouth would benefit Minnetonka's police department by having more available social worker hours dedicated to incidents in our city.

Recreational services has been experiencing an increasingly difficult time filling a number of seasonal part-time positions. The department hires about 250 of these positions each year. The demand for seasonal part-time employees is high across all sectors of various service industries. Starting wages for these positions in other industries is often at or above $15 per hour. The city's starting wage for various seasonal jobs is below this threshold. To better compete for seasonal staff that are vital for ensuring that the city maintains a full range of recreational programs, services and available amenities, staff is recommending increasing the starting wage for seasonal part-time employees to $15 per hour. The General Fund impact for this adjustment is approximately $146,000.

Sustainability and Natural Environment

This strategic priority focuses on supporting long and short-term initiatives that lead to the protection and enhancement of our unique and natural environment while mitigating climate change.

The 2022 budget includes an increase of $40,000 for the natural resources division dedicated to additional contracted services related to addressing requests of park environmental groups. In addition, staff is requesting a part-time natural resources position be moved to full-time at a cost of $40,000.

The 2020 budget established funding of $100,000 for sustainability efforts. The 2021 budget added an additional $50,000 to be used for a part-time communications position and additional funding within the Cable TV special revenue fund to support the functions of a new advisory commission. Staff is requesting a staff position that would fully support the commission and the city's sustainability program. Funding would be provided from the initial $100,000 established in 2020 with no additional impact for 2022. An associate planner would then be hired to backfill the vacated planning position, again with no impact to the 2022 budget.

Livable and Well-Planned Development

This strategic priority aims to balance community-wide interests and respect Minnetonka's unique neighborhoods while continuing community interests.

The 2022 budget requests a housing and economic development assistant position. The focus of this position is on researching, developing and administering new housing programs, policies and initiatives. The General Fund impact for this position is $112,500.

Infrastructure and Asset Management

This strategic priority focuses on providing safe, efficient, sustainable, cost-effective and well-maintained infrastructure and transportation systems. It also aims to build, maintain and manage capital assets to preserve long-term investment and ensure reliable services.

As previously mentioned, the 2022 budget and levy restores a portion of the CIP levy that was reduced in 2021, specifically related to the annual replacement of fleet vehicles. The budget also includes an additional $55,000 for temporary seasonal salaries to aid in park maintenance. As the city adds additional trail segments, streetscaping and the anticipated construction of Ridgedale Commons Park, additional seasonal staffing is needed to maintain these assets and improvements.

Prior levy forecasts had also planned for additional operating costs related to the new public safety facility. The 2021 budget included an additional $76,000 related to additional utility costs and custodial needs as the building comes on-line this fall. The 2022 budget includes an additional $119,700 for a full-time building maintenance position and additional utility costs.

The fire department is requesting $40,000 for a one-time station location study. As the department begins moving towards more of a balanced combination department, with the potential of a completely full-time department at some point in the future, operating five fire stations may not be needed. Identifying the appropriate station locations for a full-time department is crucial in providing timely response to the entire geographic area of the city.

Lastly, the Water and Sewer Utility Fund is requesting an additional utility operator to assist in sewer televising and cleaning at a cost of $112,900 including wages and benefits. This is in conjunction with the purchase of a sewer televising van, which will be used to televise sanitary sewer pipes, evaluate the condition of the pipes, and evaluate cleaning and maintenance needs. This fleet purchase is included in the 2022-2026 draft CIP and is contingent upon hiring of an additional employee to operate. This vehicle and the employee will be paid from water and sewer user fees and has no impact on the General Fund or tax levy.

Community Inclusiveness

This strategic priority focuses on creating a community that is engaged, tolerant and compassionate about everyone. It also aims to embrace and respect diversity, and create a community that uses different perspectives and experiences to build an inclusive and equitable city for all.

The 2021 budget included $150,000 of new, dedicated funding for diversity, equity and inclusion (DEI) efforts. Expected expenditures included consulting/facilitation, educational initiatives and the likely hiring of city staff dedicated to DEI initiatives. City staff has been working with the DEI task force committee on recruiting and hiring a DEI coordinator. However, due to the high demand for qualified candidates in both the private and public sectors, the market rate of this type of position is steadily increasing. In order to compete against both other cities and private businesses, the advertised salary range of this position has increased. To ensure this initiative has sufficient resources to not only hire a DEI coordinator, but have sufficient programming dollars to support DEI efforts, the 2022 budget includes an additional $25,000.

<u>**Discussion Question**</u>

- ***Does the city council support the proposed costs related to various personnel and other budget impact requests?***

General Fund Budget Summary

The draft General Fund 2022 budget is estimated to be $43.5 million, an increase of 7 percent or $3 million. Over three-quarters of the city's General Fund operating expenses is the cost of its greatest assets, its employees. Cost of living adjustments (COLA) have been set preliminarily at two percent along with a potential market increase which is dependent upon each position's comparable position in other cities. Preliminary estimates indicate a total compensation increase of approximately 2.7 percent or $646,000. Again, these are preliminary estimates. The council will ultimately determine final COLA adjustments which are either already set by existing union contracts or will be set through upcoming union contract negotiations, and finally by approving all 2022 non-union wage adjustments in December.

In 2021 the city exited the LOGIS healthcare consortium in favor of bidding its own health insurance. The bidding environment was very favorable and as a result the city saw a decrease in premiums for 2021 with a cap on rates for 2022, which limits the city's exposure in the second year of the contract. This move saved the city about $585,000 in 2021. The city has only received its experience factor for the first quarter of 2021, so it is difficult to estimate what our 2022 rate will be at this point. Unfortunately, our claims are running higher for this first quarter. Given that preliminary information, staff is assuming the rate cap of 12.5 percent could be a likely scenario. The city held the employees' city contribution flat last year with the notion that employees would benefit greater than the city in 2021. However, when and if premiums increase for 2022, employees would then bear a portion of the burden. The General Fund impact for existing personnel, before any of the proposed personnel changes is about $330,000. Even with this increase in 2022, the city and its employees are in a better financial position after two years with the current health care provider.

Federal Funding – American Rescue Plan Act (ARPA)

The city was fortunate last year to receive federal CRF to aid in costs associated with the pandemic. This year the city is once again fortunate to receive federal ARPA funding in the amount of $4.7 million. The first half of this funding was received in June and the second half will be received in June 2022. The city has until December 31, 2024 to encumber these funds.

The guidance allows cities to replenish lost revenues associated with the pandemic. The federal government has guidelines on how to calculate lost revenue based on the previous three years. Based on the calculations the city is able to recognize the entire $4.7 million allotment as lost revenue. By utilizing the ARPA dollars for lost revenue, the city is allowed greater flexibility in determining the uses of these funds.

Staff is recommending that the ARPA dollars be recognized in the city's General Fund with the focus on supplanting current public safety expenditures. From that point, the General Fund will be able to transfer dollars to various other funds for various projects or funding needs. The preliminary plan for distribution of ARPA dollars is as follows.

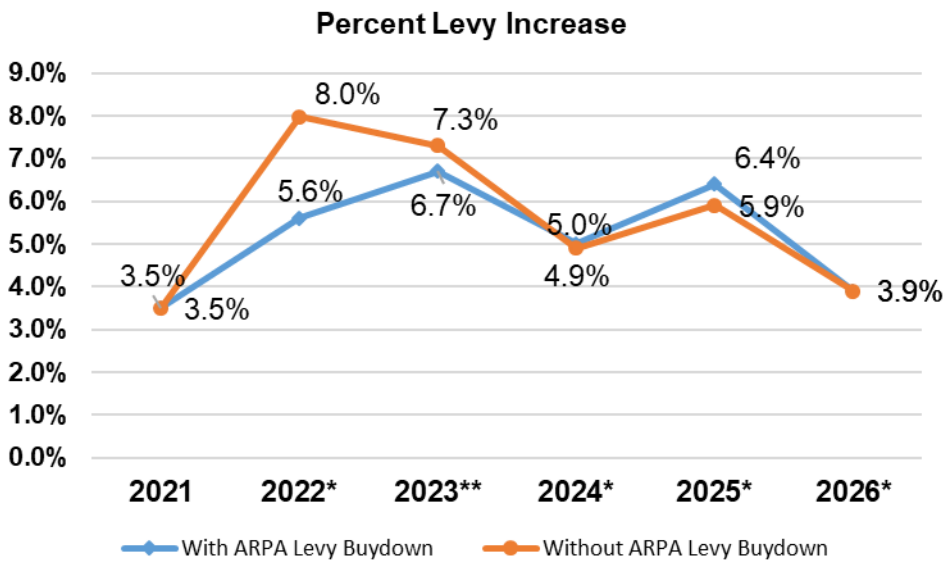
Ice Arena	$600,000	Replenish deficit cash balance
Williston Center	$200,000	Reinstate delayed capital projects
Housing/Business Subsidies	$750,000	Aid to residents and/or businesses
Unemployment Insurance	$200,000	Liability due to the State of MN
Street Improvement Fund	$1,000,000	Replenish fund balance
Park & Trail Fund	$450,000	Replenish fund balance
General Fund	$1,500,000	2022, 2023 and 2024 levy subsidies

The $1.5 million dedicated to the 2022 through 2024 levies aid in subsidizing the levy increase by $1 million in 2022 and $250,000 in 2023 and 2024. The 2022 preliminary levy increase of 5.6 percent includes this $1.0 million.

<u>**Discussion Question**</u>

- ***Does council agree with the distribution of ARPA funds?***

Levy Forecast



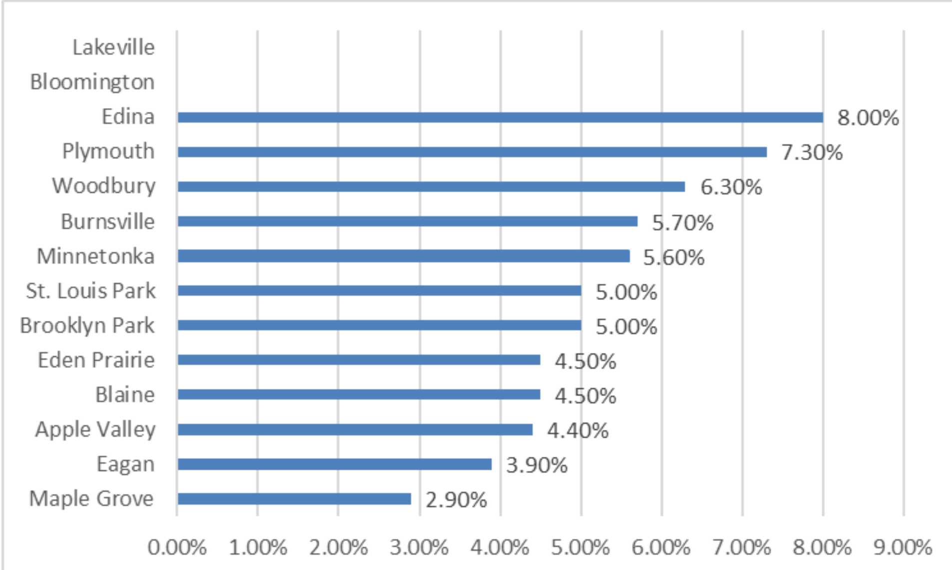
** The 2023 levy estimates exclude the decertification of the Boulevard Gardens TIF district. This district is estimated to provide approximately $500,000 of additional levy capacity without having an impact on existing taxpayers. This would effectively decrease the levy impact by about 1.1 percent for both 2023 levy estimates.

* There are a couple unknowns in regards to future levies. Obviously, any unknown programming or capital changes could impact future levies. Also, in 2025 the levy spikes upward due to making an assumption that the fire department receives its SAFER grant and 2025 would be the first year the city would be responsible for the on-going personnel costs. That estimated increase is $1.6 million.

If the city does receive the SAFER grant there are two options for the 2022 levy. First, the final levy can be adjusted downward by the $950,000, which is the cost of the nine full-time firefighters and still utilize the $1 million of ARPA funds to buy down the existing levy. The other option is to maintain the levy at 5.6 percent and utilize the $1 million of ARPA funds for other needs, such as capital improvements in future years. Staff is assuming we will have an update on the SAFER grant well before the final levy is adopted in December.

Comparisons with Other Cities. The proposed 2022 city levy increase is likely to place Minnetonka in the middle to upper third of comparable cities. These percentages are only potential levy increases and may change between now and when preliminary levies are adopted in September. An updated chart will be provided in September with more accurate levy estimates. As a reminder, each city is unique and their tax levies can vary for a number of reasons. For example, last year Minnetonka was in the lower third of its comparable cities with a 3.5 percent increase. Preliminary levy information for Lakeville and Bloomington are not yet available.

Potential 2022 Preliminary Tax Increases



Similar to all our comparable cities except for one, Minnetonka does not and will not receive LGA in 2022. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.

Homeowner Impacts. New development and redevelopment in the city again increased the city's property tax base last year as reported in March by the city assessor. Over the last eight years, the city's assessed market value has increased by 40 percent. A portion of that increase is the result of improved real estate as opposed to market forces alone.

The table below outlines the growth (including new improvements) in the market by major property type.

	Overall Growth	Total Change (millions)
Single-family Residential	3.7%	$209.8
Lakeshore	3.2%	$12.5
Townhouses	5.4%	$34.7
Condominiums	6.5%	$36.5
Commercial	-0.7%	($11.7)
Industrial	4.1%	$15.0
Apartments	10.6%	$101.0
Other Property Types	9.0%	$23.5
Total Change	**3.9%**	**$421.1**

The varying growth rates of the different types of property classifications equates to a shift in property tax burden. Most notably for taxes payable 2022 is the slight reduction in commercial valuations which will cause a shift in tax burden to all the other property classes. Apartments are expected to bear the greatest burden of this shift due to a growth that is more than double any of the other property classifications. However, the apartment growth is mostly due to new construction which adds to the tax base and helps alleviate some of the tax burden for all other existing taxpayers.

Calculating the impact of changes in property taxes to homeowners in Minnesota requires a complicated mix of data and information that changes each year, some of which depends upon legislatively defined formulas, such as the state Fiscal Disparities program. The final piece of fiscal disparity information is typically received in late August. In prior years, we were fortunate to receive this information right before our study session. This year's study session is a week or so earlier which will likely be before this final piece of information is available to provide better estimates of levy impacts. Rough estimates indicate that a median valued home that increased in value 3.7 percent to $405,400 will see a tax increase of $85. Again, these are rough estimates and final estimates are likely to change in either direction.

2022 Preliminary Levy

Since recovering from the recession beginning in 2014, the city's community survey has shown our taxpayers' consistent recognition of the value of city services and remarkable support to increase taxes in order to maintain city services. In the 2021 survey, 81 percent of those who stated an opinion still favored such an increase.

The 2022 proposed operating and capital budgets require an overall net increase in the city property tax levy of 5.6 percent primarily to maintain city services. This includes $1 million in ARPA funds to subsidize the levy increase. The largest increase of 4.3 percent is associated with adding personnel including 9 full-time firefighters. The adding of full-time firefighters is a change of philosophy, but to maintain appropriate response times, a shift in staffing is required. Other staffing changes were previously noted and are needed to maintain quality services or are a direct result of new initiatives over the last couple years. The other largest change is the restoration of the CIP levy, which was reduced in 2020 to mitigate the impacts of COVID-19.

Although appearing separately on property tax statements, the HRA levy would increase by $25,000, which equates to a 0.06 percent increase in the city's overall property tax levy impact.

Levy (thousands)	2021	2022	Change
City property taxes, current services	$42,442	$41,949	(1.1)%
Elimination of prior one-time additions		(282)	(0.7)%
Fire staffing		950	2.2%
Other staffing changes		870	2.1%
New non-personnel initiatives		352	0.8%
CIP change		976	2.3%
Total	***$42,442***	***$44,815***	***5.6%***
HRA	$300	$325	

Discussion Question

- ***Does the council agree that $44,815,229, including $75,000 for the self-funded Ridgedale Mall tax abatement (overall 5.6 percent increase) should be certified as the city's preliminary general levy for 2022?***

HRA LEVY

The city's first levy for housing and redevelopment began in 2009. State law limits levies, and the maximum rate is 0.0185 percent of a city's taxable market value. This equals approximately $2 million for Minnetonka in 2022. On June 21, the city council reviewed in a study session the 2022–2026 Economic Improvement Program (EIP), which recommends the 2022 HRA levy increase by $25,000 for a total levy of $325,000*.* The indicated uses of the funds are: SW Light Rail ($75,000); Housing Programs ($100,000); Business Outreach ($25,000); and one-time contributions for emergency business assistance ($50,000) and Homes Within Reach ($125,000).

The Economic Development Advisory Commission (EDAC) will review the HRA budget and levy at its September 9 meeting.

Discussion Question:

- ***Does the city council agree an increase of $25,000 for a total of $325,000 should be certified as the HRA preliminary levy for 2022?***

City Contracting

At the June 21, 2021 study session, the city council asked staff to further review practices and procedures regarding contracts in the City of Minnetonka, and how these contracts will emphasize the importance of hiring well treated and safe contractors within the city, while promoting diversity. Currently, the city-issued contracts include a number of parameters that promote these efforts, providing protections for workers and promoting the use of businesses. The city further promotes these efforts on development projects that receive any city financing or funds. While the city does not have direct control over private business, the city continues to partner with the industry to continue to enhance these projects.

The following list outlines city requirements for contracts which promote efforts of diversity and certify fair labor standards, which align with feedback received from council at the June 21 study session.

City infrastructure projects now require the following documents and affidavits to be submitted or reviewed prior to any acceptance of a contractor to begin work:

- *Non-discriminatory practices* - Under Minnesota law, employers are prohibited from discriminating against employees and job applicants based on age, disability, race, national origin, religion, gender, sexual orientation, military status, marital status, familial status, or status with regard to public assistance.
- *Affirmative action* - Steps taken by employers to increase the proportions of historically disadvantaged minority groups at those institutions. For contracts over $100,000, contractors with more than 40 employees must submit documentation of their plan and steps to reach goals.
- *Debarment* – The authority of the city to suspend a person or contractor from eligibility to participate in city projects for a number of reasons including convictions, criminal offenses, failure to perform, etc.
- *Bidder qualifications* – Allows the city to set statements of bidder qualifications to determine that the contractor is qualified to bid based on those statements.

- *Responsible bidder requirements* - All contractors must meet the responsible bidder language portion of the bid. The lowest responsible bidder is a business which has the financial and technical capacity to perform the requirements of the solicitation and subsequent contract. Language further requires contractors to be registered through the state Department of Labor and Industry and follow fair labor standard laws as well as city requirements.
- *Fair labor standards* - Makes certain minimum wages, overtime, and regulatory labor standards are met. Union labor and market competition promote compensation on these types of projects that are typically much higher than minimum wages.
- *Prevailing Wages* – The city mandates prevailing wages when state and federal dollars are provided. As an example, a project with prevailing wages require that a pipelayer who would be working on a city project installing watermain or sanitary sewer, will make $37.05 per hour plus benefits. Typically in the metro area, an infrastructure project's need for labor is very competitive and in staff's recent experience, prevailing wages are not a significant increase from typical union trade wages.
- *Disadvantaged Business Enterprise (DBE)* – Federally funded projects include DBE goals, as well as selected state funded projects. Due to the number of factors and procedures that go into determining DBE percentages and requirements, staff continues to work with MnDOT on state and federally funded projects to ensure inclusion of DBE.
- *Payment bond* - Ensures that general contractors, subcontractors, and material suppliers who provide labor, materials, services, or equipment for a construction project are assured payment. Required for contracts over $175,000.
- *Certification to pay subcontractors* – Contracts include a state law requirement that the general contractor will pay all subcontractors within 10 days of receiving payment or be subject to penalty.
- *Insurance requirements* – Certifies contractors within the city provide coverage to protect employees working on city projects.

Staff has completed the contract review to include the above requirements, which are in place now. However, staff has identified additional next steps to further improve city efforts. These include:

- City attorney created work group with cohort cities and League of Minnesota cities to review overall procedures and ways to improve DBE participation and practices.
- Outreach for a number of professional organizations and union representation to continue participation and education of various job types in the industry. The outreach is intended to help diversify the workforce in these types of industries.
- Revise project advertisements to a broader pool for city contracts over $175,000.
- Notify all Minnesota registered DBE and sign up interested businesses for Minnetonka notifications on projects to be bid.

Additional efforts would continue as staff works with cohort cities and developers on continuously evolving industry ideas and efforts to improve protections and processes relating to construction and city contracts.

Discussion Question:

- ***Does the city council agree with current practices and plan as outlined?***

Study Session Agenda Item #3
Meeting of August 16, 2021

CITY OF MINNETONKA

Title: June 21, 2021 – 2022-2026 EIP Meeting Follow-up

Report From: Alisha Gray, Economic Development and Housing Manager

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

Action Requested: Receive the information

Summary Statement

The Economic Improvement Program (EIP) was discussed at the June 21, 2021 city council study session. Council requested additional information on the Homes Within Reach (HWR) program. Staff has prepared the information requested by council in this report.

Strategic Profile Relatability

☐Financial Strength & Operational Excellence
☐Sustainability & Natural Resources
☐Infrastructure & Asset Management
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☐ Community Inclusiveness
☐ N/A

Background

At the June 21, 2021 city council study session, council requested additional information on the HWR program.

1) **HWR Marketing Materials**
   - Link to website – About Homes Within Reach
   - Link to website – Eligibility and Application Details
   - Link to website – Homeowner Resources

2) **Information provided to potential HWR buyers**
   - Brenda Lano-Wolke (executive director for HWR) provided the attached handout that is reviewed with prospective buyers. HWR staff meet one-on-one with potential homeowners to discuss the materials included in the attached handouts.
     - Current information handout with newly added information redlined (attached).

3) **Summary of Program Statistics and Length of Ownership**
   - There are 58 homes in the HWR program in Minnetonka:

    - Average area median income (AMI) of the homeowners at the time of the original transaction is 59% of the AMI (roughly $44,000 annual income for a one-person household or $63,000 annual income for a 4-person household in 2021)
    - Average sales price of a home to the initial buyer is $130,000
    - Average cost of rehabilitation (prior to sale to the homeowner) is $39,500
        - This has increased over the past five years as the household stock continues to age.
            - The average cost of rehabilitation over the past five years was $62,500.
- Of the 58 Minnetonka homes in the program:
    - 36 homeowners have 10 or more years of homeownership, this equates to 62% of program participants.
    - Five homeowners have been in their homes for 19 years (since the program started), this equates to nearly 9% of program participants.
    - 14 homeowners have resold during the duration of the program, this equates to 24% of the program participants.
    - Three homes are pending re-sale.

4) Sales data for Minnetonka Homes (with average equity and appreciation)

- Below is a summary of the current status of Minnetonka properties in the HWR program:
    - There are 58 Minnetonka homes in the program.
        - There were 14 sales since the program began in 2002.
    - The program experienced a boom in the early years (2002-2009), with 34 Minnetonka properties participating during those years.
        - The real estate crash in 2009 affected a few of the homeowners in HWR properties that sold during this time.
            - Two homeowners foreclosed, two homeowners experienced short sales, and two homeowners closed without equity but did not have to provide additional funds at closing.
            - One homeowner used all of the equity from the home for non-real-estate purposes.
            - The remaining seven homeowners had a share of increased equity and appreciation.
                - The average equity and appreciation for these seven homeowners was $16,426, with a median of $16,700.
                - The average length of ownership for these seven homeowners was 6.64 years, with a median of 5.4 years.

5) Testimonials from HWR participants

- Link to testimonials on the Homes Within Reach Website

6) Links to information about land trusts

- There are currently ten land trusts in Minnesota.
    - Link to MN Coalition of Land Trusts
    - Link to Homes Within Reach Land Trust

Other Information

There has been past discussion about the taxation on land trust properties. The League of Minnesota Housing Task Force has proposed policy language that addresses this issue. The full policy review and adoption occur later this fall.

Discussion Questions

Does the city council have any additional questions regarding the Homes Within Reach program?

Supplemental Information:

- Sept. 14, 2020, Study Session – Homes within Reach discussion

Homes within Reach™

West Hennepin Affordable Housing Land Trust

Homes Within Reach Informational Meeting

5101 Thimsen Avenue, Suite 202
Minnetonka, Minnesota 55345
952-401-7071
www.homeswithinreach.org

Transforming lives through home ownership

Homes within Reach™

Homes Within Reach vision is to transform people's lives through homeownership.

Our mission is to use the Community Land Trust model to create, sustain and preserve affordable homeownership for families in suburban Hennepin County.

West Hennepin Affordable Housing Land Trust

Who is Homes Within Reach?

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West Hennepin Affordable Housing Land Trust (WHAHLT) dba Homes Within Reach (HWR) is a Community Land Trust providing permanent affordable homeownership to workforce families in the western suburbs of Hennepin County.

The establishment of WHAHLT was in direct response to the City of Minnetonka's interest in developing a means of increasing the number of long-term affordable homes in Minnetonka for work-force households; thereby making efficient use of its financial investment and providing long term affordability for the Community's essential workers.

In May 2001, the formation of West Hennepin Affordable Housing Land Trust (WHAHLT), a non-profit corporation took place and the organization began acquiring properties and selling the improvements to qualified low-to–moderate income homebuyers in the Spring of 2002.

In 2004, WHAHLT introduced the program's name ***Homes Within Reach*** *(*HWR*)* to the public in response to better describing the organization's vision, mission and values.

- The ***vision*** is to transform people's lives through homeownership.
- The ***mission*** is to use the Community Land Trust Practice to provide housing for working families that would be otherwise unable to buy in the West Hennepin suburban communities, and offering both communities and homebuyers the ability to sustain permanently affordable homeownership.
- The ***goal*** of HWR is to create and preserve affordable homeownership in the western suburbs of Hennepin County through the implementation of the Homes Within Reach program.

HWR acquires single-family properties, retains ownership of the land, and sells the homes on the land to qualifying families. The land is leased to homeowners through a 99-year renewable ground lease that affords the owner most of the same rights as any other property owner. The removal of the market value of the land from the mortgage equation provides initial affordability. Permanent affordability is obtained through:

1. The first is a pricing formula that provides the owner with a fair amount of equity, while ensuring the sale price for subsequent low-to-moderate income households is affordable.
2. The second provision requires the homeowner to sell to another low-to-moderate income household. In addition, the provisions ensure the home continues to be affordable with each sale.

The leaseholder-homeowner receives benefits similar to non-CLT homeowners such as the ability to build equity, the federal mortgage interest and property tax deduction and the ability to pass on the lease interest and home to their heirs.

WHAHLT/HWR's service area is suburban Hennepin County, exclusive of Minneapolis. This extensive area was chosen in recognition of the interconnection of suburban Hennepin County communities; the challenges of providing affordable housing within the suburbs; and the need for additional suburban workforce housing.

Today, WHAHLT owns 170 properties and helped 200 families in the communities of Bloomington, Brooklyn Park, Crystal, Deephaven, Edina, Eden Prairie, Golden Valley, Maple Grove, Minnetonka, New Hope, Plymouth, Richfield, St. Louis Park and Wayzata. The reason for growing in these specific communities is that each one of these cities has demonstrated a willingness to collaborate with WHAHLT in creating affordable homeownership.

Transforming lives through home ownership

EQUAL HOUSING OPPORTUNITY

How the Community Land Trust Model Works

1. A Community Land Trust (CLT) establishes initial affordability by removing the market value of the land from the mortgage equation.
   - ☑ For example, a CLT could purchase and existing owner-occupied home when placed for sale on the open market and then sells the home to a low-to-moderate-income household.
   - ☑ The CLT retains ownership of the land and enters into a 99-year ground lease with the leaseholder-homeowner.
   - ☑ Removing the land's market value from the mortgage equation, results in a lower, more affordable monthly payment of principal and interest.
   - ☑ In addition, it results in lower down payment and closing costs.

2. A CLT ensures permanent affordability of the home through two provisions found in the Ground Lease.
   a) The first is a pricing formula that provides the owner with a fair amount of equity, while ensuring the sale price for subsequent low-to-moderate-income households is affordable.
   b) The second provision requires the homeowner to sell either to another low-to-moderate-income household or to the CLT. In addition, the provisions ensure the home continues to be affordable with each sale.

3. A CLT leaseholder-homeowner receives benefits similar to non-CLT homeowners such as the ability to build equity, the federal mortgage interest and property tax deduction and the ability to pass on the lease interest and home to their heirs.

Ground Lease

Below is a brief overview of the ground lease. The ground lease is a legally binding document and all buyers will meet with an attorney to review the ground lease and have the ability to ask questions. This meeting is paid for by WHALHT but for the benefit of our buyers. Anyone with a financial interest in the transaction is not allowed to attend the meeting IE no realtors or lenders.

- WHAHLT homeowners own the home and WHAHLT owns the land beneath the home.
  - WHAHLT holds the land "in trust", creates, and preserves the initial affordability investment for the benefit of the homeowner and community.
- The Ground Lease:
  - Gives the homeowner exclusive rights to use the land beneath their home and details the rights and responsibilities of WHAHLT and homeowner.
  - Fee is $30.00 a month for the use of the land.
  - Renewable every 99 years or upon resale.
- The resale formula as written in the Ground Lease is the same for all WHAHLT homeowners.
  - The resale formula is used to calculate maximum future sales prices.
- All WHAHLT homeowners can pass their Ground Lease on to their spouse or partner or children
  - If member of the household and lived with them in the past year.
  - If not current members of the household, they will need to income qualify. If they can't qualify the home will be sold per the ground lease and the heirs will receive the same benefits that the homeowner would have.
- Capital improvements and alterations:
  - All WHAHLT homeowners have the opportunity to make alterations and improvements (beyond normal repair and maintenance), once approved by WHAHLT
- WHAHLT homeowner responsibilities include;
  - Homeowners are responsible for maintenance and upkeep of the land and home. The condition of the homes affects the appraised value when you go to sell your home, which affects the resale formula. To ensure you get the best return on your investment it is important to keep your home in good shape.
  - Homeowners are responsible for paying association fees if applicable to their situation
  - Homeowners pay property taxes on the land and home.
  - All homes must be owner – occupied 8 months out of the year.

Resale Formula

Sample for Discussion Only

(ADDING A COLUMN TO SHOW HOW THE CLT COMPARES TO THE TRADITIONAL MARKET AT A COMPARABLE MORTGAGE AMOUNT)

CLT Model Resale Formula					CLT Model	CLT Model w/ Capital Improvement
Acquisition costs						
		Market Value Land			$ 63,000	
		Market Value Home			$ 117,000	
			Total		$ 180,000	
Subsidy						
		Subsidy/Affordability Gap			$ 63,000	
		Sale Price			$ 117,000	
Market Value After 10 Years						
		Market Value Home			$ 157,238	
		Market Value Land			n/a	
			Increase in Value	1	$ 40,238	$ 40,238
			Capital improvement			$ 7,000
Sale Price Calculation after 10 Years						$ 33,238
		Percentage of Appreciation to Owner			35%	35%
			Owners Share of Appreciation		$ 14,083	$ 11,633
						$ 18,633
			New Sale Price of Home		$ 131,083	$ 135,633
		Estimated loan principal paid $15,000	Estimated funds to seller		$ 29,083	$ 33,633
	1	Annual average increase in market value 3%				

WHAHLT/HWR
Minimum Qualifications for Purchasing a Home

1. Be at least 21 years of age.
2. Be a citizen of the United States or a legal resident.
3. Have total household income less than 80% of the Area Median Income (AMI) for the household size established by the U.S. Department of Housing and Urban Development (HUD) (see page 8)
4. Applicant (and co-applicant) must qualify for an approved mortgage and must have sufficient income to support housing costs; thereby having a credit history acceptable to a lender
5. First-time homebuyers are preferred.
6. May not have other liquid assets, excluding retirement accounts that total in excess of $25,000.

You will need some funds for down payment and closing costs but less funds than you would need for a traditional purchase.

What You Need To Do

1. Complete and return the pre-application form, attachments and required income tax information.
2. Attend a Homes Within Reach (WHAHLT) information meeting.
3. Attend an interviews with: Project Administrator, Executive Director and Resident Selection Committee.
4. Fill out full application including verifications.
5. Complete a homebuyer education course (see page 9)
6. Obtain a mortgage pre-approval from one of our approved lenders see list provided.
7. Meet with the Homes Within Reach Selection Qualification Committee.

If You Are Selected

1. Sign a Purchase Agreement (**Earnest check $1,000**)
2. Review the ground lease with an attorney
3. Close on the Home and Join Homes Within Reach Family of Homeowners.
4. MOVE IN!!!!

Transforming lives through home ownership

Income Limits
(Effective 2021)

	1 person	2 person	3 person	4 person	5 person	6 person	7 person	8 person
80%	54,950	62,800	70,650	78,500	84,800	91,100	97,350	103,650

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Homebuyer Class Table

Community Action Partnership of Hennepin County 8800 Highway #7, Suite 401 St. Louis Park, MN 55426 Phone: 952-933-9639 Fax: 952-933-8016 **www.caphennepin.org**	**PRG, Inc.** 2017 East 38th Street Minneapolis MN 55407 Phone: 612-721-7556 x-72 **www.prginc.org**
African Families Development Network 3207 Cedar Ave S Minneapolis, MN 55407 Phone: 612-724-0000 **www.afdnminnesota.org**	**Carver County Community Development Agency** 705 N Walnut St., Chaska, MN 55318 Phone: 952-556-2801 **https://carvercda.org/rentalhousing/housing-classes**
NeighborWorks Home Partners 533 Dale Street N. St. Paul, MN 55103 Phone: 651-292-8710 **www.nwhomepartners.org**	**Home Ownership Center** 1000 Payne Avenue Suite 200 St. Paul, MN 55130 Phone) 651-659-9336 Fax) 651-659-9518 **www.hocmn.org**
Dakota County Community Development Agency 1228 Town Centre Drive Eagan, MN 55123 Phone: 651-675-4471 ***www.dakotacda.org***	