

**MINNETONKA ECONOMIC DEVELOPMENT ADVISORY COMMISSION
MEETING SUMMARY**

**JANUARY 27, 2011
6:00 P.M.**

1. CALL TO ORDER

EDAC Chair Peter St. Peter called the meeting to order at 6:00 p.m.

2. ROLL CALL

EDAC commissioners present: Kathryn Aanenson, Benita Bjorgo, Michael Happe, Ken Isaacson, Bruce Smith, and Peter St. Peter. Chandra Coughlin was absent.

City councilmember liaison present: Brad Wiersum.

Staff present: Community Development Director Julie Wischnack and Community Development Supervisor Elise Durbin.

3. APPROVE NOVEMBER 29, 2010 MEETING MINUTES

Haape moved, Smith seconded a motion to approve the November 29, 2011 meeting minutes. Aanenson, Bjorgo, Happe, Isaacson, Smith, and St. Peter voted yes. Coughlin was absent. Motion passed.

BUSINESS ITEMS

4. 12708/12720 WAYZATA BOULEVARD/DUFFY DEVELOPMENT CONCEPT

Isaacson recused himself from discussion.

Wischnack gave the staff report. Durbin explained how she collected the data in the table.

Happe confirmed with Wischnack that the total tax increment finance (TIF) assistance for the proposed Duffy Development would be approximately 10 percent of the total project cost. He asked how that would relate to projects done in the city in the past. Wischnack clarified with Happe that he was interested in the total value of the proposed project. Happe found the information helpful, but wanted to compare its relativity to the total cost. Wischnack understood his interest and would provide the value of the project at the time it was proposed at the next discussion of the proposal. St. Peter requested the calculation of the

percentage of total city assistance in relation to the proposed project's total cost. Wischnack answered absolutely.

Wischnack continued the staff report and explained the tax-credit process. She provided an example of how a tax increment finance district is created and the expenses associated with operating one. She confirmed that the city council voted not to decertify Boulevard Gardens.

John Duffy, Duffy Development Company at 11900 Wayzata Boulevard, applicant, was present to answer questions.

St. Peter asked if there had been any material changes to the proposal since the last meeting. Mr. Duffy answered in the negative. He has been working with the fire marshal and engineering staff on minor changes.

Smith asked if he had made progress securing funding sources. Mr. Duffy explained the proposal would require the involvement of the Metropolitan Council, Hennepin County, and Minnesota Housing. The meeting with Hennepin County went well. The proposal is in line with what Hennepin County wants to see happen. He received help on how to complete the application correctly. He has not met with the Metropolitan Council, but is confident the proposal is what they may support. He has had two meetings with Minnesota Housing and the proposal is exactly what it would support. The meetings have been very positive.

St. Peter commented on a presentation by Chair Haigh of the Metropolitan Council who stated that a priority is affordable and stratification housing.

Mr. Duffy explained the request is for \$1.2 million, with the project total of \$12.7 million; therefore, the request is slightly less than 10 percent. He has had meetings regarding how the pooling would be set up. The pooling would be 10 percent of a reduced number. The city would be eligible to contribute \$1.1 million instead of \$1.2 million. A new TIF district could put in more money, but there would be numerous additional fees.

St. Peter noted the fees to issue bonds is between 8 and 10 percent of the amount issued, and more for a small project. It would adversely impact the project.

Aanenson asked if the district would still be set up for 25 years. Wischnack answered affirmatively. The pooling funds are available until 2022. The affordable housing commitment would be a 30-year commitment.

Wischnack requested direction from commissioners on how to proceed, including whether to do pooling rather than a TIF district, and the price range of the affordability subsidy, as this will provide guidance on how to structure the contract.

Smith said it seems pooling would be a more efficient use of funds. He favored pooling. Bjorgo agreed. Happe did not think creating a separate TIF district makes sense since the city council extended the Boulevard Gardens TIF district. Aanenson and St. Peter concurred with commissioners.

St. Peter asked if commissioners are comfortable moving forward to negotiate a development agreement. Aanenson noted that the numbers per unit may be changing. Based on the given information, it seems reasonable to get the proposed number of affordable units.

Happe asked if 10 percent had been used in the past. Wischnack responded that the senior part alone of Glen Lake was about \$20 million. St. Peter estimated other projects to run from the 4 percent to 10 percent range. The smaller projects result in a higher percentage.

Happe suggested going through the same analysis as if it would have its own TIF district. Wischnack explained the planning commission will review the proposal's density and the developer will deal with market analysis. St. Peter added that Mr. Ruff would complete a comparison of values. Wischnack agreed.

Happe was comfortable with the project moving forward.

Bjorgo supported continuation of the project based on the benchmarking and the fact that the developer is actively seeking other funds.

Smith supported moving forward. Although he thought the percent is a little high, the duration of the affordability would be so long that it would be one of the best funding situations available.

St. Peter supported moving forward. He believed the percent is on the high end, but the stratification of units and cost would indirectly benefit the city over a longer period of time and is consistent with goals stated in the comprehensive guide plan. This proposal would provide a true stratification of values rather than a high-end development with a few affordable units. That in itself warrants the city's participation rather than percentages compared to other previous projects.

Wiersum stated that looking at other project's percentages is a good addition to the chart, but the reality is that the project would be a combination of factors. The percentage may be a little high, but what mitigates that is the duration of the affordability and the number of units. He concurred with commissioners.

Wischnack provided one last chance for commissioners to request additional information for the next discussion. Smith requested the status of funding progress. Wischnack appreciated the input.

5. HOUSING REHABILITATION AND FIRST TIME HOMEBUYER PROGRAMS

Durbin gave the staff report.

Happe asked if a person owes more on their residence than it is worth, would the city give the person an additional loan. Durbin answered affirmatively. Wischnack explained that homeowners, without a lot of equity, are faced with major improvement projects need funds. This program would be similar to other city's rehabilitation programs. The proposal would be 110 percent loan to value ratio, but some city's programs go higher than that. There would be an income requirement to participate in the program. The city has an interest in keeping up its private infrastructure, which includes private residences.

Happe was concerned a large loan to value ratio was what got banks in trouble. Happe confirmed the current interest rate is 4.4375 percent. He asked for the current interest rate for a home equity line of credit. Smith knew of banks offering 3 percent to 4 percent for a home equity line of credit. Wischnack estimated fixed loans rates to be at 6.5 to 7 percent. Smith noted the homeowner could have value in the property, but the loan, along with the mortgage, would put the amount owed a little over its value prior to the loan. Smith provided an example of property owners who owe \$95,000 on a \$100,000 house and apply for a \$10,000 loan. The loan to value ratio of the property would be 105 percent.

Wischnack noted that a subcommittee discussed the program's parameters.

St. Peter noted the \$65 application fee would cover the cost of a credit check, but it would not provide for a judgment lien check. Wischnack said most cities do not charge an application fee. The application fee would be an attempt to have the applicant commit to the process rather than cover the administrative costs. Applicants tend to be more serious when a fee is charged.

St. Peter asked if the values would be fixed or adjusted. Durbin answered that has not been determined yet. If significant changes would be needed in the future, then staff would come back and ask for changes. St. Peter recommended looking at something like the average increase in the assessed value. Wischnack clarified St. Peter was looking for the value of the house and what would be used to determine the area median income (AMI).

Wiersum asked if the loan rate is fixed or variable. Wischnack responded fixed. Wiersum agreed it should be fixed. The goal is to help property owners fix up houses. The city does not want to be the loan source of first resort, but the loan of last resort. The program should be structured in such a way that it would not compete with banks. The city's interest is in improving housing stock.

Wischnack expected an annual evaluation would be done to understand what works. The proposal is a pilot project to monitor its results over the first year.

Smith supported performance reporting to look at the efficiency of the funds being used.

Aanenson stated that subcommittee members talked about performance measures to make sure the program would be working as intended and change it as needed. Wischnack will provide the evaluation measures for the program at the next discussion for the commission's review.

Durbin reported on the first-time homebuyer program.

Wischnack added this program is the hardest to determine if it serves a need in the city. Staff has met with banks to discuss their products.

Isaacson understood that down-payment assistance would be a grant. Durbin responded that a banker pointed that out yesterday. Staff will conduct more research on how the loan would be classified and provide the information at the next discussion.

St. Peter suggested defining a first-time homebuyer as one who has not owned a home in 5 to 10 years rather than 3 years.

St. Peter commented that this program would be a true second mortgage so he assumed there would be the appropriate due on sale or refinance provision in the agreement. It may be appropriate that the same concept also be included in the revitalization program. The provision was found in the proposal.

St. Peter wanted feedback from local realtors to gain a sense of the need for the program and what impact it would have on making housing available to young and new families. St. Peter heard from realtors that Minnetonka is a move-up real estate market and that is one of the issues the city hopes to address.

Wiersum felt Isaacson raised a good point. The program would require the homeowner contribute at least 25 percent of the down payment/closing costs. The loan to value issue becomes a challenge. He wants to figure out what gets in the way of young, first-time home buyers purchasing a house in Minnetonka. If there is a way to help buyers creatively get over the hurdles, then that is what the city wants to do.

Happe agreed with Wiersum. The current economic problems have too many homeowners in homes that they cannot afford. He is concerned with a program allowing 110 percent loan to value ratio because the banks have learned what a disaster that was. He did not think it is possible to get a standard mortgage without 20 percent down. He is concerned a first-time homebuyer is not able to afford a \$300,000 house. The notion of supporting a buyer who probably cannot afford a \$300,000 causes him concern. Wischnack asked if Happe would propose no program for down payment or a program with a limited house value.

Happe asked if there is \$190,000 for the program. Durbin explained how staff would wait to allocate the funds until applications have been reviewed. The housing rehabilitation program may have up to \$150,000 made available, which would leave \$40,000 for the down payment/closing costs program. On the other end of the spectrum, if there is more interest in the first-time homebuyer program, then staff would propose that up to \$90,000 would be made available for that program and \$100,000 be made available for the rehabilitation program. The amounts could slide with maximums set.

Happe asked if it would be important to do both of the programs. Wischnack stated that the city council would be happy to hear all recommendations. The directive to staff is to figure out the programs to utilize the HRA Levy and do it this year. The programs should focus on issues found in the housing study including assisting buyers with purchasing a house and homeowners with revitalizing their house. Minnetonka is missing the 80 percent to 100 percent of AMI market. The city needs to figure out programs to help those buyers. The city council would be willing to hear concerns and alternatives.

Smith suggested looking at the programs separately because the rehabilitation program would allow the borrower to potentially have more owed on the property than the value. The first-time home buyer would be required to have 25 percent of the down payment. If the goal is to get people into houses or to provide assistance, then the programs should be somewhat "bank prudent," but realistic. Most of the financial crisis is not from homeowners owing more on their homes, it was caused by the escalation of payments when the ARMs reset. The value of residences could be under 100 percent. The debt to income when the ARM reset created a situation that the owner could no longer afford. Smith is less concerned with the first-time homebuyer. He is somewhat concerned that \$10,000 may not help a buyer who needs to contribute 25 percent in addition. In order to contribute \$25,000, the buyer would have to be fairly wealthy and qualify for a bank loan. So, 25 percent might actually be too much if the goal is to help a buyer who cannot afford the down payment. Wischnack clarified that the 25 percent would be of the closing costs.

Smith felt leeway is necessary if the goal is to maintain housing stock. These are residents who cannot afford to rehabilitate their houses. There are not a lot of banks willing to go above 100 percent. If something is not done, then the house may deteriorate further.

Wischnack explained that Community Development Block Grant (CDBG) loans have been done by the city for a long period of time for residents below 80 percent of the AMI. The default rate is very low. There have been 2 defaults in 7 years. The CDBG loans are \$20,000.

St. Peter suggested expanding the scope of coverage to include things like moving costs, homeowner insurance paid on the front end of a closing, and an escrow payment that would cover the first year of property taxes. Those would then be removed from the lender's concern as part of the assistance.

Aanenson felt the rehabilitation program is a key component because young families are looking at the older housing stock as what they can afford and knowing that the rehabilitation program is available would allow them to afford the structural repairs and maintain the housing stock. She agreed with seeing the applications before allocating the funds. Helping the entry-level houses be rehabbed to improve the tax base for the neighborhoods is a priority.

Smith had experience with Community Reinvestment Act (CRA) opportunities at work. One thing the city might want to consider is banks are obligated by the CRA to try and help individuals who meet low-income guidelines. One way to use the funds more efficiently is to partner with a bank. Instead of the city lending money, the bank would lend the money, but the city would guarantee the loan. The only time the city would be at risk to lose funds would be if a buyer defaults or goes delinquent. That would allow more people to be served at a lower cost. Wischnack noted that question is on the list of bank interview questions.

Wiersum liked that idea. A credit check would be done and it would be determined if an applicant can afford the purchase. The city does not want to become a bank, but enable a resident to do something to benefit them and the community. Wiersum noted that the city may not need to guarantee 100 percent of the loan. Banks should be in a position to do the right thing in a community. Removing some of the risk for the bank may make the deal effective.

Wiersum stated that the city council wants to use the HRA Levy effectively. He would rather spend the funds prudently and have some left over.

Isaacson asked how the rate would be determined.

Smith clarified a bank must maintain 2 to 5 percent in reserve to make itself whole if a loan defaults. \$190,000 would be considered the reserve, so the bank could lend \$5 million. Partnering with one bank would make the reserve situation easier. Wischnack appreciated the valid discussion and invited Smith to attend the meetings.

Durbin explained an outside agency would perform administration of the programs. The Greater Metropolitan Housing Corporation (GMHC) is one option staff has met with. There would be an administrative fee of 10 to 15 percent of the program pool which is on track with what she has found for other program administrators. The fee would include developing the guidelines, creating loan documents, marketing the program, and working with clients from start to finish. It would be done on a trial basis and be reviewed by the EDAC in one year.

Monthly reports would be submitted to city staff reflecting the number of loans and applications. Wischnack added the city would act as the clearing house for the different programs. If a resident has a need to install a handicap assessable ramp or a problem with a roof, then staff would figure out which program would work best for the resident and help them go through the process. That would help keep the local connection that residents look for when visiting city hall in order to get their business done.

Smith felt having an outside source perform the administration was a great idea. The efficiencies and complexities involved with talking with residents, getting them into the right loan program, and underwriting the loan is a great partnership. Wischnack noted that staff could ask GMHC what type of rates they have seen for similar programs.

Isaacson asked how the program would replenish its funds if it is a revolving loan program. Wischnack explained that a new contract for administration of the programs and pool of funds would be set up for the next round of applications. It could take a while to use all of the funds. Sometimes it takes a year to get a loan and rehabilitation completed.

6. 2011 EDAC WORK PLAN

Wischnack reported.

Happe thanked staff. He appreciated the plan that would allow him to anticipate and think about the items ahead of time. It seemed like the commission is still a relatively new group. He would like to help with more redevelopment projects such as State Highway 7 and County Road 101.

St. Peter supported focusing on economic development within the city and monitoring all areas of the city for potential opportunities to make a long-term economic impact. Wischnack noted educating EDAC members on the city council's overall plan for each village center and process would be beneficial. She will provide information at the next meeting.

Smith would like to see the city's general budget and taxation information. The whole budgeting and funding process for a city or education works differently than a corporate environment. It would assist commissioners with the process of talking about the budget and provide knowledge of the basics of what the EDAC would review. Wischnack noted that Minnetonka Finance Director Merrill King offered to present budgeting information to the EDAC. Wischnack will see if she is available for the February EDAC meeting.

Wischnack invited commissioners to let her know if there is a question. St. Peter encouraged commissioners ask questions.

7. STAFF REPORT

Wischnack and Durbin commented on items in the staff report including:

- The State Highway 7 and County Road 101 village center study public process is almost complete. The proposed plans for the southeast and southwest corners will be introduced to developers for their feedback. The market study showed a demand for a high-volume restaurant on the southeast corner if the access would be fixed. The market study showed that the southeast side would be perfect for Lowes or Cosco. Smith asked how many of the 225 to 300 houses would be affordable. Wischnack said that if tax increment financing is requested (TIF), then the policy requests 20 percent affordable housing. The comprehensive guide plan did envision that much housing in the area.
- Light rail transit is finishing up a preliminary engineering risk assessment. The Southwest Corridor Management Committee has been formed and is led by the Metropolitan Council. It will oversee engineering of the line. The Southwest Alliance is supporting the request for a \$5 million bonding request for preliminary engineering and finalize an EIS.
- The transit study is still being wrapped up. All of the technical work on the system assessment has been completed. The final recommendation is being drafted and will be brought to the EDAC when it is completed.
- The Minnetonka Open to Business program began January 1, 2011. Marketing has been done on the website and *Minnetonka Memo*. The city has received 20 inquiries so far.
- The State of the City address is February 9, 2011 and all commissioners are invited to attend.
- February 23, 2011 is the next Sensible Land Use Coalition program.
- The annual boards and commissions training will be held in February.
- *Compass Points* was provided to commissioners. It provides interesting statistics regarding the metropolitan area from housing to transportation.

9. OTHER BUSINESS

The next EDAC meeting will be February 24, 2011.

10. ADJOURN

Aanenson moved, Isaacson seconded, a motion to adjourn the meeting. All voted yes. Motion passed. The meeting adjourned at 7:45 p.m.