

**MINNETONKA ECONOMIC DEVELOPMENT AUTHORITY
MEETING MINUTES**

**MARCH 30, 2009
6 P.M.**

1. CALL TO ORDER

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

2. ROLL CALL

EDA commissioners present: Ellen Cousins, Dan Duffy, Bunny Robinson, Peter St. Peter, and Tony Wagner. Brad Wiersum and Bill Yaeger were absent.

Staff present: Julie Wischnack, Elise Durbin, GERALYN BARONE, and Loren Gordon.

Council members present: Dick Allendorf, James Hiller, Amber Greves, and Terry Schneider.

Others present: Mark Ruff, Cathy Bennett, and John Carter.

BUSINESS ITEMS

3. TIF REPORT PRESENTATION

Wischnack gave the staff report and recommended follow up actions.

Mark Ruff, financial consultant for the city, highlighted some aspects of the the city's use of TIF, including history, rules, opportunities, and use of resources. He works with cities on providing TIF management, and a lot of energy is expended on the front end to create a tax increment project.

Ruff explained the chart on Page A3 that illustrates how much of Minnetonka's tax base is captured in TIF districts, which is less than two percent. There is no legal maximum in Minnesota; however, Minnetonka has been very judicious in its use of tax increments. Minnetonka has gone from a tax capacity tied in TIF districts in 2006 of \$3.8 million to \$1.7 in 2009, and in a couple of years will drop to under \$700,000.

Ruff said bond rating agencies view point is that TIF encourages market value growth and anything that results in positive market value growth is a good thing. If a city is loading up on general obligation tax increment debt that is dependent on development happening, then that creates a risk for shortfalls that a city's rating may reflect. In terms of capturing value, it has a neutral, if not positive impact on a city's bond rating. He has seen rating reports that applaud the use of

tax increment. The viewpoint is that redevelopment is hard and sometimes it takes additional financial resources to make redevelopment happen. In a rating's viewpoint, if a city is not redeveloping, it is falling behind its neighbors. Minnesota ratings are good because ratings are judged in comparison to other areas.

Ruff stated that the first TIF district established in Minnetonka was in 1977 in the Glen Lake area, and was decertified in 1990. He reviewed different developments that utilized TIF. He reminded that when a TIF district is created, a boundary is drawn and the taxes paid for the properties within the area are captured for a designated period of time. Following the urban renewal guidelines, the money may be spent outside of the boundary area, but in the project area.

Ruff reviewed pooling and limits to the size of a district and the requirement to show blight or justification to expand a district. The legislature is striving to shut down TIF districts as soon as possible and not find ways to spend the tax increment once the original obligation has been fulfilled. One area of policy that is supported is affordable housing. Minnetonka has the opportunity to take advantage of three existing districts if used specifically for affordable housing. The basic issue is to consider if the city wants to continue the three TIF districts beyond their current life, and, if so, to determine the scale of which to do so. One of these districts is the Beacon Hill district established in 1994. Housing districts have a maximum life of 26 years of TIF, but the last payment is due August 1, 2009. There may be unpaid balances in the TIF note. In 2001, the legislature cut the amount of taxes rental properties were required to pay almost in half. The city is left with \$135,000 per year from 2010 to 2021. The TIF district may be kept open because it is a housing district, but the funds can only be used in the project area or in other affordable housing developments that meet certain affordability requirements. These requirements are more restrictive than the Metropolitan Council standards.

Ruff explained that a formal process similar to creating a new TIF district would need to be followed if a modification needs to be made. The modification would not have to be done by August of 2009, but money would have to be turned back if it has not been obligated after August 2009. For the Beacon Hill district this would equal \$135,000 a year.

Ruff said that the Minnetonka Mills TIF district, created in 1996, is in a similar situation. Payoff will occur by the end of 2014. The TIF after this date is \$11,000 per year. There are administrative costs that go along with keeping a TIF district open even though there are no other obligations.

In response to Schneider's question, Ruff acknowledged that if the TIF districts are closed, the taxes would go to the city and would help relieve the tax burden on residents. That is the policy decision that needs to be made on whether to keep the districts open or not. Most schools do not oppose the use of TIF because TIF districts do not capture the operating levy that are based on market value. The vast majority of the remaining levies are matched by the state. TIF

districts are relatively revenue neutral for most schools. A TIF district reduces a county's tax base, however.

Ruff said that the administrative costs to keep the Minnetonka Mills TIF district open would equal approximately \$2,000.

Ruff stated that the third TIF district to discuss is the Boulevard Gardens district. The note was issued in 1996 on the TIF district set up in 1995. It was originally \$8.5 million for CommonBond and Twin City Christian Homes. The note is expected to be paid around 2011 or 2012. The last year of assistance is 2012. This is a redevelopment district, and the rules are different than for a housing district. Under the redevelopment district, the district must be shut down because the original obligation is gone. There is a special provision included in the law several years ago that allows up to 10 percent of the total increment from a district to be for tax-credit-eligible housing. The TIF can only be used if tax credits are not. There are not very many developments that meet tax credit restrictions, but do not get tax credits. There are potentially some that could. The positive is that one could have potentially up to \$1.8 million to use again for a development, whether it be for rental senior housing or rental family housing. That is the only opportunity available for keeping open a redevelopment district after its initial obligation is paid off.

Ruff stated that the only other existing TIF district is the soils district for Hedberg, and because it is a soils district, there is no ability to pool for other uses. The district was decertified, but the remaining funds were left in place to pay for on-going environmental monitoring costs. It is not receiving any new tax increment, but there is a.

Ruff encouraged the city to not wait too long to make a decision on when to decertify, especially for Beacon Hill, which could lose some resources.

Schneider asked how the district had performed. Ruff had not gone back to compare the market values. For a while, it looked like the note may not be paid off because of the property tax reform in 2001 that affected not just rental housing, but also commercial industrial dropped significantly. It has fared better than expected.

There was discussion about purchasing the property behind Kraemers hardware on Williston to then sell for housing. Ruff has heard from other communities that "planned banking" is a commonway for doing such a transaction. Without eminent domain, there are not that many opportunities to get key sites purchased unless the seller is willing. Timing wise, there may not be a developer who would be ready to take on the site, but it would give the city flexibility to purchase a piece of property to be used at some point. Some communities like to be able to select the developer and what kind of development will occur. Legislative actions that occurred in the late 1990s and early 2000s that put a drop-dead date on redevelopment of the site otherwise the property would be forfeited. The knock

down would need to occur within 5 years. If a TIF district was not set up, the city could hold onto the land for as long as it wants.

There were questions about the difference in pooling rules. Ruff explained the differences. Between now and 2012, if the city had extra money, up to 15 percent could be used for other redevelopment projects around the community. The city does not have extra money coming off. There is maybe \$10,000 to \$20,000 of extra money coming off in balances right now. The 10 percent is the affordable housing and the 15 percent is the redevelopment.

In response to Allendorf's question, Ruff stated that all but one district has been closed early in Minnetonka.

In response to a comment, Ruff stated the legislature likes to focus on captured TIF as a percentage of tax base. Minnetonka is at 2 percent, so the legislature would be hard pressed to criticize Minnetonka's handling of TIF. The state auditor does have the opportunity to pursue any TIF district in the state.

There was a question about what would attract the state auditor's attention. Ruff replied that using TIF in a responsible manner that does not try to take a gray area of law and expose it as something being done in the city's best interest, but just staying within the confines of the law's intent would keep the city out of the state auditor's attention.

Wagner moved, Cousins seconded a motion to request a legal interpretation as to the potential uses of TIF funds and functionality of each district; review and discuss whether changes should be made in the practice of decertification of districts; and request staff prepare a TIF and tax abatement policy to guide the future consideration of such public subsidies. Cousins, Duffy, Robinson, St. Peter, Wagner, and St. Peter voted yes. Wiersum and Yaeger were absent.
Motion passed.

Wagner chose to wait until another meeting to direct staff to review the existing policy regarding affordable housing and direct any changes within that policy. Wischnack stated that the item would be on the May 11, 2009 meeting agenda.

4. OPPORTUNITY CITY PILOT PROGRAM PRESENTATION

St. Peter welcomed the visitors.

Wischnack recognized Minnetonka Park Board, Community Commission, Planning Commission, EDA, and City Council members, and staff. She explained how a grant was made available by the Urban Land Institute (ULI) in conjunction with the Regional Council of Mayors (RCM). The goal of the Opportunity City Pilot Program (OCP) is to identify and implement tools and strategies that support a full range of housing choices.

Cathy Bennett, consultant working with the Urban Land Institute of Minnesota, stated that she has been working on the OCPP project since mid-2008. The majority of the work for the five cities should be completed by May 2009. The process has cost each city approximately \$5,000 for a \$20,000 to \$30,000 project. Future work is planned to do more cities. The other four cities were Shoreview, Brooklyn Park, Richfield, and Rosemount. All of the mayors and staff of the cities were interested. The age of the housing stock and demographics were determining characteristics.

Bennett explained that The ULI is made up of 40,000 members of the public and private communities. Minnesota is fortunate that its group is so active. She also gave background on the RCM.

Bennett explained that a couple of years ago, the ULI got the group back together and has been the driver to get the initiatives going. The group is bi-partisan and sometimes makes recommendations regarding policies. It is not a lobbying organization.

Bennett said the OCPP is part of a housing initiative that looks at things from a region-wide perspective and looks deeply at cities individually. The process includes a housing audit, community change reports, and site analysis. She also explained the corridor development process for Minnetonka Mills.

Bennett said the OCPP process may be a model for other cities. Tools and strategies may be implemented, and best practices will be shared with others. The audit process includes reviewing goals and policies, testing effectiveness of land use strategies and programs, understand community change, and identifying gaps. That is where the process is now.

Bennett explained that she does not tell a city what it should be doing, but provides information from the analysis. She wants the dialogue to come from the audience. She thanked Julie, Elise, and Stephanie for the hours they put into providing her information.

Bennett began the presentation by reviewing the city goals and policies listed in the 2008 comprehensive guide plan: strengthen neighborhoods by improving the existing housing stock; promote new affordable and market-rate rental and for-sale housing; encourage diversity in the types, sizes, and prices of housing units; and create partnerships with other agencies to ensure the longevity of affordable housing. She said a lot of the goals are similar and specific to land use issues. Bennett stated that the metropolitan council informed her that ideas from the study could be added to the comprehensive guide plan prior to its adoption by the city.

Bennett described the steps taken to complete the housing audit.

Bennett stated that it is expensive to redevelop existing uses which, in turn, makes it difficult to provide affordable housing. The end use is very expensive.

Minnetonka is still holding its high property value, and it is difficult to attract young families due to the cost of housing.

Bennett said there is a lack of support for high-density housing in Minnetonka. The cost of redevelopment requires higher densities to attract work-force housing. Minnetonka considers 12 units per acre high density; however, in some communities high density is closer to 20 units per acre.

Bennett said the households in Minnetonka are aging. In some cases, elderly with fixed incomes are having trouble paying for maintenance of a residence even if they do not have a mortgage. She also said the large retail sector provides lower wages and the employees have a challenge to live in the community. There is a disconnect between workers and available housing. Bennett stated access to transit is very limited. Even where there is transit there is low ridership.

Bennett reviewed Minnetonka's affordable housing programs, which address a variety of income levels and uses. The Homes Within Reach program is a large investment per home per household, but there is a long-term gain from that money and it assists reaching the city's goal of long-term affordability. HWR has purchased 33 homes in the city since 2002. Minnetonka should be very proud of that. Compared to other cities, Minnetonka is way ahead. It is an excellent investment.

Bennett said the rehab funds are recaptured if the residence is sold. There have been 30 emergency-deferred loans since 2006. That provides up to \$5,000 at 0 percent interest for 10 years. There are 66 owner-occupied rehab loans that have been provided since 2000 and 475 loans since the program started. The city does not market or use this program as actively as it did previously. It provides up to \$20,000 in deferred loans at 0 percent interest for 10 years. The income limit is 50 percent of median income. For a family of 4, that would equal a little over \$40,000 annual income.

Bennett said land use strategies and official controls was looked at during the housing audit. The city uses

- Tax increment financing
- A HRA levy to support the land trust program in 2009.
- The city has talked about point of sale and rental licensing programs, but there has been no action to date on those types of programs. All of the other opportunity cities have rental licensing and both Richfield and Brooklyn Park have point of sale programs.
- The city uses flexibility on letters of credits, requirements to reduce development costs, and proactively purchases housing sites for future public use.
- The EDA proactively identified future high-density housing sites.

Bennett reviewed the 11 community site principles developed by ULI. Site principles enhance economic competitiveness, diversifies property tax base, reduces pressure on local budgets, reduces commute time, protects environment, and promotes healthy living by providing more public and open space.

Bennett said the report looks at the city's human infrastructure. It is a collection of resident information, household demographics, and household usage history and turn-over patterns. It evaluates the flow of the data. The report looked at distribution of households by age, housing type, homestead status, homestead status for new house owners, turnover of households by age and housing type and aging in place, retention of households by origin and destination, and commute and labor shed information. John Carter, who worked on the data, was introduced.

The following data was reviewed:

- The median age in 2007 was 52 years. A majority of households, 44 percent, are 55 years and older. Baby boomers are between 45 years and 68 years of age.
- Brooklyn Park and Richfield are a much younger community.
- Housing by age include residents under 35 years of age live in apartments with 6 units or less. The larger apartment complexes house the older age group.
- Townhomes were utilized by residents 35 years of age and older. Townhomes have provided a market for residents as they age in suburbs.
- Of all households, 66 percent of units are owner occupied, but only 27 percent of those households are under the age of 35 years.
- Homeownership remains high in those residents 55 years of age and older and rental housing seems to be important for all age groups. In other communities, a big dip is seen in the rental for younger ages and levels out for the older ages. Minnetonka has a really strong base for all ages for rental housing.
- Of the new households coming in, the majority are rental. Residents are renting homes rather than buying homes.

Carter said when a large share of the population is not moving, the population is aging in place. The chart shows the difference in the households from 2004 and 2007. The net result is that there is tremendous momentum in a community due to aging. A city needs a lot of turnover to counteract that and achieve a balance. Minnetonka has a large portion of its age range between 45 to 65 years and there is little young population behind it. It is one of the key points of the analysis.

Carter explained how the information was collected and that the oldest person in a household is the head of the household. Property tax and driver's license records were used to establish resident age information. The census uses the

first person listed on the census. He said he hoped to use the information to create a projection for the future.

The chart indicated to Allendorf that the city needs more affordable housing. He asked if the chart also indicates that more rental units are needed to draw in younger people so that there will be a population behind the wave. Bennett replied that there is a lack of rental units and owner-occupied units at a higher density, which helps to decrease the costs.

Allendorf wanted to understand what action plan it suggests. He questioned if it would be beneficial to target developers of rental housing. Wischnack noted that the owner occupied units are such a high percentage of the housing stock. There needs to be a shift in regard to how the city thinks of younger families; it is not just the rental piece it is also the owner-occupied piece. The senior availability and turn over in upper-end age category is an issue. The city needs young, owner-occupied housing to counteract the issue or the city will have only one sector of the population.

Allendorf noted that the city was criticized heavily for using tax increment financing for the Ron Clark development. What that seems to do is draw in younger families that can afford those units, whether rental or ownership units. He favored jumping on those opportunities.

Wischnack asked Bennett to highlight the senior regeneration program. Bennett said in Roseville, the senior housing regeneration program was utilized through a non-profit organization where the city and county purchased homes from seniors as they were. The houses were rehabbed and sold specifically to buyers whose household had to have at least one child under the age of 16, which is a protected class. Surveys indicate that the 22 percent that occurred without the program, increased to 44 percent.

A question was asked if criteria were in place to determine the amount of funds to be spent on redevelopment. Bennett stated that it was the trust the city had with the nonprofit group called the Greater Metropolitan Housing Corporation that was brought up to a higher standard than health and safety issues. It was brought up to a marketability level. The house still had to be sold.

Bennett reviewed the retention of households and the origin of who is moving into the community. Of the moves, 22 percent stayed in the city. This is lower than Brooklyn Park and Rosemount's retention rates due to less diversity in Minnetonka's housing stock. Retention was higher for households looking for multi-family housing and those seeking single-family housing were only 16 percent. Of all single-family moves, 26 percent were retained in another single-family home. Richfield's statistic from residents moving from apartments to single-family housing was 28 percent. They are capturing the rental market and single-family homes. They are losing those moving from a single family to a single family. That is 15 percent. The move-up housing is a challenge for Richfield. The cities have programs to renovate the existing houses.

Bennett commented that the data updated next year will show a better reflection of what is happening in the market now.

Bennett reviewed household origin and destinations for moves. Of all incoming households, 41 percent came from Minnetonka, Minneapolis, and St. Louis Park. The community change report shows labor and commute shed. In response to a question, Carter recalled that 16 percent of residents of Minnetonka working in Minnetonka is a pretty high percentage compared to the other cities in the study. Bennett explained that the data tied the resident base to the wages in the community to determine if the workers in the city are making enough to afford to live in the city. This decreases commuting distances and allows for residents to have more time to be actively involved. One of the strategies is to have more of a balanced community.

Bennett stated that the shortage of affordable homes available for young households may impact the number of workers to be employed in the city and future value of the housing stock. Reinvestment in older apartment areas preserves and enhances some of the most affordable housing in the city. With regard to the programs, the financial support of the home program results in a positive return for the city's investment. It decreases deferred maintenance, it reduces code enforcement, and a similar program is needed for younger-family housing stock as well.

Bennett stated that Minnetonka's population is aging. Additional strategies are important to help regenerate neighborhoods and address some of the aging in the community. She reviewed nation-wide statistics regarding "aging in place" residents over 55 years of age. A question was asked about how that would play out over 5 years. Bennett said heard that, nationally, in the U.S., more babies were born in 2008 than in the baby boomer years.

Bennett reviewed that the households that are aging in place live in some of the oldest housing in the city. Senior housing, senior home maintenance programs, senior housing regeneration programs, and being proactive with city and developer marketing to current owners 75 years and older and younger than 35 years of age are needed. Senior specific universal design housing type units should also be considered.

Bennett went over the observations and options. Wischnack noted the city has regular contact from condominium developers. The most recent case is the new regulations for swimming pools. The homeowners associations for the condominiums could not afford to bankroll the improvement. The city does not have a tool to deal with that effectively at this time.

Bennett discussed the best methods used to engage resident participation regarding the importance of housing diversification and higher densities. Neighborhood formation and regular engagement processes may be used by suburban communities.

Bennett stated that the Urban Land Institute is trying to get funding to do a model ordinance for the region, so the city may benefit from that as well. She reviews ways to better connect current and future housing to jobs in the community.

Bennett said that the next step is for those present to discuss the report, go through the quarter development process, and then come back with a final report based on the discussion.

In response to Greves question, Bennett stated that the report deals mainly with housing and land use, but with regard to the parks part of the efficient use of the land and success of and use is the connectivity to open space, parks and trails, and services. Sidewalks, alternate forms of transportation, and bike paths are important components that should be evaluated during redevelopment or renovation.

Wagner looked at the number of new households created and saw that the city needs more affordable housing as well as mid-ranged pricing. There are many \$340,000 houses that need about \$100,000 of work. He questioned how the city could market to emergency loan program and income limit rehabs and encourage reinvestment.

A question was asked about how the rehab loans are marketed. Wischnack noted that the *Minnetonka Memo* is one source of information for residents. Some of the programs are handled by other agencies; for instance, the emergency repair program. Durbin clarified that the emergency repair program is administered by another agency; however, the city does work through the application process and advertises the program. An article from time to time will be published in the *Minnetonka Memo*, but it's usually word of mouth. Some of the other funds are not advertised by the city because other agencies do active marketing. Wischnack noted that if a property owner or neighbor notifies the city of an issue, the city refers the resident to an available program.

There was a comment that the city takes advantage of outside agencies that provide the expertise to residents across parts of the west metro to match callers with a variety of programs and do some triage, but there is overlap in the services these agencies provide. Wischnack noted that H.O.M.E. is promoted through the senior center as well.

Duffy commented that a resident does not need to go 10 miles down the road to reach a home that is a little bit newer and maybe a little bit bigger and will meet their needs. The aging housing stock is a huge problem. A state program called *This Old House* allowed a property owner to make improvements to their home and the additional improvements would not be taxed for 10 years.

Robinson lives in a neighborhood where her neighbors are all aging in place, but there is a history of being connected. Programs that give residents an incentive to meet neighbors are really important to people, whether they have kids or not. Her neighbors are just as friendly as someone that would have young kids.

Many of Robinson's friends have moved out of larger houses and into townhomes. For all practical purposes they are still in the same community, but they may be competing for the same space as the younger families. It is going to be interesting to see how Minnetonka deals with that group.

Cheleen asked if surveys had been done in other cities asking residents what type of housing they would like in 5 years. Bennett was not aware of a city that has taken it to that level. Wischnack mentioned that the city conducted a senior focus group of 10 seniors. She felt it might be interesting to contact these people each year for follow up. It would be beneficial to compare a statistical report against direct feedback from residents. New residents could be asked why they chose Minnetonka. Bennett said that Brooklyn Park did this at one time.

Allendorf felt a survey should not be done unless the information can be used. From a policy stand point, he questioned who the city wants the programs to attract. If the city wants to retain residents over 75 years of age, then the city should make that a policy. The type of housing and residents the city wants to attract and how to attract those needs to be identified. The demographic information helps identify where there is a gap. The city is in need of more young adults and kids to support schools and the work force. The fear of being "politically correct" prevents commissioners and council members from asking the question and it seems that the answer is needed in order to define the programs that should be in place.

A comment was made that reasons why the city wants to attract a certain age resident need to be established.

Wischnack stated that information will be brought back to the EDA, and more work plans and strategies will be discussed.

5. STAFF REPORT

Durbin gave the staff report, with items including the Southwest Transitway Station Area Study, the Southwest Transitway DEIS Study, Homes Within Reach, the Minnetonka Mills LISC study, and foreclosures.

6. OTHER BUSINESS

The next regular EDA meeting will be Monday, May 11, 2009 at 5 p.m.

Wischnack and commissioners discussed publishing contact information for EDA members.

7. ADJOURN

Wagner moved, Robinson seconded a motion to adjourn the meeting. All voted yes. Motion passed. The meeting adjourned at 9:07 p.m.