

**MINNETONKA ECONOMIC DEVELOPMENT ADVISORY COMMISSION
MEETING SUMMARY**

**May 26, 2011
6:00 P.M.**

1. CALL TO ORDER

President St. Peter called the meeting to order at 6:10 p.m.

2. ROLL CALL

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

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

City council liaison present: Tony Wagner.

3. APPROVE APRIL 28, 2011 MEETING MINUTES

Bjorgo moved, Isaacson seconded a motion to approve the April 28, 2011 meeting minutes. Aanenson, Bjorgo, Isaacson, Smith, and St. Peter voted yes. Happe was absent. Coughlin abstained. Motion passed.

BUSINESS ITEMS

4. HILLSIDE MEMORY CARE

The applicant requested this item be postponed until the June EDAC.

5. CEDAR RIDGE CONDOMINIUMS HOUSING IMPROVEMENT AREA (HIA)

Durbin gave the staff report.

Wischnack invited questions regarding affordability, price range, and any other statistics.

Durbin noted that the president of the homeowner's association, Marshall Walker, was present to answer questions.

Aanenson saw the benefit of maintaining the city's housing stock, especially affordable units. Her concern is for residents on fixed incomes. The number of

foreclosures and vacancies should be monitored. She asked if a housing inventory study has been done to anticipate the amount of need and how applications would be prioritized. Durbin answered that there had been 7 foreclosures of the 180 units in the last 12 months. Thirty-two units are 2 or more months behind on association dues. Of those 32 units, 9 are in some stage of foreclosure.

Durbin explained how the process to deal with future HIA requests would be handled. A formal process would be drafted and reviewed by the EDAC. Staff would meet with applicants and finance all requests at one time.

Smith asked for the amount of the current association dues per month and when the dues are ultimately due. Durbin explained that the dues associated with an HIA are not paid monthly, they are assessed onto the property's property tax and due in May and October or incorporated into the property's tax escrow process.

Marshall Walker, 10301 Cedar Lake Road, Cedar Ridge Condominiums Homeowner's Association President, applicant, stated that homeowner association dues are based on the square footage of each unit. He has a larger unit and pays \$355 a month. The small, one-bedroom unit association dues are approximately \$290.

Isaacson asked how long he has lived there. Mr. Walker has been a resident for five years and president of the homeowners association for three years.

Isaacson asked if there had been regular increases in the homeowner association fees. Mr. Walker said there has been no increase over the past three years. His dues were \$260 five years ago when he moved in.

Isaacson asked if the impact to the homeowner association fees had been figured out. Mr. Walker answered in the negative. It would be calculated once a specific amount has been determined.

In response to Isaacson's question, Durbin explained that the development agreement would outline the amount and length of the term. Wischnack explained the assessment timeline. It would be 1.5 years until the property owners see the increase. The 15-year loan would cost approximately \$28 per month.

Isaacson asked what would be the source of the funds. Wischnack anticipated some type of inner-fund loan. The Livable Communities Fund is a possibility. It could handle this type of transaction for a 10 year to 15 year period. If the city is to help numerous improvements, then a process would be established to collect the qualifying applications at one time to determine if the best avenue to take would be to issue debt and pay back the bond over time through assessments.

Isaacson asked if there would be bidding requirements tied to the funding. Wischnack answered in the negative. Last year, the building official visited the site, and agrees with all of the major ticket items needed. Mr. Walker stated research has been done to determine that there should be no more major expenses for the next 10 years. He wants to start another long-term fund to plan for costs 10 years from now and not have to worry about coming up with funds to "put out fires."

Bjorgo confirmed with Wischnack that decks are considered common area.

Bjorgo noted that the financing would benefit the city by utilizing a higher interest rate than it would receive from investments. Issuing a bond would create a new dynamic to be considered however.

In response to Bjorgo's question, Durbin stated that the homeowners association has approximately \$180,000 in reserves for rehabilitation.

Coughlin asked what amount of the \$675,000 would be for state/local compliance. Durbin responded \$252,000.

Smith encouraged the homeowners association to structure its spending to make the residences self-sustaining from an improvement stand point. Smith asked if a study has been completed to determine the amount needed to provide for a long-term improvement reserve fund. Mr. Walker stated that has not been done yet. He has been concentrating on the immediate need, but wants to work on getting one established with the board members. Planning now would make things easier in the future. He did not anticipate it to be a large sum for the individual homeowners.

Smith worried that residents on fixed incomes would have difficulty and the structure would create unsustainability with the HOA dues being the same amount or higher than the monthly payment for residences valued at \$100,000. Mr. Walker said that money is being put into a reserve right now. Mr. Smith asked at what percent. Mr. Walker stated approximately \$5,000 per month. Mr. Smith asked how much that is per unit. St. Peter estimated a little over \$30 per unit. Smith noted that residents would pay for the assessment and a future reserve for 10 years to 15 years. It looked scary.

Mr. Walker did not anticipate any more large expenses for the next 10 years. The reserve would be for projects in the future so there would be no need for an increase in the future. He planned on ventilating and insulating better to save on heating costs in the future. The high-efficiency boilers would save residents money versus the 25-year old units that are there currently. He anticipated savings to assist saving money.

Smith asked if costs associated with issuing a bond would be passed on to the units. Wischnack answered affirmatively.

Smith asked if the improvements would cause an increase in the property value. Durbin did not foresee a large increase because the improvements would be for repair and maintenance.

Bjorgo asked if the homeowners are aware of the potential financial impact. Mr. Walker stated that three meetings open to all residents were held. An information packet has also been sent to residents. There was a pretty good turnout at the meetings. At the end of the meeting, residents understood the situation and were comfortable with the association's actions.

Bjorgo asked if homeowners commented on the increase in monthly cost. Mr. Walker said that concerns were expressed, but the association has had assessments in the past and this project has gone smoother and easier than previous ones. Thorough research and planning for the future was presented at the association meetings.

Bjorgo questioned if foreclosed properties are now occupied. Mr. Walker said that some are not occupied. The improvement to the residences would help sell the properties as well.

Wischnack clarified that "assessment" refers to a tax assessment paid twice a year rather than monthly. Monthly charges paid by residents and set by the homeowner's association is an "association fee".

Isaacson asked if the residents know that there would be a \$30 to \$50 increase in the monthly association fee. Mr. Walker answered affirmatively.

Smith understood that property taxes are paid twice a year, but some mortgage companies require property owners to escrow the funds and pay the taxes each month included with the mortgage. Wischnack understood. The city would receive the property taxes twice a year.

Smith asked if the city would get involved with the homeowner association's long-range plan. Wischnack said that the associations learn a lot when going through a process like this. New legislation has been proposed that makes associations do this type of process for capital improvement planning. She understood the point that there is a need for a better handle to be kept on future improvements.

Aanenson noted the goals of stabilizing the building to help attract new owners; establishing the amount of the increase; and creating a long-term plan.

Wagner did not want the city to become a banking institution. There needs to be cost recovery for staff time. The city council would be receptive to the idea that the improvements would be a necessity to keep the housing stock up.

Coughlin asked what mechanism would be used to roll the proposal into the financing plan. Wagner left that for staff to determine. His assumption would be that if there is no transaction cost for doing it, then it would become easier than bank financing and the city would need to roll some kind of a fee into the finance cost.

Wischnack noted that there is a fee and staff administration time on a conduit debt financing deal that the city reviews. A similar situation could be created.

St. Peter shared the thought that this is one of those difficult projects where the property has lost a significant amount of value over the last decade. The structure suffered severe water damage. Maintenance has been deferred to emergency repairs. The city needs to understand that it is the lender in this situation. He asked how many units are valued lower than the amount of the mortgage. Mr. Walker did not have that information.

St. Peter asked what would be the city's recourse if the special assessments and property taxes would not be paid. Wischnack explained that if a resident would be foreclosed upon by a mortgage company or the association, then the taxes, at some point, would be paid when a new owner purchases the residence. The city would not be in a loan position. It is similar to a special service district.

St. Peter favored establishing threshold requirements or long-term planning and assessments. Community Associates Institute (CAI) provides guidelines for associations. It recommends a 20-year capital improvement budget. It was a difficult process and initially caused dissension in the association board St. Peter was a member of in the 1970s, but eventually a solid association was formed with good long-term reserves and successful completion of replacing the roofs of 300 units. He recommended that staff discuss with the applicant the benefits of adhering to long-term planning. He recommended having an outside consultant review the long-term planning every 2, 3 or 4 years. The cost of the review would be part of the costs of the association.

Wischnack noted that the association has been working with a management company, Gene Sullivan, to prepare the documents and financial management. He was unable to attend the meeting, and may be able to attend a future meeting to walk through the financial issues and long-term management. St. Peter recommended applying the CAI standards. Mr. Walker stated that a reserve study is done every 5 years. St. Peter explained that CAI standards call for a 20-year plan that is updated every 3 to 5 years. Mr. Walker confirmed the association's plan covers 20 years with reviews every 5 years. The association was not assessing for reserves previously, but intends to now. The elevators and

garage-floor drains wipe out the existing funds. St. Peter suggested requiring a 5-year plan that would show where the association is at with accruing the appropriate level assessment to meet the 5-year plan.

Isaacson asked how many current condo units are rented and owner occupied. Wischnack noted that the mean price last year was \$60,000 and \$106,000 in 2002. Three units have been purchased this year, 5 in 2010, and 6 in 2009.

Isaacson asked if the association rules allow a condo owner to rent their unit. Mr. Walker answered that the rules do not prohibit a condo owner from renting their unit. Anything that would happen to the unit would be the owner's responsibility. Durbin explained that 50 of the units are currently rented. Mr. Walker said that none of the rental properties are behind in payments. The owner-occupied condos look considerably more modern than the rentals.

Wischnack noted the commission's concern with the association's cash management and future maintenance issues and how the association would afford them. Concern with the amount of rental units would be considered and the cost of the rent would be researched. Durbin noted the commission's concern with updating the long-term plan, recouping city staff time, and condition of the adjacent rental units and the rates associated with them. Wischnack heard a luke-warm reception for the proposal.

Aanenson noted items to research include the long-term policy, how many units are being rented, and criteria to go forward with multiple proposals.

Isaacson reinforced his concern with the homeowners who are renting their properties to third properties. There is no incentive to maintain an adequate level of reserve. He was confident there was a distinct rental market advantage at the current prices.

St. Peter noted a question to be discussed with the city attorney is to see whether there a two-tiered special assessment could be made differentiating renters from owner-occupied units. Wischnack will research what other cities have done in that situation. The EDAC will review the item again before the city council takes action.

St. Peter heard a "qualified yes" from commissioners for this situation, but will not be an across the board determination for other similar applications. Commissioners are ready to take the next step.

Smith echoed Wagner's concern regarding the city acting as a bank and looking at the project holistically and looking at the city's townhome and condominium stock.

6. STAFF REPORT

Wischnack and Durbin reported on items including:

- Light rail is waiting for preliminary engineering approval.
- Community Works has meetings starting next week to discuss RFPs to perform transportation access infrastructure studies. Some of the stations have complications with getting in and out of the station itself.
- Construction of Highway 169 is moving ahead. Communication has been working very well.
- The new housing programs will roll out June 8, 2011. It will be advertised in the *Minnetonka Memo*. "Minnetonka Home Enhancement" is the new housing rehabilitation program. "Welcome to Minnetonka Program" is the down payment and closing costs assistance program. Also advertised will be the emergency repair program which is funded by Community Development Block Grant (CDBG) funds. All three programs will have a preapplication process to determine which program would best fit the needs of the applicant. Wagner suggested taking an active role marketing the programs sooner rather than later because the budget process begins in September. City council will be looking for benchmarks associated with demand for the programs.
- The first "Test Drive Your Idea" walk-in session was held May 9, 2011. Four consultations occurred. The program will be held the second Monday of every month.
- Staff anticipated a 16 percent decrease in the amount of CDBG funds received this year from the previous year which would equal approximately \$170,000. There has been talk of cutting the program in half or cutting the program all together. Staff will monitor the situation.

7. OTHER BUSINESS

The next EDAC meeting will be June 23, 2011. The initial budget will be reviewed.

8. ADJOURNMENT

Coughlin moved, Isaacson seconded a motion to adjourn the meeting. All voted yes. Motion passed. The meeting adjourned at 7:20 p.m.