

**MINNETONKA ECONOMIC DEVELOPMENT ADVISORY COMMISSION
MEETING SUMMARY**

**SEPTEMBER 22, 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, Michael Happe, Ken Isaacson, Bruce Smith, and Peter St. Peter.

EDAC commissioner absent: Chandra Coughlin.

City council liaison present: Tony Wagner.

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

3. APPROVE JULY 28, 2011 MEETING MINUTES

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

Smith asked if staff gathered information on fund accounting. Wischnack stated that staff would provide the additional fund accounting information at the November meeting.

4. PROPERTY ASSESSED CLEAN ENERGY (PACE)

Wischnack introduced the item.

Wagner said the comprehensive guide plan supports promoting green concepts to residents and commercial businesses. He thought it would be a good opportunity to get some dialogue from commissioners to see if it would be an appealing program and staff's opinion of whether the city could administer the program. The city council has not yet discussed the program.

St. Peter discussed installing solar panels on his roof with Xcel Energy. The cap on funding in the PACE program would not have been high enough to fund the solar panel cost. There is a 10 percent cap against the assessed valuation of the

residence. That would not have closed the gap. It made him wonder what the viability would be from the solar stand point for other homes in Minnetonka if the assessed valuation is smaller. Wischnack noted that solar is the most expensive retrofit for energy improvements and the payback takes longer. Wischnack stated geothermal transformation of a home costs approximately \$20,000 for a mid-priced residence. That example seems to make more sense.

Happe and St. Peter discussed the financing gap for retrofitting a residence with solar panels.

St. Peter noted that personal equity plus financing had to cover the cost for 7 to 12 months until the homeowner would be able to utilize the credits, which made him wonder how the program would work practically. Wischnack said the payback does not occur as fast for solar installations. Commercial buildings also need to be considered. The first and second positions for mortgages became an issue when PACE was first introduced, but it might make more sense in terms of a commercial application. The value would be greater. Packaging PACE with other programs and entities would be the way it would get done; not just this program on its own.

Happe noted the comprehensive plan supports green initiatives. He asked if policy goals and strategic objectives are laid out. Wagner said the city council would consider tradeoffs in exchange for making a development greener. Renewal of existing industrial properties might be candidates for PACE.

Aanenson stated that being first in line for the mortgage for residential probably would not be as wise when considering the potential for all of the other housing programs. She thought this may be a good application for the older commercial and industrial uses, which would be a good pilot program and then review how it works.

Isaacson asked what the distinct advantage to the city would be to provide financing. He thought the same opportunity would be available in the private market. The utility companies are a better source for rebates. It could have a pretty big appetite financially. Wagner said that the premise would include funding costs built into whatever mechanism would go on. Isaacson asked what would be better about that than the private market, because if the costs are built in, it would be a wash. St. Peter noted there might be a gap such as with private activity bonds, or something that would fund at one or two over prime, versus a short-term mortgage that would be four or five over prime.

Smith asked for the difference between HIA and PACE. Fundamentally, HIA and PACE are not that different, but he found the HIA more favorable than the PACE program. He was concerned with the aggregation of funds, and to create efficiency, there needs to be multiple requests to batch into the bonding market. He asked how the city would facilitate gathering a group of requests that could

then share administrative costs. He was concerned with putting any city money at risk because the organization would become more of a bank than a city. He asked what funding processes the city would have to support that and eliminate all risk to the city. From a demand stand point, Edina went towards industrial because the FHFA said not to finance residential loans with a lien because it is then the first lien. He did not see a huge concern because there would not be a huge pool of residences that would have the lien, but then he thought that the consumer would need to be aware of that potential situation. He thought that houses that would utilize PACE would be larger houses with non-conforming loans so that might not be an issue. He thought it would be owners of more affluent houses that would think about using PACE.

Smith questioned the purpose from a city's goals perspective. He asked if the program would fit under the umbrellas of affordable housing. That is where he struggled. This would be more of an enhancement to a home and the city would act as a bank. Wischnack said staff's initial thoughts included that it seems like a bigger funding source might be necessary than just the local level. She described how the PFA loan fund is used at the state for a road project. It seems similar to that where it would be beneficial to have a lot of different cities with access to a fund that is bonded and secured so that not all cities would be out on their own. It may take a regional or state-wide effort to institute the PACE program rather than a local program. When she initially thought about the PACE program, it did not seem like it had worked itself out enough and it might be better served as a regional or multi-city approach.

Bjorgo liked the program a lot, but had concerns regarding the costs associated with the program. She was uncertain if some of the fees would be capped. Some cities may be administering the program internally, but the city has limited resources to do that since bonding can be very expensive. She liked Edina's approach that limited the program to businesses. The lien issue could be a big issue for lenders whether the applicant is conforming or not. She liked the fact that bonding was not planned to be used. She asked if staff heard of Hennepin County starting something like PACE. Wischnack explained that a lot of cities have been waiting for resolution on the lien issue before attempting anything. Many are excited because it would be green and energy related, and a lot of entities promote those kinds of programs. For right now, a lot of cities are sitting back and observing until things are worked out at the state and federal levels.

Bjorgo asked if the city received applications for energy-efficiency loans like solar or geothermal. Wischnack answered that each year the city receives a fair amount of inquiries regarding energy improvements. Cub Foods on County Road 101 accessed money through a regional program offered by the St. Paul Port Authority. The project revamped the entire Cub Foods building. Wischnack found people are accessing other kinds of tax-credit programs or Xcel Energy programs as these companies are providing as ways to get green improvements to their buildings.

St. Peter thought there are good ideas to be considered in the program. It would further the policy goal of the city by reducing the need to expand utility companies' substations or enhancing power lines. The areas that would benefit most from PACE would be the multi-family residential and commercial uses. A perfect example is the YMCA's proposed project. One of the concerns is the passing on of operating costs to the tenants and, in this case, the subsidization of housing with services. St. Peter stated the heating and cooling of a large building would benefit from green initiatives.

St. Peter stated the first lien for this program is a problem, but that does not mean that alternatives and ways that something like this could be incorporated could not be looked at. An example would be the project by Duffy Development Group with multiple funding sources being brought together for the project. PACE could be another funding source if the energy components needed to be changed.

There was discussion about whether there needed to be a specific policy for "green" in new developments.

Suggestions were made to talk with the League of Minnesota Cities and the Association of Metropolitan Municipalities about working together on this program.

5. EDAC STUDY ON AFFORDABILITY OF HOUSING WITH SERVICES

Wischnack introduced the item. She described how a package of affordability was put together for the St. Therese project. She saw this happening again and again and asked for direction on how to create a framework to know how to address it in the future. The idea is to research other city affordable housing policies, research a housing with services model, determine the type of housing and variations that exist on the open market today, and research how other communities have addressed issues on affordable housing with services. She has not found a city that has been able to overcome all of the issues but will keep searching. Staff will report to the EDAC in November, incorporate feedback and complete additional research, and present the information to the EDAC in December or January.

Isaacson thought the work plan looked great. He suggested contacting the MSHA (Minnesota Senior Housing Association) and the National Assisted Living Association. He thought those organizations would be good. Wischnack noted some of the issues in the past related to the difference between nonprofits and for-profits.

Smith was not sure what the issue is, and asked if there is a service component that muddies the affordable housing financing. Wagner said the type of

developments that have approached the city are more senior related, and a lot have a service component. The city attorney has said that for the program to meet state law requirements for affordable housing, every mandatory service charge is counted as rent. The city council is struggling with adhering to the policy that requires developers to include affordable housing and other elements that may allow the developer to do something different than the comprehensive guide plan outlines. The city's policy has a lot of gray area and needs some guidance of where to go. The EDAC can weigh in on the criteria for the policy. The city council expects, as the population ages, there will be more of these types of proposals.

Smith thought the issue was cut and dry by taking the square footage of the services by the square footage of the residences and splitting the financing that way, but has learned it is not that simple. He agreed there needs to be a policy. Given the demographic trend, the number of senior developments will continue to increase. A policy would allow the city to be more developer friendly and prepares the city to consider the applications efficiently. He felt the work plan is great.

Wischnack stated that education on where affordable housing has been may be beneficial for commissioners. Commitments with the Metropolitan Council will be included in the information to assist commissioners with understanding where the city has been, where it wants to go, where it hopes to go, and what tools may be used to reach those goals. St. Peter has seen senior housing move from the nursing home model into incorporating assisted living and a service component. As the demand has increased, the providers have done more bundling rather than ala carte pricing. He thought of the economics of development, and with the difficult private mortgage financing climate that bundling and assurance of a revenue stream to cover the mortgage costs is something that the lenders are encouraging and developers are responding to. He agreed analysis and discussion of the city's policy and recommendations should be discussed. The city council will be the final arbiter.

Aanenson added it will be a little challenging because what is being looked at is service delivery, not the cost of the product. Determining an acceptable level of service for additional amenities will be a challenging discussion.

St. Peter said that the bundling and minimum requirement for services has evolved to a higher level.

Wagner said that the city council may determine that this is an unsolvable issue.

Wischnack stated that a draft report will be prepared in two months.

6. GREATER MSP OVERVIEW

Wischnack introduced the item.

Wagner asked how the city will feed the MSP group information. He noted there are vacant commercial properties in Minnetonka that might be a great site for attracting a business. He asked if there is any engagement the city has to help market the metropolitan suburbs. Wischnack used UnitedHealth Group (UHG) as an example, as it was on the city's shoulders to make the UHG project happen. There was a road project and financing issues to be coordinated. She saw Greater MSP being involved in any business that wants to expand.

Wagner noted that the *Minneapolis Business Journal* had the greatest amount of available space from an office stand point. He would like to help promote Minneapolis, St. Paul, and the 13 counties.

Wischnack heard that when Minnetonka has a vacant space that information should be passed on to Greater MSP. There is a region-wide website that lists leasable space in the metropolitan area.

Wagner invited commissioners to think about ways to proactively seek companies. This commission and staff are willing to consider proposals if the opportunities come up.

7. NON-PROFIT FUNDING PREPARATION

Durbin introduced the item. She explained that commissioners will receive an e-mail from her outlining each nonprofit funding request. The city has received approximately 10 funding requests. She provided background on the process.

St. Peter noted the goal in using the scoring sheet is not to be an absolute score, but to provide relative information to narrow things down. Priorities are taken into account, and scoring is not the final determination.

Aanenson asked how many applications were received. Durbin responded 10.

Smith said that, in terms of the estimated 15 percent reduction in CDBG funds, he asked if that is still a guess or a firm amount. Durbin explained that the 2011 funds have been committed to the program and there was a 13 percent decrease from the prior year. Staff does not know what that amount will be until spring of 2012. Staff based the estimate of how much funding to plan for off of the 2011 amount. It will be adjusted based on the actual amount of funds received. St. Peter noted that none of the congressional funding bills for the year have been passed at this point, and will make it difficult to project.

Aanenson thanked staff for the background information.

Smith requested an example of a high-scoring grant request. Durbin could provide examples of applications that received funding in the past. Allocation of funds is subjective due to each applicant's unique services. Wischnack suggested looking at all of the applications before scoring any of them to provide a point of reference.

8. STAFF REPORT

Wischnack and Durbin reported on items including:

- The Federal Transit Administration sent a letter going ahead with preliminary engineering of the LRT project. Wischnack will be serving on the committee to select the preliminary engineering (PE) consultant. The station plans will be considered after the PE consultant is selected.
- The Dallas Area Rapid Transit presentation was informative. The group shared a lot of the project's setbacks and successes regarding LRT planning. The city used sales tax to fund and finance the entire light rail system. There is a 20-year capital improvement plan in place for capital improvements and operating costs of the transit system. The presentation was very interesting.
- The Bren Road/Highway 169 bridge is under construction. It is expected to be open in mid October, which is well in advance of what was originally anticipated.
- Applications are still being accepted for the Home Enhancement and Welcome to Minnetonka programs. The Emergency Repair program has been closed to new applications. There is a buyer ready to close using the Welcome to Minnetonka program. There is a lot of interest in the program and numerous applications have been handed out, but many of the applications have not been turned in yet. Staff will continue to advertise for the programs.
- Funding requests for the YMCA project have been submitted to the Metropolitan Council and will be reviewed by its committee October 6, 2011. It will take another month to receive notification if the \$1.5 million request is approved.
- The HRA preliminary levy was adopted September 12, 2011. Wagner reviewed how the budget and levy projections would occur. Wagner advocated that the first phase of the Ridgedale study include the land owners. Wischnack agreed. The study is expected to begin January.

9. OTHER BUSINESS

Wischnack noted that there is a joint study session with the City Council on September 26 at 6 p.m. in the Boards and Commissions Room. The next EDAC meeting will be October 27, 2011.

Wischnack announced that the Sensible Land Use Coalition is taking reservations for the lunch next week. The topic is pocket neighborhoods creating small-scale communities in a large-scale world.

Wischnack invited commissioners to visit the city wide open house. Metro Transit and Open to Business will have booths sponsored by the EDAC.

10. ADJOURN

Happe moved, Smith seconded a motion to adjourn the meeting. All voted yes.
Motion passed. The meeting adjourned at 7:16 p.m.