

BEMIDJI ECONOMIC DEVELOPMENT AUTHORITY MINUTES

Special Meeting – November 13, 2006

Pursuant to due call and notice, a special meeting of the Bemidji Economic Development Authority (BEDA) of the City of Bemidji, Beltrami County, Minnesota, was held on Monday, November 13, 2006, in the City Hall Conference Room, President Lehmann presiding.

Upon roll call, the following Commissioners were declared present: Lehmann, Markeson, Johnson, Erickson, Downs, Meuers, Hellquist.

Staff Present: John Chattin, Alan Felix, Ron Eischens, Kay Murphy-Schuett

Others Present: Jim Holmes (via telephone), Jim & Kathy Birchem, Jerry Capshaw, Mike Trossen, Ken Guttenick and Al Killian.

President Lehmann called the meeting to order at 5:30 p.m. stating the purpose of the meeting was to review a request for Tax Increment Financing from Jim Birchem, Eldercare of Minnesota, Inc.

Jim Holmes, Holmes & Graven, summarized the 1999 Birchem TIF stating that the BEDA entered into an agreement with Jim Birchem and Eldercare of Minnesota, Inc., (Eldercare) regarding the construction of a 52-unit assisted living facility. The City and the EDA agreed to reimburse Eldercare for \$410,000 of "qualified costs" incurred in the acquisition of the land and its preparation for construction. The reimbursement was through a "pay as you go" tax increment note, by which 95% of the increment from the new Eldercare facility over a period of 12 years was dedicated to the principal and interest on the note. In addition, Eldercare agreed to make the units available only to income qualified individuals.

Holmes then reviewed the proposed request by Birchem stating that Eldercare plans to acquire additional adjacent property and construct 32 assisted living units and has requested additional tax increment assistance in the amount of \$400,000. Holmes stated that the BEDA needs to address two issues (1) whether the EDA should subsidize this phase of the Eldercare campus and, (2) if so, the maximum term over which the increment should be pledged.

Lehmann asked what will happen on the 1999 TIF at the end of 12 years when the \$410,000 is not generated.

Holmes responded that the TIF was structured and the note provides that the City pays 95% of the increments that are generated over a 12 year period and it is what it is. While the original estimates prior to tax reform indicated that the City could pay a note of \$410,000 over 12 years at 8.75% interest, the fact is that the increment will pay something significantly less.

Erickson asked Holmes to elaborate on the requirement that 20% of the units have to be at or below 40% of the HUD area medium or 40% of the units at or below 60% of the HUD area medium.

Holmes responded that each year the Department of Housing and Urban Development (HUD) publishes medium incomes for the County. Minnesota Statute states that the owner of this facility has to commit that 20% of the units (7-8 units for a 32-unit development) have to be at all times held and available for persons earning no more than 40% of the HUD income.

Erickson asked that if these units have to be held out for HUD qualifications, does that mean that the rent has to be at HUD rental amounts?

Holmes responded that the test is that the rent has to be such that persons earning 40% or 60% of medium can afford it, paying no more than one-third of their annual income. In assisted living there is assistance, i.e., medical assistance, apart from the rent and that has to be separated from the rent.

Erickson stated that she has spoken with employees at County Human Services to find out about the GRH cap and medical assistance, etc., and she was informed that \$756 is

the GRH cap and that waivers are becoming difficult to get due to changes in state law. Erickson stated that her concern is for those on medical assistance and being able to meet the overall monthly cost. She stated that the information that was received from Birchem referred to low income housing but if individuals cannot meet those rents, they cannot be occupied.

Markeson asked who would be responsible for the other part of the \$410,000 that is not collected.

Holmes stated that there is no responsibility; it just will not be paid.

Erickson stated that Mr. Birchem would be making a five-year commitment and asked if the TIF would follow if the property were to change hands or become some other type of facility.

Holmes responded that the TIF note would continue to be held by Mr. Birchem. Mr. Birchem might sell that note with the sale of the facility but that would be his decision. Holmes further stated that the property has to remain rental housing and stay affordable by the "test" that is applied. The minute that stops happening, the City stops paying the tax increment or the City would be in violation of the State Statute.

Lehmann stated that the City's Business Subsidy Policy requires that for every \$25,000 of tax subsidy that is being received, one job must be generated.

Birchem responded that there will be 10-14 care attendants that will be full and part time positions.

Holmes stated that the City's Business Subsidy Policy purports to bring the City into compliance with the State's Business Subsidy Statute. The State Statute excludes or exempts housing from the business subsidy requirement. Holmes stated that a question that needs to be answered is whether the Council intended the policy to apply to housing, which they can do, or whether it was intended to follow the State Statute.

Felix pointed out that the City's Business Subsidy Policy does not include assistance for housing; therefore, the City's policy reflects the State Statute.

Erickson expressed concerns about this being a low income facility and asked Birchem how individuals on medical assistance would be able to afford to live in this facility.

Birchem responded that the monthly charge of \$2,500 to \$2,800 includes all the services. Therefore, the way it is broken down for individuals on medical assistance is \$737 for rent and the additional amount is for care. Discussion continued on assisted living, medical assistance and availability of staffing.

Birchem stated that the request is for \$400,000 or 15 years, whichever comes first. Holmes commented that the TIF is at 7% interest on a "pay as you go" tax increment note. Holmes stated that the interest rate is based on what could be gotten at a lending institution for a comparable loan.

Mike Trossen, architect, provided a handout showing the proposed design of the facility.

Discussion continued regarding the Beltrami County Housing Study and the need for additional units. It was noted that the Study presumed the proposed number would be built and that the number has been reduced since the Study.

Erickson asked if the BEDA could require a 50% occupancy requirement for medical assistance individuals. Holmes responded that there is no legal difficulty in requiring that 50% of the units would need to be occupied by those receiving medical assistance. He stated that over 15 years what changes in medical assistance may happen is unknown and may have to be dealt with at that time.

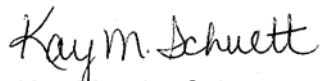
Consensus of the BEDA members was that the project should proceed and directed Holmes to prepare the required district formation documents and a development agreement for their consideration.

Birchem stated they are committed to a construction start date of spring 2007.

ADJOURN

There being no further business, motion by Hellquist, second by Downs, to adjourn the meeting. Motion carried and the meeting adjourned at 6:25 p.m.

Respectfully submitted,



Kay Murphy-Schuett
BEDA Secretary