

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 1**

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**Council Present:** Dick Allendorf, Bob Ellingson, Amber Greves, James Hiller, Tony Wagner, Brad Wiersum, and Mayor Terry Schneider

**EDAC Present:** Kathryn Aanenson, Benita Bjorgo, Chandra Coughlin, Michael Happe, Ken Isaacson, Bruce Smith, Peter St. Peter,

**Staff:** John Gunyou, GERALYN Barone, Merrill King, Elise Durbin, David Maeda

Schneider called the meeting to order at 6:04 p.m.

**1. Housing Improvement Area council policy**

Wischnack gave the staff report.

Schneider noted the one page handout was helpful in showing a snapshot of the city's programming but it was only a third of the picture that also includes tax credits, grants, the land trust and other opportunities. Wischnack added that it might also be helpful to add information about development programming. Schneider suggested having someone like a regional developer come in and provide information about what it really takes to actually get a project from one step to the next. This would show issues like timing when one application might be due at a fixed point in time and another might be due much later causing delays.

Allendorf said he asked for the one page summary because he wanted information about where duplication might be occurring. He noted the owner occupied rehabilitation program was for a lower economic strata than the fix up fund and asked how the Minnetonka Home Enhancement fund fit in. Wischnack said the difference between the fix up fund and the Minnetonka Home Enhancement Fund was the fix up fund did not allow up the 120 percent AMI based upon household size. The types of loans for what could be financed also differed. Allendorf said he would like to see information about what the city received from the different programs. Schneider said many applicants looked at all government as a single entity and it would be helpful to be able to tell a resident that although the city may not have the funds available, where the other potential sources of assistance might be.

St. Peter asked if the city had a direct liaison with the Minnesota Department of Employment and Economic Development (DEED), the Minnesota Housing Finance Agency (MHFA) and Hennepin County redevelopment staff that a developer or resident could be put in contact with. Wischnack said the city had a good working relationship with DEED and she often worked as the point person.

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 2**

---

For the MHFA it was a little more complicated because the different programs had different people in charge of the program. She added city staff was well aware of the redevelopment funding of Hennepin County.

St. Peter said he was a strong proponent of the evaluation criteria provision in the proposed HIA policy that at least 75 percent of the units in the association must be owner-occupied. One of the goals and objectives of the policy was to support the owner occupied housing within the city. A number of the projects had rules that prohibited a certain level of rental units and a number of the projects were letting that rule slide. This was evident in the Cedar Ridge situation where the management could not indicate the percentage of owner occupied and rental units.

Isaacson said the first presentation the EDAC saw was lacking in professional financial analysis. He said he wasn't as concerned about the percentage of owner occupied versus rental units, because there no way the rental component could be enforced without the city getting involved in compliance monitoring. He said he was not certain that the 75 percent threshold was correct but there should be a requirement that the majority of the units be owner occupied. Currently there was no incentive for the owners to increase the association fees to maintain the property.

Happe said the issue arose because of financial mismanagement from a long term strategic standpoint. The perception was if there were a lot of rental units then the rentals were being run as a business and money could be taken out of the program that wouldn't be committed to the long term maintenance issues.

Allendorf said the provision in the policy that required the plan be approved by a third party would address the concerns about what was going to be done going forward. He said if the program was being done for neighborhood revitalization, stabilization and code violations than it seemed contradictory to not make it available to a facility that had a certain percentage of units that were not owner occupied. He questioned if the 75 percent threshold was too stringent.

Wagner said the only reason the city was getting into the HIA was because it did not want the housing stock to deteriorate. He suggested creating different thresholds for homestead properties and non-homestead properties.

Smith said an issue the president of an association brought up was that a lot of the owners did not have a way out because of the housing market. They were trying to be responsible by renting. He suggested putting in a threshold that allowed the real situation to be considered.

Wiersum said it was important to keep in mind what problem the city was trying

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 3**

---

to solve. There was infrastructure that needed improvement. He liked the idea of having a threshold for owner occupied units but taking a step back he concluded that consideration had to be given to what was trying to be achieved. The city did not differentiate between owner occupied and rental for affordable housing purposes. He agreed the housing market had been really unkind for condominiums.

Schneider said the idea behind the owner occupied provision was the city did not want someone receiving public money to profit. He noted that the problem wasn't necessarily mismanagement but rather a lack of management. Homeowner associations often do not have the professional management that a rental building does so they postpone dealing with maintenance issues until a point where it becomes too expensive to address issues. A rental building on the other hand is motivated to maintain the property in order to continue to rent the property at a market rate. He said he did not want to exclude those with too many rental units but would suggest treating them on a case by case basis.

St. Peter said an alternative he offered at the EDAC meeting was that there be multiple standards in terms of the length and rate of the loan. This might get at the issue without setting a threshold.

Schneider said the policy had to be flexible enough to allow for changing lifestyles and attitudes. Coughlin said she agreed because she has seen trending over time that home ownership was decreasing and this may continue in the current economy going forward.

Wiersum said he agreed with Isaacson about the need for a good plan and good financial management. The owner occupied issue was of lesser importance but it increased the importance of the financial plan. The city would need to forget about some of the past practices of the associations in order to help address the maintenance issues. The financial plan was the most important evaluation criteria.

Allendorf suggested removing the criteria related to owner occupied percentage and to put more emphasis on the financial planning.

Schneider suggested taking a certain percentage of what was allocated to provide for consulting services for the associations.

Wagner suggested the city make available an approved list of consultants or an example of the level of detail expected from the financial plan.

Allendorf asked if it would make sense to make some funding available to provide to the associations to hire a financial planner. Gunyou said it might be

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 4**

---

possible to capitalize that cost. Schneider said he would be supportive of that idea in order to get the associations to think about the long term issues sooner rather than later.

Wagner said a concern was he didn't want the city to become involved in managing the properties. He asked when the policy is rolled out if there was some certification that should be required to make sure the city doesn't receive numerous requests at the same time. Gunyou said the issue of financial soundness had been discussed at the staff level. As the "banker" the city could put requirements into place like requiring that one of the board members be a CPA. He noted a new state law requires the associations do capital planning. He said the city could put together a package that would list all the things needed, like a financial plan that included certain elements, to give to the associations. He agreed the city did not want to get into the business of managing the properties but wanted to make sure a plan was in place to take care of the ongoing infrastructure. Wischnack added it wasn't just looking at the financial information but making sure the associations have looked at the right capital improvements that are needed. This has been done informally, but formalizing the process might be important.

Wiersum asked if it was possible to establish a simple assessment method of looking at the association dues and the percentage of the value of the infrastructure to determine what portion dues would be needed to cover the costs of the necessary improvements. Gunyou indicated currently the margin was really low.

Greves said she liked the discussion had included all the different elements to include in the comprehensive application. Providing information about other options was important as well.

St. Peter said his church recently went through a similar process where maintenance had been deferred over the past 15 years. The church tried to begin catching up three to five years ago and this required a significant commitment of capital. He said he supported coming up with the policy but the bigger challenge was coming up with the funding because the number of facilities on the list would require a significant amount of money.

Allendorf how much it would cost an association to hire a financial planner. Issacson indicated the cost would not be very expensive but it would be more problematic to getting a plan that the association would adhere to. St. Peter said the cost would likely be in the \$2,500 to \$5,000 range.

Wagner asked what performance criteria should be included to ensure the plans are adhered to. Wischnack said the performance criteria would be documented in

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 5**

---

the development agreement.

Schneider indicated there were risks but the idea was to structure things right to begin with to ensure a good probability things would succeed.

Smith said part of the EDAC discussion was to have a frequently updated plan submitted as part of the development package to show the association was on track.

Gunyou said ideally the planning cycle would be established to give the city lead time to schedule different facilities over time. There always would be the possibility of a crisis situation like a roof that was leaking and needed immediate repair. Part of this would include publicizing the program to get people thinking about the process.

Schneider indicated the most likely scenario would be there would be funds available in bits and pieces. Ideally the available funding could be coordinated so the program funds were filling a gap and not replicating other funding.

Gunyou noted the goal was there would be no cost to the city for the program. The administration costs would be covered as part of the financing.

Schneider said a concern with the checks and balances would be ending up with a program that was so complex, no one uses it. The program had to balance still doing the right thing with having something the average person could understand.

Wagner said part of the language in the policy talked about getting rid of blight. He noted the purpose of the program was to prevent blight.

Smith asked about the educational aspect and marketing the program. Wischnack said information would be included in the Minnetonka Memo. A select mailing would also be done. Projects with known issues would be contacted. Another idea would be to build a web site resource center. Wagner suggested getting representatives from all the associations together for an information session. Schneider said surveying the associations would help the city get more current data. Smith said the biggest component was not necessarily education and marketing but assessment and how many of projects might be coming forward.

Allendorf asked if the banks knew about the program. Wischnack indicated they do and that staff meets regularly with them. Informational emails are sent to the larger banks.

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 6**

---

Schneider asked for comments on the general relationship between the council and EDAC.

Smith said he would like the council's perspective on what the EDAC's function should be. Schneider said when the EDA and EDAC structure was discussed the idea was to get a broader base of talent involved and for the council to take a more proactive role in providing guidance. He noted the council had not really done that outside the few things that had come up. He suggested future work sessions to identify emerging issues. Wagner said when the EDAC was formed the idea was for there to be a plan identifying three or four key initiatives. There was an EDAC work plan meeting and it would be useful to have the full council available to give direction. As the liaison he has seen a higher level dialogue since the EDAC was established but work needed to be done on not just being reactive. Housing has remained a heavy emphasis for the group.

Schneider suggested a facilitated work session might help with developing a priority list. Wiersum said he liked that idea and suggested the vision for the EDAC also be discussed at the session. He would also like to look at what other EDAs and other EDACs in other cities are doing.

St. Peter agreed the EDAC hadn't received guidance from the council that they were led to believe was coming. He said the next big area in the EDAC work plan was the Ridgedale area unless something like the light rail jumped in front of that.

Happe said he thought a half day retreat was a great idea. He noted much of the EDAC's work so far was related to affordable housing issues. Schneider agreed and said the intention was to broaden the scope of issues.

**2. Adjournment of the special joint study session in order to convene the regular study session**

The special joint study session was adjourned at 7:25 p.m.

**3. Shady Oak Road Improvement**

Schneider called the study session to order at 7:25 p.m.

Wischnack gave the staff report.

Schneider noted that when the effort started both city councils made a strong statement that the boundaries would be ignored in order to do the improvement correctly. He said this still should be the bottom line.

**STAFF SUMMARY  
CITY OF MINNETONKA  
SPECIAL JOINT STUDY SESSION WITH EDAC  
CITY COUNCIL STUDY SESSION  
MONDAY, SEPTEMBER 26, 2011  
PAGE 7**

---

Wagner said given the location being half a mile from the light rail, if the cities had given consideration lower parking requirements for the area. Wischnack the intention was to not make the parking any worse.

Allendorf asked what happened to the plan to extend Main Street to the west. Wischnack said there was a plan to extend Main Street but not to connect it to the residential area.

**4. Adjournment**

The study session adjourned at 7:44 p.m.

Respectfully submitted,

David Maeda  
City Clerk