

**MINUTES OF THE CONCURRENT MEETING OF THE MOUND CITY COUNCIL AND
MOUND HOUSING AND REDEVELOPMENT AUTHORITY**

August 15, 2018

The Mound City Council and Mound Housing and Redevelopment Authority in and for the City of Mound, Minnesota, met in concurrent special session on Wednesday, August 15, 2018, at 6:00 p.m. in the council chambers of the Centennial Building.

Members present: Mayor/Chair Mark Wegscheid, Council Members/Commissioners Kelli Gillispie, Jennifer Peterson, Jeff Bergquist, Ray Salazar

Members absent: None

Others present: City Manager and Director of Public Works Eric Hoversten, Finance Director/Clerk/Treasurer Catherine Pausche, Community Development Director Sarah Smith, Administrative Assistant Rebecca Kress, Tom Bakritges, TQ White II, John Smyth, Robert Sandom, Scott Gates, Rick Manion, Joe Harrison, Cate Fossing, Sheri Buesuter, Bob Stevens, and Ann Eberhart

1. Open meeting

Mayor/Chair Wegscheid called the meeting to order at 6:00 p.m

2. Approve agenda

MOTION by Salazar, seconded by Bergquist, to approve the agenda. All voted in favor. Motion carried.

**3. Council Action: Approve minutes:
-March 13, 2018 concurrent meeting**

MOTION made by Salazar, seconded by Peterson, to approve the March 13, 2018 concurrent meeting minutes. All voted in favor. Motion carried.

-July 24, 2018 concurrent meeting

MOTION made by Salazar, seconded by Bergquist, to approve the July 24, 2018 concurrent meeting minutes. All voted in favor. Motion carried.

**4. HRA Action: Approve minutes:
- March 13, 2018 concurrent meeting**

MOTION made by Salazar, seconded by Peterson, to approve the March 13, 2018 concurrent meeting minutes. All voted in favor. Motion carried.

-July 24, 2018 concurrent meeting

MOTION made by Salazar, seconded by Peterson, to approve the July 24, 2018 concurrent meeting minutes. All voted in favor. Motion carried.

5. Catherine Pausche, Director of Finance & Admin Services, requesting discussion on a purchase and development agreement with Mound Harbor, LLC to build a townhome development in the Mound Harbor District and requesting the following actions:

Catherine Pausche, Director of Finance & Admin Services, presented Tom Bakritges who is the Vice President of Land Development for Homestead Partners. Bakritges stated that Homestead Partners is a residential land development firm that is affiliated with JMS Custom Homes. Bakritges said the Mound Harbor townhome development will create a synergy and will maintain the connection between the downtown businesses and the lake area. Bakritges went on to describe the proposed site plan,

which includes 2.3 acres of the 6 acres available in the area, or about 38% of the total area. Bakritges pointed out that there will be considerable green space kept available adjacent to the townhomes including an area for a possible restaurant. Bakritges stated that the project is for 21 townhomes, removal of Auditors Road, with the townhomes orientated to face either green space or the lake area. All garages would be facing inward with numerous pedestrian connections allowing for walkability to neighboring businesses and amenities. This development would target active adults and each property would include 2 parking stalls with an option for a third tandem garage. There would also be 11 guest parking stalls around the area. Bakritges said the time line would include 3 years of actual construction between 2019 and 2022 assuming that the land use approval process begins in September 2018. The goal is to start construction in March of 2019 and have a model in the Parade of Homes by August 2019.

Bakritges added that the most significant demographic trends affecting demand for housing in Mound include the baby-boom generation/empty-nesters that are looking for greater flexibility and relief from exterior home maintenance and young to mid-age households looking for maximum flexibility that a rental option can provide, but noted that these townhomes will be owner occupied only. Bakritges stated Maxfiled Research did the City's market study in 2013 and Homestead had them update the housing market data as of August 2018. Bakritges noted the values have gone up in all of the categories.

Gillispie asked why The Regatta in Wayzata should be considered a comparable property. Bakritges stated that would be explained as the presentation continues. Bakritges showed an analysis by Metro Study out of Chicago, that looks at active and future projects for condos, townhomes, and twin homes in an 8 mile radius around Mound. Bakritges said that based on the data, this area is prime if the right product is built in the right location.

Gillispie stated that she had requested this market analysis by Monday at noon, but what she received was something different. Gillispie stated that the information provided should not be considered comps. Bakritges said that they do consider these comps, noting that properties on Lost Lake Lane have sold during the past year for \$619K, \$640K, \$667K which he considers the best comps, but that one needs to look at a larger radius as well. Gillispie asked who the target market is and Bakritges said active adults which include people over the age of 50. Gillispie said that Mound does have growth in the 55+ market, but questioned whether two flights of stairs for this market makes sense. Bakritges stated that was end of his presentation and thanked the Council, Staff, and the public present for their attention.

Pausche addressed some of the recurring themes Staff is hearing in the social media discussions. Theme 1 is that some have asked is if the Lost Lake Slips are being sold to the developer. Pausche stated that the City will continue to own all 61 slips, 14 transient and 47 overnight which generated \$77K in revenue in 2018 that helps to fund past/future expenses. Pausche said the new townhome owners will be given first right of refusal on one slip in order to increase the value of the development/tax capacity, similar to the Villas on Lost Lake. Pausche pointed out the 14 transient/day slips are the ones that surround the harbor. Theme 2 heard in the community is that the City should focus on bringing businesses to the downtown and questioning why Mound can't be more like Wayzata or Excelsior, to which Pausche said that the Harbor District was created prior to the recession, when development was booming and before the internet transformed retail, and Welsh Properties was marketing the area to no avail. A major restaurant chain initially showed some interest, but their market study showed that Mound could not support a lunch crowd due to not enough density of population and the area not being on a major thoroughfare. Pausche went on to say that the City commissioned a market study in 2013/2014 to determine what is feasible for this area and that it was concluded more commercial space could not be supported without putting stress on existing businesses in the area. Pausche noted Wayzata and Excelsior are the gateways to Lake Minnetonka for much larger communities such as Minnetonka, Plymouth, and Chanhassen. Theme 3 heard around the community is that the proposed purchase price for the 2.3 acres with lake access is too low, to which Pausche said that since the recession, the only proposals received were for high-density/3 stories senior living or

apartments with 70-120 units+ and some commercial. Pausche said the City felt that did not fit the vision for the area and that the community did not want that level of intensity. Pausche went on to say that the RFQ was sent to 83 luxury home builders and affiliates and 4 responses were received and 2 were selected for interviews and that the three responses had comparable values for that land. Theme 4 heard was that "Market Rate" is another word for affordable and these townhomes will not be luxury. Pausche stated that this development will be completely private with no public assistance, which is typically involved in creating affordable housing. Pausche also pointed out that the City maintains control throughout the development through the land use approval process. Theme 5 heard is that the area should be kept as a public gathering space for public enjoyment and Pausche said that is precisely the reason the City said no to the high density proposals. Pausche said this is a compromise to create some tax value while keeping green space available for public enjoyment.

Pausche reviewed some alternate language that was discussed with the Development Committee but that did not make it into the agreement. Pausche stated a request was made that the purchaser provide an affidavit of individual ownership which basically means the purchaser would disclose who the full ownership group is. The developer's attorney stated that the LLC created would be an affiliate of Homestead Partners but would not name individuals for personal liability reasons and noted that listing individuals is not a common practice. Pausche stated "clawback" or a right of first refusal provision was discussed early in the negotiations that would allow the City to take control back if for some reason the developer stopped progress, but noted it would be subordinate to the lender. The developer's attorney said it would still limit their ability to get financing and also didn't feel this was a common provision. Pausche said the City Attorney admitted there is not much teeth once it was subordinated, so Staff pursued language to create milestones, financial incentives, expectation that the development described in the response to the RFQ is what will be built and that JMS will be the builder and, lastly, a requirement for the City to approve any subsequent sale, all of which were included.

Mayor Wegscheid invited anyone in the audience to ask questions or make comment.

TQ White, resident of 5004 Three Points Blvd, stated that he had entered the last meeting very against this development idea but left feeling like it could be good for the City. White also stated that some clarity was needed in regard to the non-housing portion of the area. White said he is also concerned with the City using up the last chunk of unoccupied property in the commercial area for residential options. Mayor Wegscheid the commercial situation in Mound is due to the lack of population to drive more commercial use. Wegscheid also stated that in all the time that this area has been vacant and in all of the offers and options that have come forward over the years, this is the best most viable option to date. Wegscheid said the City can always wait for something else to come along or the City can do something and noted that this option is a great way to make the space useful while still keeping green space.

Joe Harrison, resident of 5625 Grandview Blvd, said for what the City is selling the land for a movie theatre could be built or something that would draw more people out to this area. Wegscheid said that no matter what the City does with the area, there will always be someone to come later with other options and ideas. Harrison also asked why the City can't bring developers in and replace the Williams Building on Commerce. Gillispie stated there is nothing the City can do with those properties since they are privately owned so the owners would need to step up and make a move to better the property.

Mayor Wegscheid stated that a short adjournment is necessary to change the recording equipment and resumed meeting at 7:00 pm.

Scott Gates, resident of 4379 Wilshire, said that the City's intentions are great and JMS Homes is a quality builder but questioned why there was such a rush with a project of this nature. Wegscheid said that this project has been in process for quite some time. Gates stated that the cost to residents to continue to support the debt would be somewhere around \$4-10 per year per resident to the best of his knowledge in looking over the numbers. Mayor Wegscheid said that he appreciated Gates' efforts to understand the numbers and how they land for this project. Wegscheid also stated that it isn't just

about the numbers but also about the intangibles pertaining to this project, including bringing more population to Mound which will help the businesses in Mound thrive. Wegscheid said the City needs to look beyond the numbers and look at how this project will benefit the community as a whole and the bigger picture for the prosperity in Mound. Gates asked if the City would entertain taking more time to make sure that this project is the right project for Mound. Mayor Wegscheid said that the City has spoken to many developers with vertical mixed-use project ideas over the years and nothing has been as well rounded as the current project on the table. Peterson asked if Gates is suggesting a rental property for the Harbor District and Gates confirmed he thinks that is what the area needs. Peterson said that according to the feedback from the community, Mound already has too much rental property and that the community is asking for something different like owner occupied properties. Gates said that the purchase agreement that is on the table is great for the developer. Gates said that the bottom line is the City has one chance to take a direction with this property and he hopes the City takes time to make sure this is the right project for right now.

Salazar asked Gates to confirm that he stated that more rentals are needed and that the City could consider a multi-unit building with ghost platting for commercial or residential. Gates confirmed that he thinks vertical rental development with some retail is the way to go for this property. Salazar stated that these types of projects were considered and he thinks since this property is the crown jewel of Mound, putting in a high-rise building would be an eye sore. Mayor Wegscheid said that these suggestions take the conversation back about four years as the Council has already weighed these options out in the past and it was determined that vertical mixed used was not desirable for this area.

Robert Stevens, resident of 5471 Lost Lake Lane, said he decided to move to Mound because all of the amenities that Mound has to offer. Stevens likes the concept but questions why the developer will need 48 months do build 21 units. Stevens added that the most valuable asset to Mound is the green space and that City should not build the restaurant. Mayor Wegscheid asked Stevens to guess how many parks Mound has currently. Stevens guessed that there were 6 public parks. Mayor Wegscheid stated that there are actually over 30 parks in Mound. Stevens noted that since he has moved to Mound, the Staff of Mound has been very accommodating and helpful as new residents.

TQ White, resident of 5004 Three Points Blvd, asked what are the benefits to the tax payers in the community since the tax increase is really only a few dollars per resident in the grand scheme of things. Mayor Wegscheid said that in the recent past there were residents that were concerned about a \$1 or \$2 increase on water bills. The Council needs to be mindful of those residents who may be on fixed incomes and/or limited resources that would be negatively impacted by a few dollar increase in taxes. Mayor Wegscheid added that the community will benefit by development in the community that increases property tax and utility revenues.

John Smyth, resident of 4846 Wilshire Blvd, thanked the Council for taking comments on the subject, and said that he is concerned about the loss of transient docks. Smyth added that those docks could bring in an anchor tenant in the restaurant area and could really bring a lot of traffic to Mound. Mayor Wegscheid said that if the free market results in a restaurant in the area the restaurant will have to compete for business with other restaurants and that the City should not go out of its way to support a specific business that directly competes with other already established businesses in the community. Gillispie said there is a bit of a misconception on the restaurant portion of the development and that the concept plan continues to put aside an area for a future restaurant. Gillispie added that meetings were held with potential restaurant/breweries but that having to build from the ground up is not seen to be financially viable. Smyth reiterated that Mound needs visitors and not necessarily residents.

Mayor Wegscheid stated that a short adjournment is necessary to change the recording equipment and resumed meeting at 8:00 pm.

Mayor Wegscheid asked for comments and discussion from Council. Peterson said she heard a lot of positive feedback and comments from the community and noted there has been a void of properties in this price range in Mound to this point. Wegscheid urged anyone to look online to view the past

conversations regarding this process. Peterson said that the City has been working on concepts for this property for years and each time those concepts didn't stick so it is nice to have support from the community on a project. Bergquist asked Pausche when does the property go back on the tax rolls and Pausche stated 2022, or 15 years past the purchase of the property. Pausche noted the TIF District doesn't expire until 2031 which means the City would get 100% of the tax increment until 2031 which will help to pay back the debt and reduce the levy. Bergquist said the land has been vacant since 2006 and most of the constituents are not in favor of apartments. Bergquist added that the green space is there because it has been undeveloped up to this point, but it is not considered a park. Bergquist said this project was designed so the community can have the best of both worlds. Salazar thanked the public for their comments. Salazar said that high rise condos or apartments are not appropriate for the area and retail on the first floor is just not viable, noting The Mist in Spring Park which has a lot of empty commercial space. Salazar said that he has been on the council for 10 years and nothing has come to light as a viable project for this area in all of that time until now. Salazar added that this is a good project headed in the right direction, however the contract does have some issues heavily in favor of the developer. Wegscheid stated that the development committee didn't have time before the last meeting to go over the contract at length which is part of the reason it was tabled for this meeting. Gillispie stated that while due diligence has been done, she is not comfortable with the purchase agreement at this point and that she wants the affidavit of individual ownership in the agreement. Gillispie said she questions the market analysis and viability of this project based on the research she has done. Peterson said it is very common that purchases are made with an LLC instead of listing individuals for confidential reasons. Gillispie also stated that she requested the Clawback option in the agreement and without it the City would not retain control without it.

Mayor Wegscheid asked to have the developer address Gillispie's concerns. Tom Bakritges noted that milestones are defined and that a letter of credit will be given. Bakritges noted 4 months have passed since they were selected as the developer and that they have worked well with Staff to get the PA to this point. Bakritges stated that they cannot move forward with the Clawback because lenders will not support it. Bakritges added that it is their intention to complete this project from start to finish. Bakritges said that if this gets approved then the entitlement process can start and the plans would begin to take shape. Bakritges also said that they would be purchasing the land at around \$330K per acre and that no one is buying land at that price. Wegscheid asked about the affidavit of individual ownership. Bakritges said that Mound Harbor LLC will be created but that individual names, except for the Board of Directors, are not listed because of privacy concerns. Gillispie said she has reservations about the RFQ process since the City only got a few responses. Gillispie expressed frustration with the time it took to develop the purchase agreement and the fact the development committee members were not consulted earlier in the process. Peterson said that this is pretty late in the game to have an issue with the process as the Council knew what was being sent back in December. Wegscheid asked the Council if it is a deal breaker if the Affidavit of Individual Ownership and the Clawback are not part of the Purchase Agreement and Gillispie said the Clawback is a deal breaker for her.

Salazar asked for Mayor Wegscheid's opinion. Wegscheid said Gillispie has some valid points and he can see both sides to the Affidavit and the Clawback. Wegscheid added that these items are not deal breakers for him. Gillispie said this PA is not the right one as it is worded and the Council has time now to re-evaluate the agreement. Salazar asked Gillispie if she liked the project and Gillispie said she does not think it is a viable project. Peterson said that this has been a long process and the Council has been privy to all steps in the process. Salazar said this is the 11th hour and he thought the Council was in agreement that this was a great project. Gillispie said she has been struggling with this for quite some time now and feels that 21 units is too many units and they won't sell. Peterson said that these are different properties than the Lost Lake properties at the same price point. Salazar said this is very late in the game to be unhappy with the whole project. Salazar and Peterson said they think this is a great project. Salazar asked why Gillispie didn't raise these concerns in December or anytime over the past several months. Gillispie said that she still hasn't gotten the data to support the market analysis. Gillispie said that the development committee wasn't able to negotiate and dig into the project since Staff did much of the negotiating through this process. Salazar said that this needs more time for review and the development committee needs to look at this in more detail before Council acts on this.

Peterson said that the developer gave us what we asked for and they have presented that to us. Bergquist said he likes the project but Gillispie does raise some questions on the contract that should be resolved. Salazar said he likes the project but he thinks that since Gillispie has some concerns with viability then this needs to be discussed and understood more. Peterson said that from what she heard from the developer, things won't change on their end. Salazar said anything can be negotiated. Peterson said that is fine but when there is no development in Mound there needs to be some thought as to what Council and the City are doing to these developers and people that come to town and try to bring ideas and concepts in and nothing is done.

MOTION made by Salazar, seconded by Gillispie, to remand back to Staff for further discussion by the development committee and for more clarification to move forward. Gillispie, Salazar, Wegscheid, and Bergquist voted in favor. Peterson voted against. Motion carried.

Pausche asked for clarification on a date that this will come back to Council. Wegscheid said by the end of the calendar year.

A. (TABLED) HRA Action: Action on a resolution providing approval for conveyance of land in Mound Harbor District to City of Mound

RESOLUTION NO: 18- : RESOLUTION APROVING PROVIDING APPROVAL FOR CONVEYANCE OF LAND IN MOUND HARBOR DISTRICT TO CITY OF MOUND

B. (TABLED) Council Action: Action on a resolution approving purchase and development agreement with Mound Harbor, LLC.

RESOLUTION NO: 18- H: RESOLUTION APROVING PURCHASE AND DEVELOPMENT AGREEMENT WITH MOUND HARBOR, LLC

5. Adjourn

MOTION by Bergquist, seconded by Salazar, to adjourn at 8:45 p.m. All voted in favor. Motion carried.

Chair Mark Wegscheid

Attest: Catherine Pausche, Clerk