Cottage Grove
Where Pride and Prosperity Meet

MINUTES

COTTAGE GROVE CITY COUNCIL June 7, 2023

COUNCIL CHAMBERS
12800 RAVINE PARKWAY SOUTH

<u>SPECIAL MEETING</u> - 6:00 P.M.
TRAINING ROOM

1. CALL TO ORDER

Mayor Bailey called the Special Meeting to order at 6:00 p.m.

2. ROLL CALL

City Clerk Tammy Anderson called the roll: Mayor Bailey-Here; Council Member Khambata-Here; Council Member Dennis-Here; Council Member Thiede-Here; Council Member Olsen-Here.

3. AGENDA ITEM

A. Trellis Co. Workshop
Staff Recommendation: Receive report on revised project information from Trellis Co. and provide direction related to the proposed options provided by the City's Financial Consultants.

Gretchen Larson, Economic Development Director, stated in April 2022, Trellis Co. presented the preliminary plan to Council for the 52-unit affordable senior housing project at 7601 79th Street. This project now will have units at 30% and 60% of the Area Median Income (AMI); they've provided Council with the housing prices, and affordable housing for seniors in Cottage Grove is currently very limited.

As part of Trellis' proposed financing last April, they requested TIF assistance; Council approved that with conditions that the project keeps moving forward and there's another analysis done. As of this date, they have submitted everything necessary to our Planning Department for review for the Planning Commission meeting on June 26.

A memo from our financial consultants, Ehlers, was also provided in the Council packet; that shows that the TIF now being recommended is approximately $175,000, which is significantly lower than the initially approved $450,000. The difference is primarily due to HUD's rent subsidy program, Rental Assistance Demonstration (RAD). Use of that funding restricts the rents to deeply affordable. The $175,000 could be given as TIF or as a one-time, lump sum grant.

Dan Walsh, Vice President, Trellis Co., and Griffin Jameson, Project Manager, Kaas Wilson Architects, are both here, and they'll be happy to answer any questions; our Planning and Engineering staff teams are also here.

Mr. Walsh stated their goal tonight is to quickly reintroduce Trellis, share some project updates in the last year, talk about the funding gap, and highlight the design changes made after receiving Council's feedback. They still think the project fills an urgent housing need and are working hard to make a development of which you'll be proud.

Mr. Walsh stated Trellis is a nonprofit developer, focused on affordable housing. He reviewed their history and updated their number of units and properties. Even though they have a small staff on the corporate side, they are one of the largest nonprofit developers in the State of Minnesota. Their portfolio is mostly in the Twin Cities metropolitan area, but they're also scattered throughout Minnesota. They own their own property management company, which really lets them drive quality. Their guiding values are deep affordability and also stability; they're positioned for long-term resilience, and they make long-term investments in the communities where they're located. They never intend to sell their properties.

With their project in Cottage Grove, one change over the last year is that they're restricting the units to age 62 and older, instead of 55 and older. It's still independent living, but it will be a little bit of an older senior population.

Mr. Walsh displayed images of projects that they've done over the past few years, as well as images of the interiors. They use durable, high-quality finishes and systems throughout their projects; they work really hard to get amenities into projects that really matter to residents.

He stated they received their major funding award in the last year; the Washington County CDA awarded $8.2M. That was not the original source for which they applied, and the vast majority of the funding from the CDA is from their Federal pandemic recovery stimulus funds; they think it's actually better because it comes with a provision and is essentially project based Section 8 rent assistance. That means that residents, no matter what their income, will only pay 30% of their income towards the rent. So, that allows us to sustainably house a very low-income senior population. The CDA's allocation of that rent assistance is extremely valuable; it's also more flexible regarding which residents can qualify.

<u>Financing Gap</u>: Mr. Walsh stated in addition to the change in the rent subsidy source, the State legislature passed property tax reform this year. For affordable housing, our property taxes were cut by 2/3, which is valuable for projects like ours, to make affordable housing more sustainable. It makes TIF much less valuable, so we were able to take some of the property tax savings and add it to support a larger first mortgage; the gap went down due to the legislative change. A gap remains, and there are many major variables up in the air. Since receiving our major funding award, design is well under way. In the next month, before the EDA meeting on July 11, we hope to tie down the major variables in final construction pricing and the financing terms for the tax credit equity investor and the bridge loan lender and interest rates. The interest rate environment is against us, so right now there is at least a $175,000 gap; if the variables that we're currently working on land as we expect, there could be an additional

$200,000 gap, for a total of $375,000. They're going full steam ahead and will be working very hard between now and July 11 to tie down some of these major numbers in the budget. If things land as they do, they hope that the City will partner with them to resolve the gap and get the project over the finish line. He asked Mr. Jameson to walk through some of the design highlights.

Design Updates

Mr. Jameson reviewed major design updates since this project was before Council last year: Building Exterior: A notable comment we received last April was the desire to have the building exterior have a similar high-quality look and feel as the nearby Grove80 project. We wanted to find a balance and make the project feel texturally appropriate, so borrowed similar elements from the nearby project to help create a cohesive look in this neighborhood. We used an updated color palette, used similar neutral grays with accented warm colors that had a similar look to Grove80, but used more of a traditional approach to match the demographic of the building residents. Another strategy we used on this project was to create a similar dynamic and material transition on the building as the Grove80 project. Some materials he's referring to are bump outs on the corner of the building to create visual interest on the building, in addition to the vertical bays that project to create a nice rhythm in articulation along the street front. This is considered 360 architecture, as it happens on all faces of the building; so, it's not necessarily one primary façade. Main Entrance: Was also previously mentioned; this will be a four-story building, slab on grade, but in addition to corner articulation, they also wanted to modify the roofline of the building to also give it a little bit of variation. Building Interior: He displayed a sample of the typical floorplate of the building. There are common areas that include a fully staffed office space where management is available at all hours. They also have two small common areas, a community room and a crafts area, which offer some additional amenities and activities for the residents. Site Plan - Parking: The parking lot is located to the east; there was a flexibility request for reduced parking on this site. It is a senior project, and historically we've seen senior projects have about half the demand when compared to a market-rate apartment project. They've done their best to maximize the number of parking stalls on the site; there are 43 stalls for 52 residents.

Mr. Walsh added as a long-term owner, they look at that closely because they want to get it right as much as the City leaders. This site is helpful because of the nearby amenities, the DARTS route, and it's in an accessible location. Particularly, they see the 30% AMI senior residents, who primarily live on Social Security and Medicaid, tend to drive a lot less; they find the most important thing is the accessibility of Metro Mobility, so that's what our management company works to accommodate. They feel like this is the right size and a good fit, but it's a critical issue on which City Council needs to give us feedback.

Mr. Jameson stated their goal is to build a building that fits into the neighborhood and of which the City is proud. That concludes their presentation, and they'd love to hear any questions or feedback in anticipation of going before the Planning Commission and EDA.

Council Member Dennis asked them to share the reasoning or philosophy in going from age 55 to age 62; it seems to him the older the residents, the less likely they are to have people who need parking, like a family member who is in Assisted Living.

Mr. Walsh replied to be totally honest, it's a requirement of the funding. They got the Federal pandemic stimulus funds, along with this allocation of RDA, and it basically comes through HUD; the HUD definition of senior is 62+, so, that's the reason. They also have several HUD financed 62+ independent living developments, and we find that it can create a more cohesive community. When the CDA came to us with the proposal of this different funding source, we saw it as a benefit, because for a site in this context, it can even create a more focused senior living community. So, we saw it as a benefit, and it formed the way we approached when we kicked off design.

Council Member Khambata stated with the 30% AMI, a studio would rent for $652 a month. Every year when HUD renews their data, those rates change; he asked how drastically they see those rates fluctuate on an annual basis.

Mr. Walsh replied that 36 of the units will have the project-based rent assistance; what that means is even if the rent goes up, the residents' portion that they pay will only change if their income changes. So, if they get a new job and are making $10,000 more a month, it's capped at 30% of the rent, but it might go up and down with the income. The remaining units have seen on an average 2% per year, but in the last year in Minnesota rent income limits went up 5%. They would honestly welcome some sort of language in any sort of TIF agreement or funding source that the City provided; they're also working with the CDA, the major funder on this, to limit rent increases. The rents for the rent-assisted buildings go up per a HUD formula, between 1.5% and 2% a year; that is also what we generally target for the 16 non-project-based rent assisted rents.

Council Member Khambata asked what target rate would they be amenable to if we were to attach a condition like that to the TIF.

Mr. Walsh replied he would say between 3% and 5% but would like to get back to him on that question to make sure that he's not getting in trouble with a funder; Council Member Khambata agreed, and stated his concern would be that we wouldn't want to stifle financing as lenders can be sensitive to that. However, we've heard from members of our community that other facilities are seeing a 12% increase, which was the maximum allowed for those rent agreements. That was detrimental for the renters because their Social Security did not increase by 12%, so it kind of put them in a little bit of a crisis scenario that they're having to navigate. He would want to be proactive, to avoid another scenario like that. Mr. Walsh stated he was aware of those developments where that happened and is aware of the broader issue. Mr. Walsh stated in all genuineness that he feels like we're on the same page; he wants to make sure that he doesn't hit a roadblock with the funders, but as an organization, we would never want to do rent increases like that, which might put people out on the street. If we can work with staff to come up with something that's going to thread that needle and put it before you, he feels like we're on the same page.

Council Member Thiede asked relative to the gap, what kind of demand have we seen on this property; has anybody else asked about this property. If we allow this TIF, that's going to take resources, so he just wondered if other people were still asking about this site.

Director Larson stated that we've had several people ask about the property, but most of whatever has been suggested wasn't going to work for them; she noted it's a very tiny piece of property.

Mayor Bailey stated prior to Trellis Co., there was another affordable option that was going to be there, but their funding did not go through.

He stated that with TIF, whether on our end or your end, there are more financial administrative things that both of us must do. Through this most current State legislation, there is some money that was forwarded to the City of Cottage Grove, but he doesn't know the exact amount; City Administrator Jennifer Levitt stated it was about $187,000. Mayor Bailey stated that is to be used specifically for affordable housing, so if we're in the range of $175,000 or so, his opinion is we should utilize that money for this project. He thought we should do that instead of either tapping EDA resources or going to TIF; the amount is not hugely significant, but he doesn't know what Council's thoughts are on that. He just wanted to throw that out there for discussion.

Council Member Dennis concurred that we use that money for that opportunity. We've all very recently been approached by some community members who spoke before us about the challenges that they face relative to rent increases. So, if we have somebody who's willing to come in and provide an opportunity and more options, maybe competition could spark a lot of good things.

Mayor Bailey stated he would like to see us come to some agreement with Trellis; as part of the whole package, we could talk to the public, and Trellis would stand out in front and say yep, we have this agreement, here's what the cap is, there isn't going to be this big fluctuation.

Council Member Khambata stated yes, in our budget, $187,000 is an insignificant amount of money, but he'd worked with another developer to try to put a project like this together. Every dollar of that funding is important, so from their standpoint, he thinks our help is valuable. If they're agreeable to seeing a reasonable cap on annual increases, we can take that back to our constituents and let them know that we've addressed their concern and can still get a project like this off the ground. He thought everyone wins.

Mayor Bailey stated to be clear, that amount of money is not insignificant; he was sharing that from an amount that would be TIF. It would be a lot of paperwork on our end and on their end. It also ties up the taxes collected for that period of time.

Council Member Dennis stated our Council, some time back, went on a tour in St. Paul; at this stage in the game, everyone is smiles and handshakes and trying to get a deal done, but we deal in good faith. That organization laid out we only do this amount of percentage of increase per year, but in reality, it ended up being much more. Along with this, as part of our due diligence process, if they could provide us with an amalgamated version or report based on the properties that they own, a snapshot over the last three years of what their average increase was across the board. That could be part of the justification for mapping this out. Again, it's not that we don't trust you or have a great feeling, but we have previously been told our organization does it this way, and then all of a sudden, this happens. So, that would be a beneficial piece to add in.

Mr. Walsh stated he really appreciates that, and they will get their accountants to verify it so you will know; he thinks Council will like the number.

Council Member Olsen stated projects like these are really important, there are many people who need that support, and we all know that. We also know that it's a business, and you're not here out of the goodness of your heart; this is a business, it's what you do to make a living. It's just a question of how do you put the numbers together in such a way that everybody sort of wins; one way to do that is how you balance the rent structure within the unit or within the market. He certainly appreciates the conversation about capping rents at a certain level, but the reality is there are going to be attorneys out there who are going to say, well, wait a minute, you can't put that in writing. We've been down that road with Dominium before and some other developers, so we need to make sure that on our end any documentation is written in such a way that it is essentially bulletproof, from a legal standpoint, and so do you. In a perfect world, it would be great if we could do the capping at 3% or 5%, but we must make sure that all of the people behind the scenes, including the financers, etc. sign off on that. In order to achieve that, you're telling us that there's a financial gap that you need us to partner with you on in order to make your project feasible. The financial gap that we read about in our packet is in the range of $175,000. We have this opportunity through some additional funding granted us by the legislature to potentially help you bridge that gap; in that scenario, he thinks everybody ends up happy. You also said that you're running some additional numbers that could result in an additional gap of up to $200,000; he asked how he sees overcoming that gap, because we don't have another $200,000 to give you.

Mr. Walsh replied that's a good question. They're working with the CDA, and are also just really going to be hammering on our financing partners; they're potentially looking at working with the Greater Minnesota Housing Fund as a lender, as they also may have some additional funds. They're working full steam ahead, pushing the design forward, and doing everything to lock everything down, but they also know that this is a deeply affordable project. It's also not the largest project ever, and so there's more limited levers they can pull. So, they're just asking all of our partners to just help us get to the finish line.

Council Member Olsen asked when they anticipate they'll have all of the data that they need from these other entities that they're talking to before they're going to come back to us; he asked if they had a specific date.

Mr. Walsh replied the final construction pricing should be in next week, so the goal is to have all the data they need before July 11. They want to have signed financing term sheets that are solid, want to have the final construction number, and want to move forward with the conversations with the CDA, depending on how those final numbers land.

Council Member Olsen stated so you're going to have a final project cost, which will kind of be written in stone, so then you'll know what your gap is; then you'll have the ability to talk with these other entities with whom you're working in order to bridge whatever the additional gap may be, above and beyond the $175,000 that we read about in our packets. He asked if that was accurate. Mr. Walsh replied that is correct.

Council Member Olsen asked what is the likelihood you think you'll end up coming back to the City, saying we need some additional consideration; he asked Mr. Walsh if he knew that.

Mr. Walsh stated now, if these variables land how they expect, they think there will be an additional gap over the $175,000; so, they would ask Council to think of other possible ways to help us plug a portion of that debt.

Council Member Olsen stated the math equation starts with your construction cost; Mr. Walsh agreed, that's a big number. Council Member Olsen asked if they'd already analyzed their building materials and all of those sorts of things to find out if there's any flexibility within the scope of that cost.

Mr. Walsh replied yes, they will get the final number in a week or so, and then that will give them a couple weeks to see what flexibility they have. Frankly, they're also really attuned to the percentage of Class I materials that they know is important to Council; it's not yet at the 65%, but it's higher than it was last year, now at 50%. He feels like they've worked hard to increase the percentage but still have the rhythm and the symmetry that feels good to us, but it's certainly driving the cost.

Council Member Olsen confirmed it's expensive, it's something that virtually every developer brings to us; that's how you're potentially going to manipulate your construction costs to some degree. Mr. Walsh stated he's going to try really hard not to come back to Council and say I need to take it back down to 45% or less. Council Member Olsen stated he felt that conversation is going to need to happen one way or the other. It's probably a better conversation than well, I can keep it at 50% Class I materials, but I'm going to need an additional $200,000 from you.

Council Member Thiede stated this may not be relevant anymore, but he knows that at one point Dunkin' was going into the property next to there, and there were challenges with the driveway in and out. He always looks for cooperation between neighbors, but he didn't even know if Dunkin' was considering that site anymore.

Mayor Bailey stated they own it, and staff had a meeting with them today.

Council Member Thiede asked if there was any cooperation, the fact that we're actually at this point, or if we're looking at the design and so forth.

Administrator Levitt replied obviously we always look at ways that we can potentially do a cross parking easement; the challenge that we have with the site is the way Dunkin' would position itself, Dunkin's drive-thru would be adjacent to their lot line. So, there would be no real synergy and opportunity for that cross-parking easement, including those to integrate.

Administrator Levitt stated we have a couple of time-sensitive items: Architecturally, they've obviously made a Planning Commission application, and they're at 50%. So, right now, they need a variance from the 65%. So, staff needs to know if Council is accepting of a variance or would you like to hold fast to the 65%, because that is obviously going to the Planning Commission and would dictate that.

The other thing that comes to us if we do the $175,000 cash, that's a business subsidy; it's a simpler agreement that we draft, and it would go to the EDA. If you're desiring to set up a TIF, and they're looking to add additional dollars beyond what we have available to us, does the Council have an appetite to do TIF. So, we kind of need to know those things to figure out how to actually time this project with their desires to break ground.

Council Member Olsen asked Administrator Levitt what her preference would be; if it's $175,000 and you have a plan that can cover that, it's simple. But if it's not that, if it's $375,000, TIF might be the right approach.

Administrator Levitt replied she would always prefer to take the one-time lump sum subsidy so that we're not impacting from a TIF perspective. But if it exceeds the value that we receive from the legislature, then she thinks you'd have to go with the TIF option for that.

Council Member Khambata asked to be reminded what Trellis Co.'s original ask was when they were before us last year:

Mr. Walsh stated he thought it was $498,000; Administrator Levitt stated Council approved $450,000.

Council Member Khambata stated we were amenable to TIF in that amount, and we didn't have the grant money then.

Council Member Olsen stated we also gave them flexibility with their building materials.

Council Member Khambata stated so if we give them the flexibility they need on materials, that might be able to reign in those costs a little bit; additionally, there's the intrinsic value of having affordable housing in Cottage Grove, which we lack. He thinks the $175,000 grant is a good start, but then there are the financial implications of having to administer the TIF. He asked if Trellis was open to that if we need to come up with additional funds because that does seem like the most likely way of achieving that additional funding. Mr. Walsh replied, yes, certainly.

Council Member Khambata asked from a practical standpoint, if we're going to run TIF, does it just make sense to do it for the whole amount.

Council Member Olsen asked what we did with Grove80 in terms of their building materials; he thought we'd made some concessions there. Administrator Levitt replied she believed we were at 42% or 43%.

Mayor Bailey stated they obviously already tried to change some color schemes, etc., and we talked about this a little bit this morning. They're 42% or 43%, Oppidan is similar, and then Norhart is 65%. So, if they can make it look good, the only thing he'll ask up front is if they're using materials that are going to weather, what is their replacement plan. Because the worst thing they could do is create a beautiful, affordable building today, and ten years from now its peeling, things are falling apart, or something. If it's 50% or somewhere in that range if that would also help you a little bit; he's not concerned because we've already done it.

Council Member Olsen stated he felt we should be consistent; frankly, the CDA does that with several of the facilities they operate. They use different materials to bring the costs down, but they're also very dialed in on ongoing maintenance and making sure that things are painted and well taken care of; what you don't want is you don't want to create something that stands out in a bad way. He thought they were sensitive to that, too. From his position, he would be open to dialogue about how they can adjust some of the building materials without sacrificing a great deal of quality or aesthetic appeal but bring your construction costs down to help you bridge that financial gap, whatever that might be. He can't speak for anybody else.

Council Member Thiede stated he feels the same way.

Council Member Khambata stated he's in agreement for the variance for Class I materials. He's in agreement with the grant, as long as they're open to TIF for additional funding, if it should be needed.

Council Member Olsen stated we potentially may be pushed into a no choice situation there.

Council Member Khambata stated he thought the question for Council is are we okay with doing the grant and TIF if necessary.

Mayor Bailey stated he doesn't know, he doesn't think so; if you're going to do a TIF, you do it all. Then we can figure something else out for that grant money, but he'd prefer just to use funds than go with the TIF.

Council Member Olsen stated he thinks we all agree, it would be nice to just bridge the gap using existing funds.

Mayor Bailey stated let's let them figure out their numbers and work with our staff; he doesn't have an issue with the parking.

Council Member Khambata stated for his 20%, he would like to see some sort of contractual cap on any more rent increases as part of this. If it's an affordable housing project, and there are Federal dollars attached to it, there can be under certain circumstances.

Council Member Olsen stated if there are Federal dollars attached and TIF agreements attached, we saw what happened, so let's learn from that.

Council Member Khambata stated he thought in Dominium's case, 12% was the agreed-upon amount; so, Dominium just exercised it because the market permitted them to.

Council Member Olsen stated we have to be careful; we really want to make sure of things.

Council Member Dennis stated the more contribution we make, the stronger our requirements could be, too. So, it's got to be commiserated. He would consider with the Class I materials looking at which sides of the building are going to be forward facing and have the highest visibility; if there's something on the back side that can be scaled back, that's probably what he would suggest. Maybe they can provide us with some numbers that show a reduction from 50% to 45% or from 45% to 40%, what those dollars actually mean; then we can see where that gap can be contained.

Council Member Olsen stated Grove80 turned out beautifully, and whoever put that together did it in such a way that you really can't tell. So, hopefully, we can see something similar.

Administrator Levitt stated she heard them saying don't go below that 42% range that was equivalent to Grove80.

Mayor Bailey stated we should be consistent in that area. As we talked about earlier today, in your conversations with Dunkin', with the plans for that center, making sure there is a theme; if they're going to have a nice look, he doesn't want a crappy looking building next door.

Council Member Khambata stated he thought Grove80 demonstrated that a 42% Class I material can be aesthetically appealing; Council Member Olsen agreed.

Mayor Bailey stated he also thinks where it's located is key, compared to the other one that's going to be higher, as that's in a different area of the community. So, if they were building a project off of Hadley or out in the Ravine Parkway, he would say that's a different scenario. As we're along this area, with similar type architecture and design standards, he thinks we're good.

Council Member Olsen asked if the Dunkin' building has been dealt with, taken care of, or if it's all mapped out, as he understood there was a conversation today. Mayor Bailey stated he didn't know if staff wanted to share; he wasn't part of the conversation today, he just saw the first schematics.

Planner Schmitz stated we chatted with the property owner, and they are navigating how to improve the drive-thru access. We met with them, too, about perhaps an additional access, but we'll go through that later.

Council Member Olsen asked if they were on track for this year; Planner Schmitz replied that's their very strong hope.

Mayor Bailey stated the design has changed from what we saw when it was initially approved. Since Dunkin' is going to be there, the schematic design he saw today shows a higher façade on that end, from a tier standpoint, from what Trellis is proposing. Our goal was the landscaping and the monument sign; as Administrator Levitt reminded him this morning, we approved them last year for the sign improvement, so they have an option for $25,000 to help with that.

Council Member Olsen stated we also put the onus on them for some upgraded landscaping, so he assumed that was part of the conversation; Mayor Bailey confirmed it was.

Council Member Olsen stated if we get both of these projects to come together and there's some synergy there, that will really spruce that up.

Mayor Bailey told Mr. Walsh they'll have at least one nice partner next door to them; Mr. Walsh replied that's exciting and thanked the Council.

4. ADJOURNMENT

The meeting was adjourned at 6:50 p.m.

Minutes were transcribed by Judy Graf, reviewed by Tamara Anderson, City Clerk.