

**MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY
MEETING MINUTES**

**Tuesday, January 17, 2006
6:00 p.m.**

**Council Chambers
Minnetonka Community Center, Upper Level**

1. CALL TO ORDER.

EDA President Peter St. Peter called the meeting to order at 6:03 p.m.

2. ROLL CALL.

EDA Commissioners present: Dan Duffy, Dave Larson, Bunny Robinson, Peter St. Peter, Al Thomas, Tony Wagner, and Bob Walker.

Staff present: Ron Rankin, Merrill King, and Elise Souders.

Others present: Mark Ruff, Dave Callister, Steve Bubul, Julie Eddington, Tom Wartman, John Herman, Carol Lansing, John Hamilton, and approximately 20 residents.

3. APPROVE MINUTES OF DECEMBER 6, 2005 EDA MEETING.

Larson moved, Wagner seconded a motion to approve the December 6, 2005 EDA meeting minutes. All voted yes. Motion passed.

BUSINESS ITEMS

4. ITEMS RELATED TO THE GLEN LAKE REDEVELOPMENT PROPOSAL.

Rankin began by reviewing the actions to be considered, including: a resolution adopting a modification to the Housing Development and Redevelopment Plan for the Glen Lake Station Housing Development and Redevelopment project and establishing the Glenhaven Tax Increment Financing District; a resolution approving a Contract for Private Redevelopment between the City of Minnetonka, the Minnetonka Economic Development Authority, and Glen Lake Redevelopment LLC; and a resolution authorizing an interfund loan for advance of certain costs in connection with the Glenhaven Tax Increment Financing District. He said staff recommends the actions be approved.

Rankin recapped the Planning Commission meeting held on January 12 and said they recommended approval. He said the planning components of the project will be brought to the City Council at their January 23 meeting. Rankin said the

components of the plans had not changed since the December meeting and he briefly reviewed the components of the proposal.

Rankin reviewed the TIF request and said the TIF will be used to reimburse certain eligible costs. He said Minnetonka has a policy of using TIF very conservatively, and in this case there are extraordinary costs. Rankin said in addition to the certain eligible costs that the developer will receive reimbursement for, there will also be public improvements such as a signal light, sidewalks and other improvements to be reimbursed through the TIF. He said there will be a comprehensive pedestrian plan completed of the Glen Lake area in order to plan for the public improvements that will be done. Rankin reviewed that the reimbursement of these costs will be over 16 years and the developer's reimbursement costs will be capped at \$3,962,500. He said it will be the developer's risk for any overruns. Rankin said two reports have been completed and the area does qualify under state law as a renovation and renewal TIF district.

Rankin reviewed that the modification to the housing development and redevelopment area plan is part of the process. He said this modification includes a part on affordable owner-occupied housing in the project area.

Rankin went through the key aspects of the TIF plan, including: a renovation and renewal district is proposed, the district is being created to facilitate housing and mixed-use redevelopment, the maximum length of the TIF district is 16 years, and the TIF will be used reimburse certain eligible costs of the redevelopment and for public improvements. He said the TIF plan needs to be approved by the EDA and City Council.

Rankin said a Contract for Private Redevelopment has been negotiated. He reviewed the key points of the contract, including: the minimum improvements required by the redeveloper, the affordable housing component, the public improvements to be built, the look back provision, and no reimbursement from the TIF will occur until the vacant part of the shopping center is fully demolished. Rankin said staff feels the contract terms are reasonable and pose little risk to the city.

Rankin also said the EDA needs to adopt an interfund loan resolution in order for the city to pay for costs incurred with the public improvements before the TIF becomes available for reimbursement.

Rankin reviewed the land acquisition status. He said the Glenhaven shopping center is owned by the redeveloper, Mr. Wartman. Rankin said all properties from Eden Prairie Road to Stewart Lane are included in the TIF district, and while not all are included in the redevelopment proposal, staff does believe that they can be redeveloped in the future. He said Mrs. Renneke is not interested in selling her property except at a much higher price, and so Mr. Wartman is no

longer including that property in the redevelopment proposal. Rankin said the Alano property is still included in the project because it is in the middle of Site B. He reviewed the history of the property and said the city did own the property in the late 1980's and eventually sold it to Alano. Rankin said because the city sold the property to them, the city is trying to help them find an alternative location. He said the Zachman parcel on Glen Lake has not yet been acquired and is an integral component to Site C. Rankin said this parcel is a long lot and is obsolete. He said the property is also located between two higher density developments and from a land use planning perspective it doesn't make sense to keep the property as single-family.

Rankin said the size of the Site C building has been of concern, but staff believes it is a reasonable size building and all variances are reasonable. He said in addition the Site C property will provide trail connections to Kinsel Park.

Mark Ruff from Ehlers and Associates provided a summary of the financial component of the project. He said the basic idea behind TIF is for the developer to pay market rate for the land. Ruff said both the redeveloper and the city will be reimbursed for certain eligible costs.

Ruff reviewed the budget and said the city's costs for land acquisition include the Alano relocation. He said the developer profit is not TIF eligible, but include legal costs and the costs of land assembly. Ruff said there was a lot of time spent negotiating with the redeveloper and the profit and the \$500,000 shown is reasonable. He said other costs include demolition, relocation as set out by state statute, utility line relocation, and public improvements. Ruff said the maximum eligible reimbursement for the developer is \$3,962,500 and anything over is the developer's risk.

Ruff said it is anticipated that the developer will receive bonds, which is different than the pay-as-you-go that has traditionally been done in Minnetonka. He said bonds are typical in projects where the majority of the units are owner-occupied and will not have a stream of cash. He said the city is not pledging security in the bonds.

Ruff reviewed the city's costs including the Alano relocation expenses and the public improvements. He said there is some risk associated with these expenses; however, the city is willing to take a risk because of the benefits to the area.

Ruff went through the subordinate debt and said that the city and the developer are sharing the risk and the city feels it is important to do this because of the overall benefit.

Ruff reviewed the budget options sheet for Site C. He said that various scenarios had been looked at in regards to the number of units on Site C as well

as the total number of affordable units in the project. He said staff's recommendation is that the affordable units are an important component of the project.

Steve Bubul from Kennedy and Graven reviewed the Contract for Private Redevelopment as well as the TIF Plan and the Modification to the Redevelopment Plan.

Bubul said the most important parts of the Contract for Private Redevelopment is in articles three and four. He said article three focuses on the acquisition and conveyance of land and that the developer is to continue to make efforts acquire the remaining parcels by January 30, 2006, and if the developer is unsuccessful, then the EDA and City Council will be asked to move forward with eminent domain. Bubul said there is no reason to think that this will happen though. Bubul said with the TIF assistance that the initial financing will be done through initial notes. He said if Tax Increment Revenue Notes are done they will be sold to sophisticated investors, and that this type of note is becoming more common with owner-occupied projects. Bubul said however, the developer may find that a pay-as-you-go note works better. He said the contract provides for either option and because of this structure this will come back to the EDA again.

Bubul said because the development is going to be done in three phases, no payment will be issued until after the demolition on phase III is done. He said the EDA has a purchase option for the phase III property if redevelopment has not commenced by the end of 2008. Bubul reiterated that it is only an option to purchase and the EDA is not committed to purchasing the property.

Bubul reviewed the look-back that will be done at the end of phases I and II, as well as done at after the completion of phase III. He said the look-back uses a 12 percent profit as a maximum before profit-sharing. Bubul said the look-back reviews the projections made and helps to keep the TIF at a minimum.

Bubul said that tax-exempt notes will also be issued to pay-off the initial notes. He said these types of notes carry a lower interest rate. Bubul said the trade-off is with tax-exempt notes there cannot be the typical kinds of security that there is normally such as assessment agreements. He said the judgment is that it is a fair trade-off and typical in this kind of project.

Bubul reviewed article four of the contract and said there are affordability covenants included. He said that it also discussed the inclusion of mid-range housing prices in the phase I building and the city's expectations for public improvements.

Thomas said the city receives 25 percent of the profit over the 12 percent profit maximum, but asked where the other 75 percent goes. Bubul replied it is returned to the developer, but the 25 percent that the city receives will go to

reduce the assistance needed. Ruff indicated that this amount was negotiated between the city and the developer. He said that some use a 15 percent profit as standard, but the city said 12 percent profit maximum, but was willing to take only 25 percent of any profit over 12 percent.

Robinson asked when it will be determined if pay-as-you-go notes or bank notes will be issued. Bubul said it will likely be in the next three to four months as financing for the project is determined.

Wagner asked if the profit for phases I and II is really \$3.3 million, \$3.7 million for phase III, and if there is an additional \$750,000 in profit. Ruff said yes. He said there is a benefit to having a developer as owner because they own the property already; however, it because difficult to determine how to value the property. Ruff said the city will have a third-party appraisal done to determine the value of the property as it is today. Ruff said the developer will receive \$500,000 in profit for acting as the master developer. He said he has seen projects where this figure has been higher.

Wagner asked with a project this size who receives the benefit if the marketing and settlement numbers that are indicated on the proforma are less. Ruff said if the costs are less, then the city and developer share the benefit.

Wagner asked if the numbers are typical to other developments. Ruff replied that they are and that the total sales per square foot are within industry standards and the numbers have been reviewed by several people to ensure that they are not too high. Ruff said that in a project where there are public and private funds used, that typically, public funds are about 10 percent of the project. He said in this project that public funds are about 5 percent.

Duffy clarified that on the profit that the developer will receive 12 percent plus the \$500,000. Ruff replied yes.

Duffy said the EDA's potential risk is \$462,000 and he asked what the city can afford. Rankin said the \$462,000 potential risk is because of the city's expectation to put an additional \$500,000 into the project for the Alano relocation. He said that there is the risk that these funds may not be repaid, but that this money will come from the Development Account, which are not public funds, but rather funds from a closed TIF district. He said historically TIF projects have done well, so there may be the opportunity to re-coupe all of the expenses.

Larson said he hopes the \$500,000 being invested in the public improvements will beautify Glen Lake. He said the city currently has a AAA bond rating, and asked if because of this rate it will help. St. Peter said yes. Larson asked how exactly this will help financially. Ruff said the bond rating is for tax-supported debt, but it will primarily help with lower interest rates. St. Peter said this is one of the reasons why the EDA has rejected some prior TIF requests.

Rankin said a net amount of \$100,000, which will come from park dedication fees the developer will pay, will be used to improve the plaza area in Glen Lake.

Thomas asked for explanation for the public on what the development account is and how much money is in it. He also asked what the value of the property for site A is that the EDA has an option to purchase if the developer does not start that phase of the project. Rankin explained that the Development Account was established when the Carlson TIF district closed ahead of schedule. He said there was additional TIF on the books and permission was given to use these funds for special projects. Rankin said there is approximately \$2.5 million in the account. Bubul responded to the second part of Thomas' question regarding the value of the site A property. He said the value of the Site A property will be a pre-determined price that has not yet been determined, but will be done in the future. He said the developer and city will try to agree on a price, but if there is no agreement then there will be appraisal done. Bubul said a second appraisal may be done if there is no agreement after the first appraisal, and if there is still no agreement then it will go to arbitration.

Wagner said that staff provided an overview on why certain properties should remain in the project even though they have not yet been acquired. He asked what the alternatives are for purchasing the property, since the developer has until the end of the month to make efforts to purchase the remaining properties. Rankin replied that the contract says the developer is to continue to negotiate until the end of the month and if at that time there is still no agreement then the developer is to notify the city. He said the City Council makes the final decision regarding the use of eminent domain. Rankin said Alano is concerned about having to move again, and because the city sold the property to Alano the city feels it is obligated to help and find a satisfactory place to relocate to. He added that while the Renneke is not part of this redevelopment proposal that it is still included in the TIF district and is expected to redevelop. St. Peter said the life of the TIF district begins at the closing on the development on this part of the project.

Wagner asked if Alano can only be relocated within Glen Lake. Rankin said the city has been working to find a place to relocate based on an area that has been defined by them.

Wagner asked if the Zachman property is rental. Rankin said the city's understanding is that this property was acquired by Mr. Zachman and that it has been rented out. He said the developer has made attempts to contact the property owner in order to negotiate a purchase agreement. Rankin said site C has been looked at without the Zachman property, but it is needed for the public trail and it is not desirable from a land-use perspective to leave it as single-family between two condominium buildings.

Wagner said the costs have to equate for the project to work. Rankin said adding units to Site A or B has not been discussed, but if the number of units on Site C changes, then it needs to be made up somewhere. He said the option scenarios were done because of the concerns about Site C. St. Peter said from previous work session on this project that the instructions were to keep 20 percent of the units as affordable and that this is the tradeoff for getting affordable housing.

Walker asked about the timing of the TIF look-backs and also asked what the definition of profit is. Bubul replied the profit look-back will be done twice: once after the completion of phases I and II and once after the completion of phase III. He said that profit will be defined as an illustration in a proforma that is attached to the contract. Ruff responded that profit is defined as generally acceptable accounting principles.

Walker asked what happens if the city wants to modify the TIF district boundaries. Bubul said the city has the opportunity to expand the boundaries within five years, and added that other parcels can be removed.

Duffy said for the condominiums on Site C, the price for the units is listed as \$425,000. He asked if this is the average or if there will be a range of prices. Mark said there will be a range and that this is only average. Tom Wartman, the developer, said they are still working on exact numbers, but the units are expected to be 1,600 to 1,800 square feet in price and range from \$350,000 to \$450,000. He said though that there have been requests for larger size units that may be priced at \$600,000 or higher. Wartman said he has worked with Ehlers to get an average price.

Wagner asked what the size of the affordable units will be. Wartman responded that they are expected to be similar in size to those at the Wyldewood Condominiums at about 800 to 850 square feet. He said they will be one-bedroom units.

Larson said that a fair and reasonable price should be offered, but asked how do you deal with a land speculator. Rankin said the city has worked hard to avoid eminent domain. He said the city did not use eminent domain for the West Ridge development and only used it for two commercial properties for the Ridgebury development. Rankin said it is typical for the city to require developers to negotiate.

Robinson asked if the affordable units on all sites will be one-bedroom units. Wartman replied yes. Rankin said it has been typical in the condominium developments that the affordable units are one bedroom; however, the affordable units in townhouse developments have been larger.

Five minute break

St. Peter asked Bubul to review the but-for test.

Bubul said the EDA is being asked to approve an updated redevelopment project area plan. He said this project area was originally set-up in 1977 based on a blight study done at the time. He said Hoisington Koegler Group (HKGi) did a recent study to re-look at and update the blight findings. Bubul said the redevelopment project area will also be designated as a housing development area to emphasize that affordable housing is the other public purpose. Bubul also said the EDA is being asked to approve the TIF plan, which makes findings to establish the district. He said the area does meet the renewal and renovation district standards. Bubul said another important aspect is making a but-for finding. He said a but-for finding is a finding that this development or any other development would not occur, but for the tax increment financing.

St. Peter summarized the actions the EDA is to consider and asked the developer, Tom Wartman, for his presentation.

Wartman said there is a lot of paperwork, but it is a culmination of the negotiating and planning that has been going on. He said his dream is for a more beautiful Glen Lake area and he would like to see it updated. Wartman said he has made minor changes to the plans since December in order to be better stewards to the land. He said the opposition seems to be to Site C, and he believes it will be a handsome building and offer more of a natural buffer to the lake rather than mowed grass as it is now. Wartman said he has heard a lot of support for the project and he wants to start the beautification and improved safety for the area.

Duffy asked with the recent trends in real estate if there looks to be any problems with selling the units. Wartman said that there has been some concern about the multitude of condominium projects being built in downtown Minneapolis; however, he said if the project has quality then it will get good results. He said each site will have a different type of unit, with Site B being more affordable and mid-range units, Site C will be more luxury, and Site A will be in-between the two with a range of prices.

St. Peter said he is disappointed that there is no stratification in unit prices for sites other than Site B. He asked if there is anything that has changed adversely in recent months. Wartman said no and there have been no additional studies done. He said the response to the grocery store has been positive.

Walker asked if any scenarios have been run to see what may happen if the grocery store goes under. Wartman said he is looking positively about the grocery store and so he has run no other scenarios. He said the reason Kowalski's failed is because of the way they sold to Glen Lake.

Wagner said a concern of his is that all of the affordable units will be the same 800 to 850 square foot size. He asked what the flexibility in the size of the units is. Wartman said when looking at condominiums he wants to deliver a good product, which means a minimum price of \$250 per square foot. He said the level of the units at Site C will be \$280 per square foot. He said it is difficult to apply construction costs on a larger unit and keep it affordable. Wartman said if this is done, then another unit has to subsidize the affordable unit and this will not work and keep the market-rates competitive. Wagner said the challenge is that there are 36 affordable units of this size and this size only fits a certain person. Wartman said there will be an additional 1,000 to 1,100 square foot units at a \$250,000 value. He said he is trying to make a statement with the mixed-use building and he is not going to cut corners.

St. Peter opened the public hearing.

James Hiller, 5638 Glen Avenue, clarified that the \$462,000 shortfall in TIF will be there if there is not any increase in values. St. Peter said yes.

Ivan Fox, 6038 Pinewood Lane, said he is not against the redevelopment or the grocery store. He said his concern is that it is too big and costly. Fox said it is just Glen Lake and is not a destination. Fox asked why the development needs to be built so big and if the size is based on the TIF financing. He said the development will create more traffic on a smaller road and he cannot picture a stoplight helping the situation. Fox said he is a CPA/Financial Analyst and the redevelopment is blight and not beautification. He said because Wartman has not acquired all of the land, the total price for the development is not known. Fox said that only 800 to 850 square feet for an affordable unit is not good and it is less expensive to buy a single-family home than an 1,800 square foot condominium for \$300,000 to \$500,000. He asked if anyone talked to the community about the project and says the redevelopment will hurt the home prices. Fox said it is not a high quality development as it is high-density with little open space and a big risk for the city.

Grace Sheely, 14325 Grenier Road, said she will be hanging balloons in order for everybody to see the size of the proposed buildings. She said the walls of the buildings will be 300 feet long and three to four stories tall, with the tower on Site B being even larger. Sheely said if the development is approved it will be the first time in Minnetonka that there is R-5 zoning on a lake. She said she is concerned about the size of Site C and all of the lakefront glass that it will have. Sheely said all of the buildings have grown in size from when they were first presented and the buildings proposed in Glen Lake are larger than those at 50th and France, which is not what Glen Lake is. She said the whole process has been without neighborhood input. She asked what will happen when the county wants to make Excelsior Boulevard four lanes and how the city can afford this. She asked if the costs of eminent domain have been considered. Sheely said the Alano members are fragile members of the Glen Lake society and should have to

leave. She suggested rereading the retail market study because it does not say that that grocery store will survive with more people. Sheely said there needs to be more shops with interest and the city needs to help Glen Lake get festivals set-up. She recommended the city buy the Steeno property and make it a parkland and develop the Renneke property. Sheely said she is now afraid for all of the lakes and that the TIF is too tight.

St. Peter said the question on the expansion of Excelsior Boulevard was asked and answered at the Planning Commission meeting. Rankin said that is try and the city engineer has looked at the requirements of the county.

Keith Weigel, 14209 Glen Lake Drive, said he was the first to move into Lakeside Estates. He said the “but-for” test is not met for two of the sites, including the shopping center and Site C. Weigel said he is not opposed to affordable housing, but the city has had discussions concerning tradeoffs of density and affordable housing previously. He said he was aware that the city has only used eminent domain twice in the past 20 years; however, he is now aware that it was for commercial properties. He said this is a residential property with renters that then were able to get a house. Weigel said he has also heard that the city uses TIF conservatively; however, he does not agree that there are extraordinary costs with this development. Weigel said the developer is getting \$2.9 million for the sale of the shopping center, plus money to relocate businesses, demolition costs paid for, and \$750,000 in profit. He asked if traffic signals in Minnetonka only get paid by TIF or if there are other ways to pay for them. Weigel said the acquisition costs on Site C are over \$2 million and he went to the county’s website and found the assessed value for the Steeno property is \$371,000 and the Zachman property is \$274,200. He said the word is that the developer is paying \$1.8 million for the Steeno property and the city has the responsibility to make sure the properties are purchased at the market values. Weigel said the developer needs the density and eminent domain in order to re-coupe the amount he paid for the Steeno property. He asked if it is possible to find out what the developer is paying for the properties.

St. Peter responded to Weigel’s question about what the developer is paying for the properties and said that his understanding is that the values are reflected in the Ehlers calculations. Rankin said the \$2.1 million is based on per unit market costs. St. Peter said that developers looking to develop R-1 property have been paying between \$600,000 and \$700,000 per acre.

Ruff said the tax increment is not being used to write down the Steeno or Zachman properties with the exception of the affordability component. He said it is not the city’s nor the developer’s intent to pay one owner more and the other less. Ruff said if there is an appraisal done of the property for eminent domain purposes then that becomes public. He said Site B cannot support itself even with all the tax increment going towards it—therefore there is a need to bring in Site C as a package deal because of the realities of the market. Ruff said

typically acquisition costs are higher than assessed costs because you do not want to condemn each property.

David Lovelace, 15331 Excelsior Boulevard, said he is a part owner of the Glen Lake Coffee Shop. He asked why the TIF district was not expanded to include all of Glen Lake. Lovelace said he is opposed to any form of public subsidy and is aware of the recent Supreme Court case concerning eminent domain.

Rankin said the size of the proposed TIF district is such because it is geared toward the current proposal. He said it is the third TIF district in Glen Lake. Rankin said the original TIF district did cover all of Glen Lake and the second TIF district was for the Beacon Hill housing. He said TIF districts are set-up with specific purposes in mind, and another TIF district could be set-up. St. Peter added that the redevelopment area and TIF district must be contiguous. He said the other properties in the TIF district that are not being redeveloped will also be subject to the same 16-year clock.

St. Peter closed the public hearing.

Wagner asked what the impact of the four-year activity rule is. Ruff said the purpose of it is because the state does not want huge TIF districts that do not develop. He said after four years if parcels are not developed then they drop out of the TIF district and do not capture the inflation. Ruff said there would be two areas, the Renneke property and the properties west of the substation, where this may be the case in this TIF district.

Wagner moved, Thomas seconded a motion to adopt the but-for findings. All voted yes. Motion passed.

Larson moved, Robinson seconded a motion to adopt a resolution modifying the Housing Development and Redevelopment Plan for the Glen Lake Station Housing Development and Redevelopment Project and establishing the Glenhaven Tax Increment Financing District and adopting a Tax Increment Financing Plan.

Wagner said there is a lot of information and it is complicated. He said the area needs to be walkable and the businesses are struggling, so there needs to be an investment. He said in order to prevent further decay action needs to be taken and it is okay to use TIF.

All voted yes. Motion passed.

Walker moved, Duffy seconded a motion to adopt a resolution approving a Contract for Private Redevelopment between the City of Minnetonka, the Minnetonka Economic Development Authority, and Glen Lake Redevelopment LLC.

Wagner asked that the size of the affordable units be brought up again for discussion at the City Council meeting.

All voted yes. Motion passed.

Larson moved, Wagner seconded a motion to adopt a resolution authorizing an interfund loan for advance of certain costs in connection with the Glenhaven Tax Increment Financing District. All voted yes. Motion passed.

5. STAFF REPORT.

Souders reviewed the staff report items including the 2005 EDA Annual Report, an update on various developments, and upcoming events.

Wagner requested data on affordable housing units near transit lines for the City Council's meeting with area Legislators.

6. OTHER BUSINESS.

The next regular EDA meeting was announced as Tuesday, February 21.

7. ADJOURN.

Thomas moved, Larson seconded a motion to adjourn the meeting. All voted yes. Motion passed. The meeting adjourned at 9:10 p.m.