

AGENDA

MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY

Tuesday, April 8, 2003
6:00 PM

Gray's Bay Room
Minnetonka Community Center, Upper Level

1. Call to Order.
2. Roll Call: Paula Chatterjee Peter St. Peter
 Dan Duffy Ken Tauer
 Dave Larson Al Thomas
 Bunny Robinson Bob Walker
3. Approve minutes of the March 18, 2003 EDA meeting.
4. Staff Report.

BUSINESS ITEMS

5. Discussion regarding development having residential over office/retail (with Colleen Carey of the Cornerstone Group).

Action recommended is to hold the discussion.
6. Further consideration of the "Housing Improvement Area" approach for building renovation.

Action recommended is to discuss this concept and provide direction to staff.
7. Discussion regarding the indexing system used for affordable housing resale prices.

Action recommended is to discuss the indexing system.
8. Other Business.

The next regular EDA meeting will be held on Tuesday, May 13 at 6:00 p.m.
9. Adjourn.

**MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY
MEETING MINUTES**

**Tuesday, March 18, 2003
6:00 P.M.**

****Purgatory Creek Room**
Minnetonka Community Center, Upper Level**

1. CALL TO ORDER

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

2. ROLL CALL

Commissioners present: Paula Chatterjee, Dan Duffy, Dave Larson, Peter St. Peter, Ken Tauer, Al Thomas, and Bob Walker.

Commissioners absent: Bunny Robinson.

City Staff present: Ron Rankin, Elise Souders, and Cary Teague (Planning Department).

Others present: Michael Halley from Halley's Custom Homes, Shari Bohnhoff from Cedar Ridge Condominiums, and approximately forty residents.

3. APPROVE MINUTES

Thomas moved, Tauer seconded a motion to approve the minutes of the January 14, 2003 EDA meeting. All voted "yes." Motion passed.

4. STAFF REPORT

Souders reviewed the staff report items, including WHAHLT, Minnetonka Boulevard and County Road 101, Glen Lake Planning, Parker's Lake Condominiums, and upcoming events.

BUSINESS ITEMS

5. AFFORDABLE HOUSING COMPONENT PROPOSED WITH "THE SANCTUARY" DEVELOPMENT PROPOSAL.

Rankin reviewed the powerpoint presentation to provide background information on affordable housing in Minnetonka. Rankin also reviewed the staff report, noting the change in the Planning Commission meeting date to May 1. He said staff recommends that six affordable housing units be included in The Sanctuary development, and they be transferred to the city or an affordable housing organization

designated by the city, at a cost not to exceed \$167,000 each. Further, construction of the affordable units is to occur under specifications to be approved by city staff.

St. Peter reviewed the process to be followed for the evening's meeting, and referred to Michael Halley to comment on the proposal.

Halley began by describing his other developments located in Minnetonka. He then reviewed the proposal for The Sanctuary, including the single level, two level, and three level townhouse units. Halley noted the six affordable units will be sold at \$167,000, and the exterior design and details on these units will be the same and match with all of the units. He also said he believes the primary buyers of the affordable units will be single-parent families. Finally, Halley commented on that the affordable units would pay 75% of the \$200 per month Association fee.

St. Peter reminded the audience the focus of the meeting is on the affordable units only.

Joe Schmit, 3607 Farmington Road, asked whether the units that are to be taken down were considered affordable or not. Rankin reviewed the 2003 assessment values for the three units as \$177,600; \$288,000; and \$296,400.

John Powers, 3611 Rainbow Drive, asked why there are not more affordable units being added at this location.

Jim Wahl, 3218 Groveland School Road, commented on the need to preserve affordable units that exist already in the area. He felt that in the staff report there was no mention of this and wondered how a development like this will affect the values of homes already in the area. Wahl said by approving the development it would allow for additional developments in the area.

Pam Dantzinger, 3116 Groveland School Road, asked if there were successful developments in Minnetonka that had a large price differential between the affordable and the market rate units. Dantzinger asked since the city is at 85% of its owner-occupied housing goals once they reach 100% what will happen, and also how much the Metropolitan Council drives these goals?

Wahl again questioned staff's recommendation because it seemed to him impossible that all of the units could go to WHAHLT because of the limited funds they have.

Doug McNamara, 3633 Comet Lane, commented that both WHAHLT and St. Luke's Church are interested in affordable housing because many people working in Minnetonka cannot afford to live here.

Bob Crump, 3001 Bay Street, said because The Sanctuary development is controversial and there seems to be a lot of units, the approval should be delayed. St. Peter responded the density issue should be addressed to the Planning Commission.

Becky Gehrke, 17310 Charmy Downs, asked where the visitor parking would be. Halley responded there would be parking available in front of the garages of the homes. In addition, there will be parking available along the private road through the development. Halley also responded to another question brought up earlier about other developments where there is a spread in price between the affordable and market rate units. He mentioned another of his developments, The Enclave, had one affordable unit between two market rate units, and the market rate units sold fine.

Neil Herring, 15008 Evelyn Lane, said he was in support of the affordable housing units. He also commented while the city does have affordable housing goals they are working to achieve, the need for affordable units is much greater than the goals show.

Winnie White Scherber, 14605 Orchard Road, commented she agreed with both McNamara's and Herring's comments on supporting the affordable units. She reiterated that people who work here cannot afford to live here.

Powers asked about the process of how the city works with developers to get to the number of affordable units, and whether the city can ask for more units since only six will benefit in this development.

Dantzinger said the issue is density, not the affordable housing component, and the character of the neighborhood would change with the increased density.

Tim Ryan, 3007 Bay Street, wondered why three affordable units would be torn down and six would be put up in its place. He said he felt the integrity of the neighborhood should be kept up, and it would not happen with increased density.

McNamara said the density of the development is driven by economics. If the developer were to drop the density and the number of affordable units remain the same, then the development would not be economically feasible to build.

Wahl said he does not object to the affordable housing; however, he does object to public funds being committed to projects like this when they are not available. He said there should be preservation of the affordable units already in the neighborhood, and if this development goes forward, then the neighborhood will disappear.

Sandal Hart, 5450 Sanibel Drive, spoke that WHAHLT's funding is not necessarily public funding, and they receive funding from multiple public, private, and non-profit sources. She said that in the acquisition of property, the only investment is in the land, because the building is resold. Hart also clarified WHAHLT has made no commitment to the project, and the proposal does not hinge on if WHAHLT will buy the units or not.

Tony Wagner, 1006 Fairfield Spur, said the indexing system used for some affordable units needs to be strengthened to better maintain affordability.

Joe Dantzinger, 3116 Groveland School Road, said he is concerned about the profitability of the WHAHLT units to the purchaser, in particular if the purchaser only receives 35% of the appreciation. He said it seems to limit the equity for purchases in the future for these buyers.

St. Peter closed the comment period, and opened the floor to the commissioners to respond to the questions and ask other questions they had.

Tauer responded to the question asked regarding why the development was taking away affordable units already in place. He said two of the three units are not considered affordable. Tauer also said the neighborhood was a good area to rezone for housing because of the walkable community that exists. In addition, he pointed out that public good is needed in order to make a Guide Plan change.

Thomas spoke to the question of the price spread that was asked about earlier. He said it is an economic issue, and developers will work out a number to get the affordable units, and the reason why there are not a greater number of affordable units is because it is not economically feasible. If all of the units were to be affordable, Thomas said, then other funding sources would need to be explored. He also spoke on the goals that were set with the Metropolitan Council, and said he is not sure what will happen to the goals with the new Metropolitan Council in place.

Larson said the number of affordable units included seemed to be a fair number. He also said he realized some of the issues brought up by the residents were planning issues, and asked if there was a possibility of changing the focus to more than 20% of the units as affordable units.

St. Peter responded and said in national studies a 20-30% affordability mix will work. He said staff works with developers to get 20% of the units as affordable, and the number is looked at on a case-by-case basis when developers come in.

Tauer said if 100% of the units were affordable it creates a similar situation to public housing developments. He also commended Halley for including affordable housing.

Duffy said affordable housing is a matter of economies of scale, as well as a fit for the neighborhood. He said he felt the indexing system does need to be reviewed if it is to be used. Duffy said the idea would be to maintain affordability, but not to eliminate equity.

St. Peter provided background information on the affordable housing goals the city set with the Metropolitan Council. He said the only way to impact affordable housing is through land cost, so the majority of new developments most likely will be higher density developments, similar to West Ridge and Ridgebury. The goal he pointed out was to integrate affordable housing rather than isolate it. St. Peter also talked about the appreciation question that was asked. He said most limits on appreciation for land trusts are between 25% and 40%, and WHAHLT's appreciation falls in this range.

Tauer responded to the question asked about what would happen if the city exceeds the Metropolitan Council goals. He answered he would like to exceed the goals set if it is possible. Tauer also mentioned the Metropolitan Council did not force these goals on the city, instead the city was progressive to include affordable housing.

St. Peter said many service workers, teachers, and others who work in Minnetonka cannot afford to live in Minnetonka. He also pointed out many people that grew up in Minnetonka often cannot afford to rent or buy in the city. St. Peter said economics play a role in the development of affordable housing. The longer the city waits to accomplish the affordable housing goals it set, the harder it will become as the price of land continues to increase.

Walker responded to the question regarding delaying the project or doing it elsewhere. Financially, he said, it is difficult to delay the project, and mentioned again the longer they wait, then the more expensive land will become. Walker said he was surprised to learn about the limited number of suitable sites for affordable housing, and any opportunities presented should be examined. He also commended Halley on including affordable housing in the project.

St. Peter replied to the question asked if WHAHLT could afford to take all of the units. He said it had not been set that WHAHLT would take all of the units, but this alternative was better than the indexing.

Tauer said the government will have to subsidize housing at some point, and when that comes, then it must be done efficiently. He said he also believes the indexing system needs to be strengthened. Tauer commented the appreciation of only 35% may seem unfair, but the idea is to get people into a home they might not be able to get into, and that they are not looking to make a profit.

St. Peter said an average should be considered for indexing, and done in a “mini-max” way, similar to the approach used by insurance companies; however, he said he still would like to see the indexing as a plan B, since the units will not be permanently affordable.

Tauer asked if WHAHLT had to sell their homes for \$120,000 or could they sell them for more so they do not have to put in as much for the land. Hart responded \$120,000 had been set as a policy.

Tauer asked if the arrangements on who will have the units has to be finalized at the meeting. St. Peter replied they do not and the final details can be worked out in the interim. Rankin also responded the indexing topic will be discussed at the April EDA meeting. He said the reason why the Planning Commission meeting had been pushed back was so the final arrangements could be made before the Planning Commission and City Council take action on the issue.

St. Peter agreed in the meantime the information should be looked at again, and a meeting should be set up with WHAHLT to discuss this issue. He also suggested that

maybe the city should create another land trust. Tauer asked how this could be done. St. Peter said it is not desirable unless WHAHLT does not want to take the units.

St. Peter asked Halley how long it would take to build the units once there would be Council approval. Halley said it would take about five months.

Tauer asked if it was possible to use the city's housing account to assist WHAHLT.

Larson said these townhouses seem to be similar in value, but was wondering how the price of the land differed. St. Peter said when someone purchases the units either through WHAHLT or through the indexing, there are property title documents that explain any restrictions on resale values and equity with the property.

Duffy asked if the one drawback to indexing, if the indexing system was strengthened, was the thirty-year expiration. St. Peter said yes. Duffy replied besides that it would seem like it would work well.

Tauer agreed the indexing system could be tightened up, and asked if the real estate commission portion had to be included.

Tauer moved, Thomas seconded a motion to approve the recommendation "That six affordable units be included in The Sanctuary development, and they be transferred to the city or an affordable housing organization designated by the city, at a cost not to exceed \$167,000 each. Construction of the affordable units is to occur under specifications approved by city staff."

Further discussion followed, and Duffy asked if the recommendation should be six units or should it be 20% of the units instead. Tauer said the recommendation should stick to six rather than a percentage because if the number of units in the development decreases, then there would be a higher percentage of affordable units.

All voted "yes." Motion carried.

St. Peter recommended talking with Steve Bubul about a new land trust, and the city should work with WHAHLT first. Tauer also mentioned perhaps the city could extend its \$750,000 line of credit to WHAHLT in order to look at other options.

6. CONSIDER USING THE "HOUSING IMPROVEMENT AREA" APPROACH FOR BUILDING RENOVATION.

Rankin reviewed the staff report and said even though a request has come into the city by the Cedar Ridge Condominiums to use a Housing Improvement Area, the discussion for the evening was to bring the general concept of a Housing Improvement Area to the EDA. A Housing Improvement Area, Rankin said, is a version of a special service district. He also said the city is cautious about lending money, and a Housing Improvement Area should be used as a last resort if other funding cannot be secured.

Walker asked about the scope of the service of the funds, in particular if the intent for Cedar Ridge Condominiums was to beautify the property. Rankin explained there was water intrusion at the condominiums and they need to fix this problem. Walker asked about the ability to restrict the funding to only certain elements. Rankin replied Hopkins did not place extraordinary restrictions on the funding, and St. Peter said the City of St. Paul had used funds for public benefit projects.

Tauer asked if there were inherent disadvantages to creating a Housing Improvement Area since the two other homeowner's associations that had originally approached the city backed away. Rankin said they had found other ways to finance their improvements. Tauer also mentioned if tax-exempt bonds were used they would be taking some risks. Rankin replied bonds are one way to finance the Housing Improvement Area, and it also may be financed internally; however, if an association applies for the Housing Improvement Area they must show they cannot secure financing any other way.

Thomas asked since bonds and risk may be involved, if this would affect the city's Aaa bond rating. St. Peter said it might have an impact. Thomas responded it would probably depend on the type of bond and how it is issued. St. Peter also said there would have to be demonstrated need for the funding in order to take the risk.

Larson asked if the common areas of Cedar Ridge would be made handicap accessible if the Housing Improvement Area was used and St. Peter also asked if the buildings would need to be sprinklered. Rankin said the buildings at Cedar Ridge are not currently sprinklered and that would need to be looked into.

Cedar Ridge Condominium Association president, Shari Bohnhoff, explained the situation they have with their buildings. She talked about the current special assessment for the roofs, elevators, and other items and also about their current situation with the water intrusion. She also spoke to the bond rating and that 35% of the homeowners may veto the Housing Improvement Area approval of the City Council. Finally, Bohnhoff also said there is a lot of affordable housing in the three condominium buildings and this would be good preservation of it, and in addition, the funding is needed because of the health and legal aspects of the problems.

St. Peter asked Bohnhoff if the Association has met with other lenders. Bohnhoff replied they had met with one lender, and had not seen anything in writing from them. She also said the Association has \$300,000 in a Capital Improvement Program fund.

St. Peter asked how long Cedar Ridge had been condominiums. The building residents said it had been between ten to twenty years, and the total age of the buildings are actually thirty to forty years old.

Bohnhoff explained as of January 1, 2003, sellers have to disclose water and other damages, and this may prove difficult to sellers in the building if this problem is not resolved. The building residents present voiced their concerns on this issue.

St. Peter mentioned one idea would be to take the current condominium values and preserve the affordable resale prices in exchange for the financing.

Bohnhoff said the dues and the special assessments are a lot for the residents; however, they are trying to take care of the property, but it's proving difficult to keep up with everything.

Rankin pointed out the Housing Improvement Area is not something the EDA or the Council have looked into, and the city would work with the Association to see what their needs are. In addition, the city would also work with Ehlers and Associates.

Walker said it would be hard to know exactly how much things cost until the mock up had been completed.

St. Peter asked with the number of older buildings in the city, if this is a tool that the EDA wants to know about, and if it is are there other sites where this might apply and should the city get something back in return.

Tauer said he was opposed to adding affordable housing restrictions to the units since they were already below the affordability maximum. He said this idea seemed like it was punishing those with a problem and the idea here was to renovate and maintain the quality.

Thomas said the idea should be looked into more and to also see what other possibilities are out there. He felt the city should have a policy and guidelines on the subject; however, it should be used a last resort and they should look at the city's risk.

Duffy said he was also in favor of looking more into the subject because there are a lot of affordable units that should not be lost. In addition to looking more into the Housing Improvement Area, a look should be taken at other funding sources such as the Metropolitan Council.

Larson said that Hopkins policy should be studied and the city should work with them.

Bohnhoff and other residents shared additional concerns, in particular about the possibility of having a mold problem.

St. Peter said the city should send an inspector out to look at the health and safety issues at Cedar Ridge.

6. ADJOURN

Tauer moved, Walker seconded a motion to adjourn the meeting. All voted "yes."
Motion carried. The meeting adjourned at 9:00 p.m.



TO: EDA Commissioners

FROM: Ron Rankin, Community Development Director
Elise Souders, Community Development Coordinator

DATE: April 1, 2003

SUBJECT: Staff Report for April 8th EDA Meeting

1. Southwest Rail Study

The Southwest Rail Study continues. Originally, this phase of the study, to determine if rail transit was feasible to the southwest metro, was to be completed at the end of March. However, the Hennepin County Regional Railroad Authority at their March meeting was expected to approve the extension of the study, which would end June 30, 2003. On March 21 the Technical Advisory Committee met to determine what alignments should be retained for further study. All Lyndale alignments were not retained because of traffic, parking, cost, and ridership numbers. Also, all alignments using the Diesel Multiple Unit technology were not retained because of the longer travel times, and low ridership, and because the technology is unproven. These recommendations will be made to the Policy Advisory Committee at their April 9th meeting. A bill to stop the study was introduced by Representative Peter Adolphson, but it has not yet been heard in committee.

2. Glen Lake Planning Study

On March 19th, the Glen Lake Planning Study Neighborhood Committee met to discuss the concept plan for the area, which had been revised based upon the comments received at the February 4th meeting. During the meeting, there was additional input given on the revised concept plan and what should be changed. Some of the comments at the meeting were similar to the comments heard earlier, such as reducing the density and traffic concerns. The plan for the meeting was to decide what the next steps should be for the group, or if the study should end. At the conclusion of the meeting there was no clear consensus on what should be included in the final plan. The committee will meet again on April 23rd.

3. WHAHLT

WHAHLT continues to work with the City of Eden Prairie and Hennepin County in the acquisition of a house on Valley View Road. Hennepin County has acquired this

property for a road expansion project and the house would need to be moved further back on the lot. Moving the house would require considerable rehab, and WHAHLT is looking for ways to make the acquisition of this property financially feasible.

4. MetroTransit Service Reductions and Dial-a-Ride

MetroTransit has announced their plans for service reductions in Minnetonka. Some routes will see service hours reduced and some low-ridership routes will be cut. Public hearings on the reductions are being held from March 31 to April 9, and the proposed reductions would take effect in September. While MetroTransit looks at cutbacks, Dial-a-Ride ridership numbers continue to increase. In January the average daily ridership decreased; however, in February the ridership numbers increased again.

<u>Month</u>	<u>Total Rides</u>	<u>Average Daily Ridership</u>
July, 2002	76	5.85
August, 2002	287	13.05
September, 2002	431	21.55
October, 2002	721	31.35
November, 2002	625	33.00
December, 2002	554	27.70
January, 2003	579	26.30
February, 2003	659	32.10

Upcoming Meetings/Events

Wednesday, April 30—"Making Affordable Housing Affordable" Conference
8:30 AM—5:00 PM
Radisson Riverfront St. Paul

Wednesday, April 30—Sensible Land Use Coalition Program
"Regionalism: Does Form Dictate Function"
11:30 AM—2:00 PM
DoubleTree Park Place (St. Louis Park)

Tuesday, May 13—EDA Meeting
6:00 PM
Gray's Bay Room

Attachments

- St. Paul Pioneer Press Article: "Seven cities seek strength in numbers on housing"
- Star Tribune Article: "Mobile homes coexist with price houses, a trend suburbs support"
- MICAH "Dwellings" newsletter
- Sensible Land Use Coalition program information



TO: EDA Commissioners

THROUGH: John Gunyou, City Manager

FROM: Ron Rankin, Community Development Director

DATE: April 3, 2003

SUBJECT: Discussion regarding development having residential over office/retail

Background

At previous EDA meetings, Commissioners have expressed interest in learning more about projects that include residential units above first-story retail or office uses. Colleen Carey, President of The Cornerstone Group, will be at the April 8 meeting to discuss this type of development.

The Cornerstone Group has a long and successful history of developing multi-family residential projects, with many including affordable housing. In fact, Cornerstone developed the Minnetonka Mills Townhouses, a 30-unit development of affordable rental townhouses located on Minnetonka Mills Road, behind the Lund's Country Village Shopping Center.

More recently, the company has built residential units over retail in Hopkins and Richfield. Ms. Carey will provide background information about how the planning, design, and financing of these projects can make them successful. Minnetonka has discussed the prospect of how this type of project might work in locations such as Glen Lake, and along Shady Oak Road near Hopkins.

Ms. Carey will make a brief presentation at the meeting, and is prepared to have discussion with EDA Commissioners to answer your questions.



TO: EDA Commissioners

THROUGH: Ron Rankin, Community Development Director

FROM: Elise Souders, Community Development Coordinator

DATE: April 2, 2003

SUBJECT: Discussion regarding the indexing system used for affordable housing resale prices

Background

The indexing system, set up for maintaining affordability, was introduced first at The Gables townhouses at Westridge Market. Tax Increment Financing was used to write down the cost of the units. In exchange for the price reduction, the city attached 30-year restrictive covenants on the property limiting the resale price of the property adjusted each year by calculating the average annual increase in sales for the metropolitan area. The sales price of these units cannot exceed this maximum resale price.

In addition to The Gables, the indexing system has also been used for the Ridgebury townhouses, and most recently with one unit at The Enclave. It is also being looked at as an option for the affordable units at the Parker's Lake Road Condominiums, which is currently being reviewed by the Planning Commission and City Council.

Current Indexing System

The current indexing system is calculated each year to find the maximum resale price the units can be sold for. This calculation is based upon the average annual percent increase in sales price of the owner-occupied residences in the metropolitan area. These numbers are reported each February in the *Residential Real Estate Activity Report*, published by the Minneapolis Area Association of Realtors. After the resale price is figured, the maximum resale price is calculated by adding in a real estate commission (7% for The Gables, and 6% for Ridgebury and The Enclave).

For a \$95,000 unit at The Gables, built in 1996, the maximum resale value for each year has been:

As of Dec. 31 of the Year	Year	Ave. Sales Price of Metro	Ave. Annual Percent Increase	Resale Price for Year	Resale—No Commission	Max. Resale Price (with 7% commission)
1995	Base	\$117,053				
1996	1	\$124,022	5.95%	1997	\$100,653	\$107,699
1997	2	\$130,171	5.61%	1998	\$105,958	\$113,375
1998	3	\$140,300	6.62%	1999	\$115,143	\$123,203
1999	4	\$155,108	8.13%	2000	\$129,869	\$138,960
2000	5	\$172,849	9.53%	2001	\$149,757	\$160,240
2001*	6	\$209,710	13.19%	2002	\$199,789	\$213,774
2002	7	\$221,329	12.72%	2003	\$219,651	\$235,027

*MLS switches using data from the 13-county metro area instead of the 7-county metro area.

Calculations for Maximum Resale Price for 2003:

1. Find the Average Annual Percent Increase

$$A) \frac{2002 \text{ Ave. Metro Sales Price } \$221,329}{\text{Base Price (1995 Ave. Metro Sales Price) } \$117,053} = 89.08\% \text{ total increase since 1995}$$

$$B) \frac{\text{Total Increase since 1995 } 89.08\%}{\text{Total Number of Years } 7 \text{ Years}} = 12.72\% \text{ average annual percent increase}$$

2. Calculated the Adjusted Resale Price

Original Value * Percent Increase=Adjusted Resale Price

- \$95,000 * 12.72%=\$107,084 (Adjusted Resale Price for Year 1)
- \$107,084 * 12.72%=\$120,705 (Adjusted Resale Price for Year 2)
- \$120,705 * 12.72%=\$136,059 (Adjusted Resale Price for Year 3)
- \$136,059 * 12.72%=\$153,366 (Adjusted Resale Price for Year 4)
- \$153,366 * 12.72%=\$172,874 (Adjusted Resale Price for Year 5)
- \$172,874 * 12.72%=\$194,864 (Adjusted Resale Price for Year 6)
- \$194,864 * 12.72%=\$219,651 (Adjusted Resale Price for Year 7)

3. Calculate the Maximum Resale Price for 2003

$$\text{Adjusted Resale Price} + 7\% \text{ Real estate Commission} = \text{Maximum Resale Price}$$

$$\$219,651 + 7\% = \$235,027$$

Maximum Resale Price for 2003=\$235,027

With the average sales price increasing dramatically over the past few years, no longer is the indexing system helping to maintain affordability. In many cases at The Gables, the actual selling price of the townhouse is well below the maximum sales price.

Mini-Max Approach

At the March EDA meeting it was suggested that a “mini-max” approach, similar to what is used in the insurance business, be looked into to see if it would maintain the affordability better, especially if a rapid increase in average home sales occurs. The mini-max approach is based on the idea that there would be a cap at a certain percentage for average annual percent increases and that there would also be a minimum percent increase. This approach guarantees at least a percentage increase; however, it would be capped at a certain point. A typical spread would allow a minimum 3% growth increase per year, with a maximum 7% or 8% increase per year. Using the \$95,000 unit at The Gables as an example with a 7% maximum increase, the resale values would be:

As of Dec. 31 of the Year	Year	Ave. Sales Price of Metro	Ave. Annual Percent Increase	Resale Price for Year	Resale— No Commission	Max. Resale Price (with 7% commission)
1995	Base	\$117,053				
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1997	2	\$130,171	5.61%	1998	\$105,958	\$113,375
1998	3	\$140,300	6.62%	1999	\$115,143	\$123,203
1999	4	\$155,108	7%*	2000	\$124,525	\$133,242
2000	5	\$172,849	7%*	2001	\$133,242	\$142,569
2001	6	\$209,710	7%*	2002	\$142,569	\$152,549
2002	7	\$221,329	7%*	2003	\$152,549	\$163,227

*Indicates that the 7% cap would be used

Discussion

The indexing system was meant to be used as a tool to help accomplish two objectives: first to avoid a windfall gain to the original buyer who benefited from the original write-down; and secondly, to maintain affordability of the units past the first sale. However, with the average sales prices increasing dramatically over the past several years, the units are no longer considered affordable. Because of the declining affordability, the Community Land Trust concept was examined and the West Hennepin Affordable Housing Land Trust (WHAHLT) was created.

While WHAHLT creates a permanently affordable solution and the indexing system can only be used for thirty years, WHAHLT may not be able to take all of affordable units built in the city because of financial limitations or because there is no land attached to the unit, such as is the case in condominium developments. Because the indexing system is likely to continue being used, staff believes the current system needs to be reviewed to see if there are changes that need to be made to allow the units to remain more affordable over time.

The mini-max approach is one way that could be used to adjust the indexing system. If this approach were used, then the question becomes what are the appropriate minimum and maximum percent increases that should be used. A second question that should be asked is whether creating a mini-max approach might deter buyers, because the annual percent increase is capped at some amount lower than the average annual increase.

Staff would like to discuss the indexing system with EDA Commissioners at the meeting to determine if there is a more effective indexing system, by either using the mini-max approach or another technique.

\$95,000 Gables

As of December 31 of the year	Year	Average Sales Price of Metro	Average Annual Percent Increase	Resale Price for year	Resale--no Commission	Maximum Resale Price (Includes 7% Commssion)
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As of December 31 of the year	Year	Average Sales Price of Metro	Average Annual Percent Increase	Resale Price for year	Resale--no Commission	Maximum Resale Price (Includes 7% Commssion)
1995	Base	\$117,053				
1996	1	\$124,022	5.95%	1997	\$100,653	\$107,699
1997	2	\$130,171	5.61%	1998	\$105,958	\$113,375
1998	3	\$140,300	6.62%	1999	\$115,143	\$123,203
1999	4	\$155,108	7%*	2000	\$124,525	\$133,242
2000	5	\$172,849	7%*	2001	\$133,242	\$142,569
2001*	6	\$209,710	7%*	2002	\$142,569	\$152,549
2002	7	\$221,329	7%*	2003	\$152,549	\$163,227

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1999	4	\$155,108	8%*	2000	\$129,246	\$138,293
2000	5	\$172,849	8%*	2001	\$139,586	\$149,357
2001*	6	\$209,710	8%*	2002	\$150,753	\$161,306
2002	7	\$221,329	8%*	2003	\$162,813	\$174,210



TO: EDA Commissioners

THROUGH: John Gunyou, City Manager

FROM: Ron Rankin, Community Development Director

DATE: April 2, 2003

SUBJECT: **Continued discussion regarding the Housing Improvement Area concept**

Background

As discussed with the EDA at its March 18, 2003, meeting, Minnesota law provides a mechanism called the "Housing Improvement Area" to help arrange and finance building renovation work for aged, deteriorating residential buildings. Hopkins and other cities have used this approach to stabilize deteriorating housing.

Minnetonka has had two previous inquiries about using this approach, and a current request from the Cedar Ridge condominiums. While the two earlier inquiries resulted in associations choosing to use other methods of financing, Cedar Ridge thinks this may be appropriate for their needs. Cedar Ridge has 180 condo units in three buildings, built in 1969, which have damage due to water intrusion. Removing and replacing the damaged framing, sheathing, and siding is estimated to cost \$1.2 million to \$1.4 million, or an average of about \$7,780 per unit.

At the March 18 EDA meeting, Commissioners discussed a number of issues related to the potential use of the Housing Improvement Area concept in Minnetonka:

- Risk to the city in providing such financing, and Minnetonka's traditional reluctance to be the "banker" for private projects.
- Whether the city could or should require projects to include building and fire code improvements, such as automatic fire sprinklers.
- The importance of preserving affordable housing (Cedar Ridge units are valued at \$117,000 and lower), and whether indexing the resale prices might be appropriate in exchange for city assistance.

- Whether there is a point where residential buildings might be too deteriorated to warrant city assistance.

Discussion

The city as “banker” – this is a real issue, in that Minnetonka has traditionally been very conservative with city finances, particularly when asked to assist private projects. For example, the EDA recommended the city not be involved in financing the Pagel Ice Arena built privately at Minnetonka High School two years ago. This concern continues to be important, and city assistance provided to townhome and condo associations for building repairs might be considered a “bail-out” of those that have not saved adequately for necessary future repairs.

Further, the number of requests for such assistance is likely to increase as townhome and condo buildings age. The following projects are all at least 20 years old, and are likely to require major repairs in the future:

Townhouses/Condos	Units	Year Built
Cedar Ridge Condos	180	1969-70
Oakridge Manor Co-op	44	1970
Seven Oaks Condos	73	1970-71
The Oaks Townhomes	57	1971-73
Country Villa Townhomes	19	1972
Greenbrier Village Condos	462	1975-76
Breconwood Townhomes	89	1975-77
Preston Trails Townhomes	108	1976
Clear Springs Townhomes	53	1978
Beachside I Townhomes	167	1978-79
Saddlewood Townhomes	66	1979
Creek View Hills Townhomes	48	1979-80
St. Alban’s Mill Condos	129	1979-83
Pepperwood Townhomes	32	1979-80
St.Albans Mill Condos	129	1980-83
Beachside II Townhomes	109	1980-83
Huntington Woods Townhomes	10	1981
The Ponds at Greenbrier	130	1982
Glen Lake Shores Condos	30	1982
Arrowhead Townhomes	5	1982-83
Creekview Hills II Townhomes	53	1982-83
Woodbine Condos	40	1983
Opus 2 Condos	313	1983
TOTAL Units	2,217	

Also, when homeowner associations have difficulty reaching internal agreement on how to pay for repairs, or when they have disagreement about the extent of work that is needed and what they can afford, staff believes it is likely they will approach the city for

assistance rather than working through these sometimes complex and difficult issues on their own.

Requiring building and fire code improvements – certainly the minimum code requirements need to be met. The building and fire codes require older buildings to have proper exits, fire doors and firewalls, and minimal flammable materials in corridors and common areas, among other things. Retrofitting fire sprinklers to buildings is normally required only when buildings are expanded or completely renovated. The cost is significant – retrofitting fire sprinklers at Cedar Ridge could cost \$360,000 for the three buildings, or about \$2000 per unit. However, as a matter of policy the city could require the retrofit as a condition of receiving financial assistance. The Fire Department would like all multifamily buildings to have fire sprinklers.

The importance of preserving affordable housing – this is a key objective of the city, and the city works hard to preserve our existing affordable housing. We do this by helping to rehabilitate subsidized rental housing (Minnetonka Heights and Elmbrooke) and through Minnetonka’s owner-occupied rehab program – this has been used for some townhomes and condos, as well as single family houses, but rehab funds cannot be used for common-area improvements.

Minnetonka could require the indexing of resale prices in exchange for city assistance. On the other hand, the increase in home equity for non-indexed units may be the only resource some households can tap to pay for future repairs.

Is there a point where some residential buildings might be too deteriorated to warrant assistance? – this is possible, but not likely in the near future. The water intrusion conditions and other problems found at Cedar Ridge, one of the oldest condo buildings in Minnetonka, are the most significant seen so far in the city. However, the cost of the repairs is still less than \$8,000 per unit. Conditions seen at some projects in Hopkins, New Hope, and other cities that have used the Housing Improvement Area approach, were so bad that market values dropped below the balance of many of the home mortgages. This is not the case here. The estimated market values (EMV) established by the Assessing staff for townhomes and condos, based on actual sales, have increased significantly the past few years. With Cedar Ridge shown below as an example, those values have gone up by 85-95 percent in the past five years.

Cedar Ridge Condos

EMV By Year	Units			
	1 BR (812 sq. ft.)	2 BR (1,026 sq. ft.)	2 BR (1,038 sq. ft.)	2 BR (1,100 sq. ft.)
2003	\$93,500	\$103,600	\$107,000	\$117,100
2002	\$75,000	\$91,000	\$94,200	\$94,700
2001	\$62,400	\$75,700	\$78,400	\$82,200
2000	\$56,000	\$73,200	\$75,800	\$70,200
1999	\$47,900	\$56,000	\$58,000	\$62,700

Recommendation

In staff's view, townhome and condo associations should be setting-aside sufficient reserves for all major repairs and renovation needs. When unforeseen repairs are needed, associations have the ability to levy an assessment to pay the costs. Homeowners can use their savings, or take out home equity or personal loans to pay the assessment. In nearly all cases, this should be a manageable (although perhaps unpleasant) situation.

As noted earlier, the city has traditionally been very cautious about providing financial assistance to private projects. In the currently unsettled times for state, county, and local budgets, staff believes it continues to be wise to have a cautious approach to finances. With a large number of Minnetonka's townhome and condo units in the range of 20 to 25 years old, it is possible the city would be seen as the primary avenue to help pay for major repairs for townhome and condo developments, posing an increasing financial commitment for the city.

For these reasons, staff recommends the EDA not pursue the Housing Improvement Area approach at the present time.