MINNETONKA ECONOMIC DEVELOPMENT ADVISORY COMMISSION
MEETING SUMMARY

JUNE 23, 2011
6:00 P.M.

1. CALL TO ORDER

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

2. ROLL CALL

EDAC commissioners present: Kathryn Aanenson, Benita Bjorgo, Ken Isaacson, Bruce Smith, and Peter St. Peter.

EDAC commissioners absent: Chandra Coughlin and Michael Happe.

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

City council liaison present: Brad Wiersum.

Wischnack requested an addition to the agenda to discuss the Minnetonka Open to Business Program.

3. APPROVE MAY 26, 2011 MEETING MINUTES

Aanenson moved, Smith seconded a motion to approve the May 26, 2011 meeting minutes. Aanenson, Bjorgo, Isaacson, Smith, and St. Peter voted yes. Coughlin and Happe were absent. Motion passed.

4. CEDAR RIDGE CONDOMINIUMS HOUSING IMPROVEMENT AREA REQUEST

St. Peter introduced the item.

Durbin reported.

Gene Sullivan, President of New Concepts Management, managing agent for Cedar Ridge Condominiums, applicant, St. Louis Park, stated that Durbin explained the situation well, and would appreciate approval of an HIA for Cedar Ridge. An HIA would help reset the long-range plan needed for the association. His company took over in late 2004 and noticed the need for a long-range capital improvement plan to be put in place for the association. In 2005, the board allowed him to move ahead with that, and was put in place in early 2006. If the association had been able to put aside sufficient funds, then there would have been $780,000 set aside in the reserve fund; however, there was considerably less. The association has been able to meet the requirements of the reserve study for a number of years now. Unfortunately, it is a few years late into the process. The HIA would allow the situation to be reset and the funds would be able to be used in the future. By having some of the major items take place now, he anticipated an additional $20,000 in savings that would not be necessary in patch-work maintenance because the major components would be replaced. The association is at a place where the major components like the roof and elevator have to be done. The only avenue is to do a special, one-time assessment with the homeowners which would put them in more of a financial difficulty than utilizing an HIA.

Cindy Dunn, 10211 Cedar Lake Road, stated that she has lived there since 1992. She was told years ago to pay $10,000 for a repair. It bothers her that the current repairs came as a surprise and a lot of stuff is unclear. She did not have the exact amount of what everything would cost, and every time there are different figures. People are wondering what is going on. There is no estimate yet. The cost might be much less or more. This is a case where some people can pay cash and some people can pay it with a loan or credit card. She appreciates the government because she works for the government. Never mind the figures where it is $4,000 a person or $10,000. The concept is wrong. That is her opinion and she was glad to have the opportunity to speak.

St. Peter asked if the information in the packet had been provided to the homeowners. Mr. Sullivan answered positively. There have been no less than four meetings with the homeowners at various times to do a presentation as well as answer questions. He has taken a number of calls at his office as well.

Smith was concerned with how the association would set itself up for success in the future. Some of the more common expenses like seasonal care and snow removal are missing. He wondered where those expenses are being paid from. He questioned the amount of funds necessary to sufficiently cover that number of units. Mr. Sullivan explained that if all of the common items that the homeowners association is responsible for collectively needed to be done at one time, that amount would be almost $1.4 million. That is provided in the capital replacement study. With a homeowners association, according to statute, there are 2 groups of financial camps that need to be taken care of: capital replacement fund and monthly operating budget. The operating budget is just over $600,000 a year. That is being taken care of and always has been.

Isaacson asked if the improvements listed on the front page are reflected in the use of reserve funds. Mr. Sullivan stated that there are 2 capital replacement schedules. The initial one has the dates when the roof and other items would come due. The other is revised because once the roof is done in 2011 or 2012 then that would not happen again until further into the schedule. There is $80,000 budgeted for the new roof in 2037. The current replacement cost is $240,000. Mr. Sullivan explained that the contributions by 2031 would total over $1 million.

Isaacson asked for the anticipated growth rate in the contributions. Mr. Sullivan believed 3.5 to 4 percent. The contribution would come from association fees. The homeowner pays a monthly assessment, with most of that going to the operating budget and the other portion for the reserves.

Isaacson questioned the growth rate on the expense side. Mr. Sullivan had a line item for 3 percent growth increase in costs. He felt that was being conservative in that area.

Wischnack explained the budget planned on not replacing all of the roofs in one year. Isaacson said that 30 years of inflation makes the estimated total unrealistic. There would be an anticipated growth rate for the capital expense so $80,000 would equal $160,000. Wischnack noted that the full roof replacement was not reflected in the budget.

Mr. Sullivan stated that a complete schedule of all components that need to be replaced needs to have a 3 percent increase added.

Aanenson saw one expense budgeted for the elevators in the next 20 years. Mr. Sullivan explained that the state updated the elevator ordinance and compliance needs to take place by January 2012. That is a one-time retrofit. That would not need to be done again.

St. Peter suggested including the cost of the major items of 2011 and 2012 in the capital replacement schedule so that the homeowners can see where the funds are being spent and discuss a timeline for replacement of those expenses. The schedule cuts off at a point where the major items would hit again. He did not think the fund would have $1.2 million at that point. The schedule assumed the maximum project life would be reached for the various components as opposed to something more reasonable to expenditures and provide more of a cushion.

Mr. Sullivan said that during the 26 years that he has been managing homeowners associations, there has not been one association where all components fail at the same time, needing money right then and there. The reserve fund forecasting allows for significant steady growth and that is very doable. Components fail at different times and a property reserve study showed that the amount will rise and decrease.

Bjorgo asked for the contribution from the association for the current repair schedule. Mr. Sullivan stated that the association has $180,000 in its reserve fund. Once things are repaired and Cedar Ridge receives approval, then the reserves would make payments to the city in the amount of approximately $61,000 the first year.

Isaacson asked for the amount of base dues. Mr. Sullivan said that the homeowner's payment mostly deals with monthly operation of the association. The association will go one or two years trying to keep the dues the same. A two to five percent increase can be expected.

Isaacson asked if there is an increase planned for the dues from 2011 to 2012. Mr. Sullivan answered negatively.

St. Peter noted that the capital improvement dues contribution went from $48,300 in 2010 to $55,600 in 2011 and drops to $25,000 in 2012. Mr. Sullivan stated that the purpose is to give a cushion to the homeowners in the increase in their taxes. St. Peter said it was off by a year. Mr. Sullivan agreed.

Isaacson was comfortable with the information. He asked about two-tiered rental that would create a disincentive for owners who then rent their unit to maintain reserves. He asked if there are limits and or conditions on the use of two-tiered association dues relative to this. Durbin answered that would be addressed in the development agreement. As that is drafted, the language can reflect that request. Mr. Sullivan asked if two tiers would be looked at favorably. Isaacson is supportive of affordable condominiums, but his concern is that the city is being asked to subsidize a third of the units as rentals to third parties who have no rent restrictions and no incentive to maintain reserves or provide annual, regular, planned increases to maintain resources to take care of the property. Mr. Sullivan assured him that state statute requires every person of an association to pay the same amount. It is based on a percentage based on the square footage of the units. Whether a person is a homeowner or landlord does not make a difference. It has been Mr. Sullivan's experience that, at this time, the reason why rentals are at a higher rate than normal is because homeowners who are seeking to be responsible to the association are making payments. Because the unit would not sell, the owner is now being responsible by renting the unit.

Aanenson said the goal is to secure the affordable owner occupancy. She was concerned that the number of rental units would increase. There would be no control over if the unit would be owner occupied or rented. Mr. Sullivan said that the city would be assisting homeowners. He clarified that the 32 delinquent units includes the 9 units in foreclosure.

Aanenson was concerned that a renter would be charged 30 percent higher than the fixed, affordable rate. Wischnack explained that the HIA statute bounds the EDAC's decision making. The city's attorney will work through the issues with the tiering system and see if that would be possible. A contract would detail that out if it gets to that point.

Wiersum questioned what the approach would be if the applicant did not receive the HIA funds. He believes the fairly new association company has a good plan in place, but does not have the funds to do it now. An assessment would be onerous to the owners. He questioned what other alternatives exist. Mr. Sullivan stated that alternatives had been considered. The only other alternative would be a special assessment of each of the homeowners.

St. Peter recommended that the schedule be updated with the capital information in 2011 and show it being financed through the HIA program. The other issue is the large number of delinquencies. Thirty-two out of 180 is a significant delinquency. That would severely impact the cash flow. Of those delinquencies, he asked what the breakdown is between owner occupied and units being rented. Mr. Sullivan did not have that information. Mr. Sullivan stated that the total represented by the 32 units equals about $100,000. The association is moving forward in a number of different avenues to get that percentage down. Of the 32 units, a third of them are only 2 months delinquent.

St. Peter commented that given the high percentage of rentals at this point, he recommended looking at a two-tiered or three-tiered structure to offer only a shorter financing period to those rental units and longer financing periods to the owner-occupied units on the same basis Aanenson laid out. The objective is to preserve high-quality, long-term affordability. The rental component is not something the development agreement would have control over.

Wiersum asked if there is an opportunity to have an either/or aspect to HIA. The HIA to him makes sense from the perspective that there are residents who do not have enough money and it needs to be spread out. Including it in the property taxes makes sense. There is another group of people who do not want to see their taxes go up. If asked, those property owners would write a check up front and get it done. The either/or option would reduce the HIA. Wiersum said it would add complexity, but asked if it would be feasible. St. Peter said that it is provided for in the statute. It works like a sewer or street assessment. Wischnack explained that if an assessment went into place in October, the property owner has until a certain date before the end of the year to pay off the assessment before it would be placed on the property taxes. That could happen at any point during the assessment period to save on the interest accrued every year.

Mr. Sullivan said he spoke to homeowners who want to pay off the amount right away. It is his understanding that the homeowners would have the opportunity to pay off the lump sum. Wischnack said that a lot of times large assessments are paid off in 5 years rather than 10 years.

Isaacson asked where an association falls in terms of lien rights. Mr. Sullivan stated that the association would be behind the first mortgage lender. Mr. Sullivan said that there is a method to move forward with delinquencies to minimize the liability of the association by utilizing renters.

Smith asked if there is a correlation between the HOA assessment going delinquent and foreclosure. He asked what this could project in the next six to nine months. St. Peter said that the assessment would not be made until 2013. It would not affect anything until that point in time. The issue will be who the owner is then. Smith said a property goes into foreclosure typically from a lapse in property tax payment for six months to a year.

Smith asked how the interest rates were established. Durbin stated that it came from the city's financial consultant, Ehlers and Associates.

Smith was concerned that 70 percent of the city's condominium and townhome stock is between 20 and 40 years old. Understanding the HIA is a very inexpensive way to maintain that stock, the city does not have endless supply of funds and there needs to be a concerted effort to find out what would happen with the 70 percent. He could see that HOAs could come forward to request assistance. City funds are efficient, but bonding is laborious, costly, and concerning. His thoughts have been around creating a situation to make HOAs responsible for planning for capital expenditures in the future. He is encouraging staff to look at the 70 percent of units and figuring the possibility of more HIA requests and creating an ordinance or property tax that could be implemented to require the HOA to be responsible in planning or there would be repercussions to the city. Mr. Sullivan stated that his management group has 7 other properties in Minnetonka. None of the other properties are in need or will be in need of assistance from the city. Part of that reason is because that has been addressed with the state legislature over the last couple years and with certain requirements to get financing to require money being set aside for improvements each year. The state statute has made requirements that capital replacement plans are updated a minimum of every 3 years as well as putting aside adequate funds. The others he manages are close to being fully funded and will be fine.

St. Peter suggested a subcommittee work with the EDAC to create a policy that was mentioned in the report to deal with some of those issues.

Smith supported the proposal overall. It is an extremely inexpensive way to afford to maintain affordable-housing stock. That aspect is great. Looking at it from a development standpoint, where TIF funding is running between the $2,000 to $6,000 unit level and this proposal would only be $250 per unit. One of the things he would consider is looking at 5 to 10 percent of an annual payment into a trust or escrow so if there are units in foreclosure that the city would not be the one zero-percent financing something for a while.

St. Peter added an administrative fee to Smith's list. City staff time will be used. There needs to be a little bit of a cushion to provide for the opportunity cost of interest from whatever fund is borrowed from within the city. He did not see a problem with rebating that money back to the association at the end of the time, but provide for some mechanism so that the city is protected out over that period.

His observation is the same as Smith's. The interest rate is favorable over a 15 year to 20 year period. The rates are at historic lows and there is no great likelihood that the rates are going to go down. Developers are hoping for inflation so that their holdings and values of newly built projects can sustain the levels of mortgage debt that they have historically. He concurred that there is a public need for affordable housing. The proposal meets the needs test. It meets the EDAC's goals and objectives for continuing to provide for viability of relative affordable housing. He agreed that this is a lender of last resort, not something to continually bail property owners out. He supports an administrative fee and contingency to cover the interest rate and variability over whatever period of time is chosen and assess that appropriately.

Wishnack reviewed the "to do" items: look at a tiered approach and rentals; redo the capital plan to include 2011 expenditures as well as add the contribution back in; explanation to see if all costs are reflected accurately and appropriately; and add a carrying cost and administrative fee.

<u>Smith moved, Aanenson seconded a motion to recommend that the city council consider creating an HIA.</u> Aanenson, Bjorgo, Isaacson, Smith, and St. Peter voted yes. Coughlin and Happe were absent. <u>Motion passed.</u>

5. MINNETONKA OPEN TO BUSINESS PROGRAM

Durbin introduced the item.

Mr. Smolund reported that there have been 66 inquiries generated from information provided in the *Minnetonka Memo*. He has had 39 face-to-face meetings and performed 95 hours of technical assistance. He highlighted a few clients he has worked with in Minnetonka.

Mr. Smolund looked at one business owner's balance sheet and was able to explain to him why banks denied his loan applications. Mr. Smolund helped the business owner fix that and he was able to secure funds to allow the business owner to get in a better financial position and be able to secure more funds in the fall. That was a good success story. Another one involved a memory-care group home that wants to expand. He helped them demystify the whole financing process and the business was able to expand to a second location.

Mr. Smolund stated that there is an interesting demographic in Minnetonka which is very entrepreneurial. He has enjoyed meeting with the folks at city hall and the clients appreciate it. The initial rush was very busy. It has slowed down a little, but that does happen. Mentions in the *Minnetonka Memo* are still helpful. There is a walk-in session called Test Drive Your Business where he will be at city hall the second Monday of each month and people could meet with him. May's meeting had 4 people attend.

Mr. Smolund stated that 19 of the people he spoke with had existing businesses. Of those 19, 10 were home-based. He was available for questions and encouraged everyone to promote the service which is free to the entrepreneur.

Aanenson appreciated his enthusiasm. It is a great program.

Wischnack asked if people thought Mr. Smolund is a city employee and how he handled that situation. Mr. Smolund said that has not been an issue in Minnetonka. He tries to set the stage that he serves the role of a trusted advisor.

St. Peter asked how Minnetonka compares to other cities and if there is anything the city could do to improve the process and publicity. Mr. Smolund stated that other cities have been slower to respond, but now have increased to constant activity. He suggested a sign in city hall that would advertise the opportunity of the second Monday of each month for walk-in counseling sessions.

Durbin mentioned that Mr. Smolund may have his own booth at the Minnetonka Farmer’s Market a few times this summer.

St. Peter asked if Mr. Smolund had contact with the chamber of commerce or other business networking groups. Durbin said it was mentioned to the chamber of commerce. Mr. Smolund said his agency is going to become a member of TwinWest Chamber and he has been going to some networking events.

Smith suggested office-supply stores would be a good place to advertise. Mr. Smolund agreed. Wischnack said that building inspectors, receptionists, planners, and anybody who runs into anybody have been encouraged to inform anyone starting a business of the program. Mr. Smolund was willing to attend a staff meeting for 10 minutes just to answer questions. St. Peter stated that people could subscribe to the service on the city’s website. St. Peter welcomed suggestions to better the website. He invited Mr. Smolund to the city’s ice cream social this Saturday with his 7-foot sign to talk with people. St. Peter invited him to the open house in October.

Wiersum invited Mr. Smolund to make a similar presentation to the city council.

6. 2012 PRELIMINARY BUDGET REVIEW

St. Peter introduced the item.

Wischnack reported.

Aanenson asked if block grant money could be used to look at the aging condominiums and townhouses and create a long-term status report. Wischnack stated that maybe not the livable community fund, but development account and maybe community development block grant funds could be used. Aanenson recommended the city council use the funds to create a long-term status report.

Smith wondered if there would be an opportunity to fund the HIA or to provide funds out of the accounts because the returns on the funds are so low that it would bolster the city's income. Wischnack said that is what would happen if approved. Those decisions would be made by the city council with a recommendation by Finance Director Merrill King.

Isaacson asked what fund the $675,000 for the HIA would come from. Wischnack stated that it is possible it could come from the development fund, but there are other funds like the special assessment fund that has a balance so it depends on where the finance director thinks that the city should cash flow through. There are additional options to consider. Wischnack will have a discussion with the finance director and provide more clarity at the next meeting.

Wischnack mentioned that if the YMCA proposal moves ahead, those funds would flow through the development account.

Wischnack continued her report.

St. Peter asked where the road reconstruction regarding Shady Oak Road between Excelsior Road and Highway 7 stood. Wischnack stated that Hennepin County developed plans recently. There is work to be done to prepare for redevelopment in the area. A plan has been done already, but it must be renewed based on the new road plan. Hennepin County is leading and paying for that effort. There is a push on the corner for CVS. The land use implications are being considered. St. Peter noted that the border is a shared redevelopment area with Hopkins. It is likely that most of the retail on the west side of Shady Oak Road would be removed and redeveloped. Wischnack said that is no longer the plan, so the plan needs to be changed.

Wischnack invited commissioners to e-mail her before the next EDAC meeting if they think of questions related to the budget.

7. STAFF REPORT

Durbin and Wischnack reviewed the transitional station area plan for light rail and Bren Road bridge reconstruction.

Durbin reported on the housing programs. Isaacson asked if the preapplications are cut off to allow focus on processing the applications. Durbin said the emergency repair program would be cut off at the end of this week. The Minnetonka Home Enhancement and Welcome to Minnetonka program will remain open for a while. There are 10 applicants qualified for the Minnetonka

Home Enhancement program. Wischnack stated that preapplications provide an indication of the need.

St. Peter asked if enough funds had been allocated for the overhead costs for the programs. Wischnack stated that there is no administrative fee. The city pays 10 percent to GMHC. Durbin stated that a small percentage of the CDBG fund pays for Durbin's time on the project.

Wischnack reported on an article related to TIF bonds. St. Peter commended staff and the city council. Wiersum felt bad for the cities. The cities were dealing with reputable companies. Minnetonka has an AAA bond rating which is unique.

8. OTHER BUSINESS

Sensible Land Use Coalition will be held next week. The story of variances will be shared.

The next EDAC meeting will be July 28, 2011. Hillside and the budget will be reviewed.

9. ADJOURN

Isaacson moved, Smith seconded a motion to adjourn the meeting. All voted yes. Motion passed. The meeting adjourned at 8 p.m.