Crystal (Minn.).
City Council Minutes and Agenda Packets.

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Version 3
August 20, 2018

SENT WITH PRELIMINARY AGENDA 3/29/85

Applications from Brutger Companies for variances for multi-family housing (5): site plan.

Planning Comm. minutes of 3/11.

Appli. of Jane Elsen for Tri-City Airport Comm.

Memo from City Engr. of 3/27 re bids for light tractor-mower.

Memo from City Engr. of 3/28 re surety substitution re Rostamo's (Mr. Bob's).

Expense report from Mayor Aaker.

Expense report form.

Memo to Councilmembers from Art Cunningham, Chair, Civil Service Comm. of 3/27 re rules & procedures.

Memo to City Mgr. and notice re Environmental Comm. workshop on energy and environment.

Letter from Dist. 281 re joint elected City official and School Board meeting scheduled for 4/11/85.

Newsletter.

Park & Rec. Adv. Comm. agenda for 4/3.

SENT WITH AGENDA 4/2/85

Memo from Community Development Corp. of 3/27/85 re proposed cuts in Federal Budget affecting Lower Income Housing sent to Council.

Travel expense report of Betty Herbes.

Labor Agreement with Local #44 (Police Officers) dated 4/1/85 in memo to Council from Ass't. Mgr.

COUNCIL AGENDA

April 2, 1985

Pursuant to due call and notice thereof, the regular meeting of the Crystal City Council was held on April 2, 1985, at 7:00 P.M., at 4141 Douglas Drive, Crystal, Minnesota. The Secretary of the Council called the roll and the following were present:

Councilmembers		Staff	
____	Schaaf	abs	Irving
____	Smothers	abs	Kennedy
____	Herbes	____	Olson
____	Pieri	____	Sherburne
____	Aaker	____	Peterson
____	Moravec	abs	Deno
abs	Rygg	____	Ahmann

Todd Gustafson, Steven Hart, Scott Southwick, Dave Downing, Russell McFarlane Investigator, David Boardwell, Susan Carstens Juvenile Spec., Linda Hart

The Mayor led the Council and the audience in the Pledge of Allegiance to the Flag.

Jim Mossey, Commander, Gary Olson

The Mayor presented commendation awards to officers of the Crystal Police Department for certain activities.

7:05

CONSENT AGENDA

1. Set 7:00 P.M., or as soon thereafter as the matter may be heard, April 16, 1985, as the date and time for the public hearing at which time the City Council will sit as a Board of Adjustments and Appeals to consider a variance to expand the non-conforming use at 4009 Douglas Drive.

2. Set 7:00 P.M., or as soon thereafter as the matter may be heard, April 16, 1985, as the date and time for the public hearing at which time the City Council will sit as a Board of Adjustments and Appeals to consider variances for the multi-family housing project in the Bass Lake Road/Becker Park area as requested by Brutger Companies.

3. The City Council considered setting May 4, 1985, 10:00 A.M. to 12:00 Noon at the Crystal City Garage, as the date and time for the Police Department bicycle auction in the City of Crystal.

Moved by Councilmember ____ and seconded by Councilmember ____ to remove items ____, ____ and ____ from the Consent Agenda.

Motion Carried.

Moved by Councilmember H and seconded by Councilmember M to approve the Consent Agenda.

Motion Carried.

REGULAR AGENDA

1. It being 7:00 P.M., or as soon thereafter as the matter may be heard, Mayor Aaker declared this was the date and time as advertised for the public hearing, at which time the City Council will sit as a Board of Adjustments and Appeals, to consider a request from Ronald Harrington for a variance of 3' in the required 60' lot width to build a 16' x 24' family room and a 12' x 24' deck at 4300 Brunswick Avenue North. The Mayor asked those present to voice their opinions or ask questions concerning the variance. Those present and heard were:

Moved by Councilmember H and seconded by Councilmember A to approve, as recommended by and based on the findings of fact of the Planning Commission, the authorization to grant a variance pursuant to Section 515.15, Subd. 2a) 1) to allow construction of a 16' x 24' family room addition and a 12' x 24' deck at 4300 Brunswick Avenue North as requested in Variance Application #85-8.

Motion Carried.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) Variance Application #85-8.

2. It being 7:00 P.M., or as soon thereafter as the matter may be heard, Mayor Aaker declared this was the date and time as advertised for a public hearing, at which time the City Council will sit as a Board of Adjustments and Appeals, to consider a request from John J. Day for a variance of 7,500 sq. ft. in the required 22,500 sq. ft. in lot area to allow the construction of Meineke Muffler Shop at 5259 Douglas Drive. The Mayor asked those present to voice their opinions or ask questions concerning the variance. Those present and heard were:

Moved by Councilmember _____ and seconded by Councilmember _____ to approve the authorization to grant a variance pursuant to Section 515.35, Subd. 4c) 4) to allow a variance of 7,500 sq. ft. in the required 22,500 sq. ft. in lot area to allow construction of Meineke Muffler Shop at 5259 Douglas Drive as requested in Variance Application #85-3T.

Motion Carried.

Moved by Councilmember H and seconded by Councilmember A to (deny) (continue until 2/4/85 PC the discussion of) Variance Application #85-3T.

Motion Carried.

3. It being 7:00 P.M., or as soon thereafter as the matter may be heard, Mayor Aaker declared this was the date and time as advertised for a public hearing, at which time the City Council will sit as a Board of Adjustments and Appeals, to consider a request from Dennis Persons, Crystal Linoleum and Carpet, for a variance in location of the barrier curb to 0' from the lot line in lieu of the required 5' from the lot line at 5430 Douglas Drive. The Mayor asked those present to voice their opinions or ask questions concerning the variance. Those present and heard were:

Loren Kinghorn

Moved by Councilmember ____ and seconded by Councilmember ____ to approve the authorization to grant a variance to locate the barrier curb 0' from lot line in lieu of the required 5' from lot line, at 5430 Douglas Drive as requested in Variance Application #85-11. Motion Carried.

Moved by Councilmember P and seconded by Councilmember M to (deny) (continue until _____ the discussion of) Variance Application #85-11. Motion Carried.

4. The City Council considered the continued public hearing regarding a request for industrial revenue bonds from Crystal Linoleum, 5430 Douglas Drive, continued from March 19, 1985 Council meeting. The Mayor asked those present to voice their opinions or ask questions concerning the request. Those present and heard were:

Loren Kinghorn

Moved by Councilmember P and seconded by Councilmember M to adopt the following resolution, the reading of which was dispensed with by unanimous consent:

RESOLUTION NO. 85-

RESOLUTION GIVING PRELIMINARY APPROVAL TO A PROJECT UNDER THE MUNICIPAL INDUSTRIAL DEVELOPMENT ACT: REFERRING THE PROPOSAL TO THE DEPARTMENT OF ENERGY, PLANNING AND DEVELOPMENT FOR APPROVAL; AND AUTHORIZING EXECUTION OF A MEMORANDUM OF AGREEMENT AND PREPARATION OF NECESSARY DOCUMENTS

sent 4/9/85

By roll call and voting aye: ____, ____, ____, ____, ____, ____, ____; voting no: ____, ____, ____, ____; absent, not voting: ____, ____, ____. Motion carried, resolution declared adopted.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) industrial revenue bonds for Crystal Linoleum and Carpet. Motion Carried.

5. The City Council considered the Second Reading of an ordinance rezoning property at 5430 Douglas Drive From ~~R-4~~ to PUD. (5 votes needed for approval).
R-4 - High Density.

Moved by Councilmember ____ and seconded by Councilmember ____ to adopt the following ordinance:

ORDINANCE NO. 85-

AN ORDINANCE RELATING TO ZONING: CHANGING THE USE CLASSIFICATION OF CERTAIN LANDS

and further, that this be the second and final reading.

Motion Carried.

Moved by Councilmember S and seconded by Councilmember D to (~~deny~~) (continue until 2nd Mtg the discussion of) the Second Reading of an ordinance changing the use classification of certain lands.

Motion Carried.

6. The City Council considered the appointment of Jane Elsen to the Tri-City Airport Commission.
Jane Elsen C 1 6.

Letter sent 43185

Moved by Councilmember S and seconded by Councilmember ~~S~~ to appoint Jane Elsen to the Tri-City Airport Commission.

Motion Carried.

~~Jane Elsen~~ C 22-e-6

7. The City Council considered the Second Reading of an ordinance vacating certain easements in Rolling Green Addition. (5 votes needed for approval)

Moved by Councilmember O and seconded by Councilmember M to adopt the following ordinance:

ORDINANCE NO. 85-7

Sent for publishing 4/3/85

AN ORDINANCE VACATING CERTAIN EASEMENTS WITHIN THE CITY OF CRYSTAL

and further, that this be the second and final reading.

Motion Carried.

Moved by Councilmember ___ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) an ordinance vacating certain easements within the City of Crystal.

Motion Carried.

8. The City Council considered bids for a light tractor-mower.

Moved by Councilmember H and seconded by Councilmember Jm to adopt the following resolution, the reading of which was dispensed with by unanimous consent:

RESOLUTION NO. 85-

RESOLUTION AWARDING A CONTRACT

By roll call and voting aye: _____, _____, _____, _____, _____, _____, _____; voting no: _____, _____, _____, _____; absent, not voting: _____, _____, _____. Motion carried, resolution declared adopted.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) a resolution awarding a contract.

Motion Carried.

9. The City Council considered accepting surety in the amount of $53,000 as a guaranty of faithful performance of certain work requirements in the condition of building permit approval for Frank's Furniture, 5419 Lakeland Avenue North.

A. Moved by Councilmember H and seconded by Councilmember A to accept surety in the amount of $53,000 as a guaranty of faithful performance of certain work requirements as a condition of issuance of building permit for Frank's Furniture, 5419 Lakeland Avenue North. Motion Carried.

B. Moved by Councilmember P and seconded by Councilmember Jon to (approve) (deny) (continue until _____ the discussion of) entering into agreement with Frank's Furniture for the purpose of guaranteeing faithful performance for certain work requirements as a condition of issuance of building permit for Frank's Furniture, 5419 Lakeland Avenue North, and further, to authorize the Mayor and City Manager to sign such an agreement. Motion Carried.

C. Moved by Councilmember H and seconded by Councilmember P to (approve) (deny) (continue until _____ the discussion of) the authorization to issue building permit for Frank's Furniture, 5419 Lakeland Avenue North, subject to standard procedure. Motion Carried.

10. The City Council considered accepting surety in the amount of $38,000 as a guaranty of faithful performance of certain site improvements for Rostamo's, Inc., 6014 Lakeland Avenue North.

A. Moved by Councilmember H and seconded by Councilmember Jon to accept surety of Rostamo's, Inc. in the amount of $38,000 as a guaranty of faithful performance of certain site improvments which were required of Nancy Snyder and Mary Schlenz at 6014 Lakeland Avenue North. Motion Carried.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) accepting surety in the amount of $38,000 for Rostamo's, Inc., 6014 Lakeland Avenue North.
Motion Carried.

B. Moved by Councilmember Jon and seconded by Councilmember M to (approve) (deny) (continue until _____ the discussion of) entering into agreement with Rostamo's, Inc. for the performance of site improvements at 6014 Lakeland Avenue North, and further, to authorize the Mayor and City Manager to sign such agreement. Motion Carried.

11. The City Council considered surety release in the amount of $38,000 for Nancy Snyder and Mary Schlenz (previous owners of Mr. Bob's).

Moved by Councilmember M and seconded by Councilmember A to release surety in the amount of $38,000 to Nancy Snyder and Mary Schlenz, and to excuse them from their obligation to complete site improvements at 6014 Lakeland Avenue North, as recommended by the City Engineer. Motion Carried.

~~11.~~ 12. The City Council considered the ratification of contract with Police Officers Local #44.

Moved by Councilmember Sm and seconded by Councilmember H to (approve) (deny) (continue until _____ the discussion of) ratification of contract with Police Officers Local #44. Motion Carried.

~~12.~~ 13. The City Council discussed possible Charter changes.

Sm A H O M

S = O G M E S - M O

Moved by Councilmember A and seconded by Councilmember M to approve the list of license applications. Motion Carried.

Moved by Councilmember H and seconded by Councilmember L to adjourn the meeting. Motion Carried.

APPLICATIONS FOR LICENSE

April 2, 1985

FOOD ESTABLISHMENT - Special Food Handling ($220.00)

Munch Box Snacks, 6840-20 Shingle Creek Parkway
located in several locations in Crystal

POOL- Outdoor ($66.00)

Lou Ann Terrace Apartment, 6048 Lakeland Ave. No.
Winnetka Village Apartments, 7710 36th Ave. No.

ITINERANT - Exempt

Knights of Columbus, Tootsie Roll Benefit, Two
Days only April 26-27,1985 at banks, grocery,
shopping center with owners permission.

GAS FITTERS - ($30.25)

Heins & Sons Plumbing

PLUMBING - ($30.25)

Harris Mechanical Contracting Company
Heins & Sons Plumbing

PEDDLER, SOLICITOR, TRANSIENT MERCHANT - ($5.00/day)

Eva Holeton - 36th & Highway 100 April 4-10, 1985. (7)
Alan Thompson - 6000 - 42nd Ave. April 4-8, 1985. (5)
Douglas Thompson - 3550 Douglas Drive April 4-~~8~~9, 1985. (6)
Evie Rader - West Broadway & Kentucky Ave. N. April 4-8, 1985. (5)
Edward Holeton - April ~~4-8~~ 5-6, 1985, Bass Lake Road & Hye. 169. (2)
16 + April 7

March 29, 1985

Dear Councilmembers:

As you can see from the enclosed packet, the City Council meeting could be a short one--at least in number of items. Every once in a while we have to have a meeting like this, rather than the more lengthy ones we've had recently.

Please note, those of you who went to Washington that Delores has put in some travel expense report forms. At this writing, I have only received one and that was from the Mayor. His is enclosed for your review. If the rest of you intend to apply for your expense reimbursement, please get your voucher to John before Tuesday evening so that copies can be made for Council review. If that happens, checks can be made the following day or so. Keep in mind they must be reviewed before they are paid.

Chief Mossey has started giving commendation awards for certain activities in the Police Department. I thought it would be appropriate for the Mayor to give out those awards at an open Council meeting so that everyone in the City who desires to know about the activities of the Police Department can find out through the media or Council minutes. Jim will be here Tuesday evening with the awards and a write-up on why each award is being granted. This should be an on-going thing and will involve eight police personnel for this meeting. Jim hopes they will all be able to be in attendance for this presentation.

Because of the complexity of the bond issue, no minutes of the March 19 meeting are enclosed. They will be in the packet for your approval for the next meeting.

Tuesday night's meeting should go somewhat as follows:

Consent Agenda

ITEM	SUPPORTING DATA
1. Set Public Hearing to consider a request from Gene Brandt for a variance to expand a non-conforming use at 4009 Douglas Drive.	None.
2. Set Public Hearing to consider a request from Brutger Companies for variances for the multi-family housing project in the Bass Lake Road/Becker Park area.	Copy of application; site plan.

The Consent Agenda is merely setting public hearings for variance requests. One has to do with the Brutger Companies multi-family housing project involved in the Bass Lake Road/ Becker Park redevelopment project, and consists of a portion of the Phelps-Drake property, and Mini-Storage property. That public hearing will be set for April 16. The first public hearing will be set for the same night.

The regular meeting, with some possible minor exceptions, should go as follows:

1. Public Hearing to consider a request from Ronald Harrington for a variance of 3' in the required 60' lot width to build a 16'x24' family room and a 12'x24' deck at 4300 Brunswick Ave. N. — Planning Commission minutes of 3/11/85, item 8.

2. Public Hearing to consider a request from John J. Day for a variance of 7,500 sq. ft. in the required 22,500 sq. ft. in lot area to allow the construction of a Meineke Muffler Shop at 5259 Douglas Drive. — Planning Commission minutes of 3/11, item 2.

   This public hearing was set before the Council decided to send the rezoning for this property back to the Planning Commission for further study. You may or may not want to act on the variance request before a report is received from the Planning Commission. If you want to wait, just continue the public hearing until such time as the Planning Commission reports to you.

3. Public Hearing to consider a request from Dennis Persons, Crystal Linoleum and Carpet, for a variance in location of the barrier curb to 0' from the lot line in lieu of the required 5' from lot line at 5430 Douglas Drive. — None.

   The Planning Commission did recommend approval. This is that 140' strip of property south of the proposed Brutger apartments and north of Timesavers and is part of the Bass Lake Road/Becker Park redevelopment project.

4. Continued Public Hearing to consider a request for industrial revenue bonds for Crystal Linoleum, 5430 Douglas Drive. — None.

   Dave Kennedy will answer any questions you have regarding this item.

5. Consideration of the Second Reading of an ordinance rezoning property at 5430 Douglas Dr. from R-4 to PUD. — None.

5. (Continued)

You may recall that we had the First Reading at the last meeting and pertains to the above piece of property and was recommended for approval by the Planning Commission.

6. Consideration of the appointment of Jane Elsen to the Tri-City Airport Commission. — Copy of application.

We received this application this week. It is my understanding that Jane indicated she would be here for an interview Tuesday evening.

7. Consideration of the Second Reading of an ordinance vacating certain easements in Rolling Green Addition. — None.

As you can see, this is the Second Reading. Bill explained the reason for it at the last meeting, but if you have any questions, I am sure he will be able to answer them Tuesday evening.

8. Consideration of bids for a light tractor-mower. — Memo from City Engineer dated 3/27/85.

I believe the letter from the City Engineer is self-explanatory. This came in under the budget.

9. Consideration of changes in the City Charter. — None.

Per your instructions, we placed this item on the agenda again. The Mayor might want to report on the reaction of the Legislation Committee hearing to the two proposed changes you made some time ago.

As always, Delores will have copies of Tom's original letter should any of you have mislaid yours.

These are all the items we have for you for certain at this time. There is a possibility that Frank's Furniture will be in with their bond. If so, that will be on the agenda.

There is also a possibility that as late as some time today we may reach agreement with the Police unions. If so, that will be on the agenda and there may be some housekeeping items that escape us at this time.

It is quite possible that there might be a change in bonds with Mary and Nancy's and the new owners of Mr. Bob's. If that happens, that will be on the agenda.

The Police Department just advised me that they would like to have you set the bicycle auction for May 4 at the Crystal City Garage. This item will appear on the Consent Agenda as item #3.

I have included for your information, the following items:

1. Memo to City Councilmembers from Arthur Cunningham, Chair, Civil Service Commission dated 3/27/85.
2. Memo to City Manager and notice re Environmental Commission workshop on energy and environment.
3. Travel expense report form.
4. Letter from District 281 re joint elected City officials and School Board meeting scheduled for April 11, 1985.
5. Newsletter.
6. Park & Recreation Advisory Commission agenda for April 3.

I call your attention to the rules and procedures put together by the Civil Service Commission. I have some problems with their rules and procedures. They seem like a series of statements and direction to staff, rather than rules and procedures for the Civil Service Commission. We will be discussing that with them and hopefully, agree on something more meaningful, but if they disagree with us, they are their rules and procedures--not ours--so they will prevail.

John is putting together the Newsletter and that should be in your packet this evening. If you have any comments, make them to John on Tuesday evening, or as usual, the Newsletter will go to press the following day.

I hope the April 16 meeting is as short in number as this one is because I would hate to miss a long meeting. I'll be thinking of all of you during my three weeks in Arizona. If you have any reason to get ahold of me during that period of time, Delores, John and Darlene will have my address and telephone number and I'll be as near as the phone, that is, unless I'm out on the golf course.

I hope you all have a nice three weeks. I intend to. See you when I get back.

J A C K

da
enc.

APPLICATIONS FOR LICENSE

April 2, 1985

FOOD ESTABLISHMENT - Special Food Handling ($220.00)

Munch Box Snacks, 6840-20 Shingle Creek Parkway
located in several locations in Crystal

POOL- Outdoor ($66.00)

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ITINERANT - Exempt

Knights of Columbus, Tootsie Roll Benefit, Two
Days only April 26-27,1985 at banks, grocery,
shopping center with owners permission.

GAS FITTERS - ($30.25)

Heins & Sons Plumbing

PLUMBING - ($30.25)

Harris Mechanical Contracting Company
Heins & Sons Plumbing

PEDDLER, SOLICITOR, TRANSIENT MERCHANT - ($5.00/day)

Eva Holeton - 36th & Highway 100 April 4-8, 1985.

Alan Thompson - 6000 - 42nd Ave. April 4-8, 1985.

Douglas Thompson - 3550 Douglas Drive April 4-8, 1985.

Evie Rader - West Broadway & Kentucky Ave. N. April 4-8, 1985.

Edward Holeton - April 4-8, 1985, Bass Lake Road & Hye. 169.

March 28, 1985

Honorable Mayor & City Council
City of Crystal, MN

re: Surety Substitution
Rostamo's Inc.
6014 Lakeland Ave. N.

Dear Councilmembers:

As a part of the agreement in the change of ownership of the above-captioned property is the obligation to complete the site improvements by the new owner.

It is recommended that bond No. 348-0741 of American Insurance Co. in the amount of $38,000 be released and C. S. McCrossan Inc., Nancy Snyder and Mary Schlenz be excused from their obligation to complete the work.

It is further recommended that bond in the amount of $38,000 be accepted from Thomas & Sons Construction Co. and that the Mayor and City Manager be authorized to sign agreement with Thomas & Sons Construction Co. and Rostamo's Inc. for site improvements at 6014 Lakeland Avenue.

Sincerely,

Wm. L. Sherburne

William L. Sherburne, P.E.
City Engineer

WLS:jrs

March 28, 1985

Mr. John T. Irving
City Manager
City of Crystal, MN

Re: Light Tractor-Mower Bids
March 27, 1985

Dear Mr. Irving:

Sealed bids were received for the purchase of a Light Tractor-Mower and were checked for completeness and compliance with the specifications.

The tabulation is as follows:

Terra Care, Inc.	$10,166.00
Joel's Mower Service	10,572.00
Kujawa Enterprises	10,988.00

The above prices include the trade-in of a Light Tractor-Mower.

It is recommended that the contract be awarded to Terra Care, Inc. in the amount of $10,166.00.

Sincerely,

Wm. L. Sherburne

William L. Sherburne, P.E.
City Engineer

WLS:jrs

Independent School District 281
4148 Winnetka Avenue North
Minneapolis, Minnesota 55427

OFFICE OF THE SUPERINTENDENT

(612) 533-2781

March 22, 1985

Mr. Jack Irving
City Manager, Crystal
4141 Douglas Drive North
Crystal, MN 55422

Dear Mr. Irving:

The state statute that authorizes a local school district levy for Community Education and Services, mandates that a Compliance meeting between local elected city officials and school board members be scheduled once a year.

The District 281 1984-85 Compliance meeting will be held on Thursday, April 11, 7 p.m., Room 102, at the Robbinsdale Area, Community Education Center, 4139 Regent Avenue North, Robbinsdale.

I hope you will take advantage of this opportunity to communicate on areas of special interest.

Sincerely,

Donna Jean Carter

Donna Jean Carter, Ph.D.
Superintendent of Schools

de

March 28, 1985

TO: John T. Irving, City Manager

FROM: Nancy Deno, Administrative Assistant

RE: Environmental Commission Open Forum

Attached is a flyer put together by Bob Rasmussen, member of the Environmental Commission, concerning an open forum that the Environmental Commission wishes to hold at City Hall, Saturday, June 1, 1985 from 9:00 A.M. to Noon.

The idea of holding an open forum is this - - to invite a commission member or a staff member from environmental commissions of local cities surrounding the City of Crystal. Once the members are together on Saturday, June 1st, they will be allowed ten to fifteen minutes to discuss projects that they have completed or are thinking of doing in their cities. It is merely a sharing of ideas between different cities' environmental commissions.

The Commission is also thinking of filming this event to possibly show on cable in the near future.

ANNOUNCING A WORKSHOP...

COMMUNITY-BASED PROJECTS ON ENERGY AND THE ENVIRONMENT

SATURDAY ~~MAY 18TH~~ June 1st, 1985

9 am - 12 noon at the

CRYSTAL CITY COUNCIL CHAMBERS

Douglas Drive at 42nd Avenue North

Purpose

The purpose of this workshop is to provide an opportunity to share the experiences, successes, failures, and future plans of projects that energy or environmental advisory commissions have undertaken over the past few years in their respective cities. It will also give participants an opportunity to meet and make contact with others interested in and working on similar projects.

Workshop Format

Each commission invited should send a representative to give an informal overview (10 -15 minutes) of any projects that might be of interest to other commissioners. Topics might include:

- o Recycling Centers
- o Refuse Hauling Practices
- o Citywide Recycling
- o Energy Conservation Projects
- o Public Awareness and Education
- o Water and Soil Management
- o Beautification Projects

Time will be reserved for questions and answers at the end of each presentation and again near the end of the morning to revisit projects of particular interest. A slide projector and overhead projector will be available if needed. Portions of this workshop may be videotaped for later broadcast on the Northwest Community Access Cable TV channel.

Make your reservations to attend today! Send the enclosed form to:

Ms. Nancy _____, Assistant Admin.
Crystal City Hall
Douglas Drive and 42nd Ave. No.
Cyrstal, MN. 55428

--- HOSTED BY THE CRYSTAL ENVIRONMENTAL COMMISSION ---

Workshop on

COMMUNITY-BASED PROJECTS ON
ENERGY AND THE ENVIRONMENT

Saturday ~~May 18th~~ June 1st, 9am-12pm

To facilitate the organization of the workshop, it will helpful to know if your commission will be represented, by how many people, and who they will be. We plan to have a list of participants ready for distribution at the meeting. Please complete the form below and send it to Ms. Nancy , Assistant Administrator, Crystal City Hall, 42nd Ave. No. and Douglas Drive, Crystal, MN. 55428.

[] Yes, the following people from our commission will attend the workshop:

Name(s) _____ Phone_____

_____ Phone_____

City _____

Probable projects we will discuss are: _____

_____

_____

[] No, we will not be able to send a representative.

Please return this form by May 8th, 1985. If you have any questions please call

Bob Rasmussen
Workshop Chairman
537-4594 (home) 541-6505 (work)

--- SPONSORED BY THE CRYSTAL ENVIRONMENTAL COMMISSION ---

CRYSTAL PARK AND RECREATION ADVISORY COMMISSION

Agenda - April 3, 1985

1. Call meeting to order 7:00 p.m.
2. Approval of minutes.
3. Monthly report.
4. Long Range Planning Commission - Marty.
5. Review of Crystal Frolics meeting and City Council action regarding Frolics.
6. Review of Becker Park plans.
* 7. Review "Life. Be In It." program.
8. Other business -
   Fact sheet on proposed Hennepin County Park development.
9. Meet in committees.
10. Adjournment.

* Please note that the "Life. Be In It."/Special Events Committee will meet at 6:30 p.m.

Phone: 537-8421

City of Crystal

4141 DOUGLAS DRIVE NORTH
CRYSTAL, MINNESOTA 55422

ADMINISTRATIVE OFFICE

March 27, 1985

CITY OF CRYSTAL COUNCILMEMBERS

Re: By Laws
Civil Service Commission
City of Crystal

Dear Councilmembers:

Attached are the by laws of the Civil Service Commission. This document has been reviewed by the City Attorney and unanimously accepted by the Commission.

I will be happy to answer any related questions.

Sincerely,

Arthur Cunningham S.G.

Arthur Cunningham,
Chair
Civil Service Commission

AC:djg

Attachment

cc: Thomas Aaker, Mayor
cc: John T. Irving, City Manager

BYLAWS OF THE
CIVIL SERVICE COMMISSION
CITY OF CRYSTAL

ARTICLE I. ORGANIZATION

The Chair of the Commission shall be elected by the membership at the first regular meeting in January for a term of one year.

ARTICLE II. MEETINGS

A. The Commission shall meet a minimum of 10 times per year. Meetings are held on the first Tuesday of each month at 8:00 P.M.

B. The Commission may hold special meetings upon the call of the Chair.

C. All meetings will be held at the Crystal City Hall.

D. All meetings are open to the public, and appropriate public notice will be posted no less than 24 hours prior to the meeting.

E. A quorum consists of two of the three members.

ARTICLE III. CONDUCT OF BUSINESS

A. Only business stated in the call, or directly related thereto, may be conducted at a special meeting.

B. Robert's Rules of Order, revised, shall govern the Commission in all cases to which they are applicable and in which they are not inconsistent with these bylaws.

C. Minutes of each meeting will be taken by the Civil Service Coordinator, or a staff member.

Minutes shall include all persons present, each item discussed and its resolution. The minutes shall become the official recording of business transacted by the Commission.

ARTICLE IV. ATTENDANCE

Three absences within a 12 month period by a member may result in a recommendation by the Commission to the Mayor of the City for removal, subject to applicable ordinance provisions.

ARTICLE V. GENERAL PROVISIONS

A. The Chair, or designate, is the only person authorized to make public statements on behalf of the Commission. It is encouraged that, when possible, such statements be reviewed by the Commission. The Mayor or City Manager should be notified in advance of the nature of any public statement of official policy concerning the Commission.

B. Proxy voting will not be allowed.

C. These bylaws are subject in all respects to the provisions of Crystal City Code, Section 310.

ARTICLE VI. AMENDMENTS

These bylaws may be amended by majority vote of the Commission at a regular or special meeting. Notice of the proposed amendments shall be distributed to all members of the Commission by the Chair at least five days prior to the meeting at which the amendments are to be voted upon. Any member of the Commission may, in writing, propose amendments to these bylaws.

Adopted January 2, 1985

ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS

328 West Sixth Street

Saint Paul, Minnesota 55102

Community Development Corporation 612-291-1750

March 27, 1985 MEMORANDUM

TO: Community Leaders in the City of Crystal
- Mayor Peter Meintsma and Members of the City Council
- John Olson, Assistant City Manager
- Ann Rest, State Representative, District 46A
- Bob Ellingson, State Representative, District 47-B
- William Luther, State Senator, District 47
- John Irving, Executive Director, Crystal HRA

FROM: Joseph Errigo, President, Community Development Corporation

RE: Proposed Cuts in Federal Budget affecting Lower Income Housing

Knowing the interest within your community to secure housing for lower-income persons, I am writing to ask for your assistance in opposing cuts in Federal funding for lower-income housing.

The housing programs of the U.S. Department of Housing and Urban Development (HUD) have already undergone devastating cuts over the last four years. The $7 billion proposed HUD budget for 1986, cut from $31 billion in 1985, would totally eliminate additional housing assistance to low- and moderate-income people, and no new units of subsidized housing would be built. I have recently sent letters (copy enclosed) to Senators and Representatives from Minnesota, and Senate and House Committee members, opposing additional cuts in Federal HUD funding for lower-income housing.

Community Development Corporation has developed housing for lower-income persons for over 10 years in this area; many developments were backed by funding from HUD programs. At present Community Development Corporation is consulting with representatives from the City of Crystal to determine feasibility of family housing.

To aid this development effort, we are asking you, as a community leader, to actively oppose additional cuts in HUD funding. I encourage you to write letters to members of Congress explaining the importance of housing for lower-income families in your community, briefly summarizing specifics of the planned housing in your community. Another action to focus attention on this issue would be a resolution by the City Council opposing additional cuts in the Federal housing budget for 1986.) A list of Senators and Representatives who should receive information from local leaders is attached; I would appreciate a copy of any correspondence you send.)

If you have questions about this request, or about the process underway to develop facilities for families in Crystal, please call me.

Your assistance can make a difference to the future of Federally-assisted housing for low- and moderate-income persons. Thank you for your consideration of this request.

ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS

328 West Sixth Street

Saint Paul, Minnesota 55102

Community Development Corporation

612-291-1750

March 12, 1985

Rudy Boschwitz
Minnesota Senator
419 Robert Street
Room 210
St. Paul, MN 55101

Dear Senator Boschwitz:

I am writing to express concern for the proposed cuts in Federal assistance for housing for low- and moderate-income people. Housing has already taken more cuts than any other human service area; unless the Federal government continues to assist the housing needs of lower income people, numbers of homeless will continue to grow.

Community Development Corporation was founded more than 10 years ago with the premise that decent, affordable housing is a basic human right. During that period CDC entered into a partnership with government to sponsor 23 housing developments in 15 Minnesota communities. Those housing developments serve lower-income families, elderly and handicapped persons. They would not have been produced without the direct involvement of the Federal government.

Much of CDC's focus in recent years has been on housing for lower-income elderly. Some trends we have noted from 1978 (when HUD programs represented 5.3% of the Federal budget) until now (1985 budget is 2.9% of the total budget) include the following:

1. There are significant increases in the number of requests from community organizations to sponsor and develop elderly housing. At present, our staff is working with local Housing and Redevelopment authorities, churches, and community groups to plan for low-income housing in 6 Minnesota communities: Robbinsdale, St. Paul Park, Crystal, Edina, Fridley, and St. Paul's West Side. We have been unable to assist many other communities because of the limits on funding availability.

2. The number of applicants for new elderly buildings sponsored by CDC has increased dramatically. As an example, over 500 applications were requested and nearly 200 persons submitted completed applications for the 61 new units at East Shore Place in Mahtomedi in 1984.

3. Federal budget cuts have drastically reduced the number of housing units in buildings constructed under the HUD Section 202 Program. CDC-sponsored developments under construction in Lakeville and Maple Plain have been limited to 24 to 38 units, respectively. The approved site in Rogers (construction starting in summer 1985) also will have only 24 units. These smaller projects have marginal economic feasibility and certain inefficiencies in the delivery of quality management and social services.

4. Federal regulations now qualify only persons with very low income for subsidized elderly housing. This change lowered allowable income by over $6,000 from the guidelines in effect until mid-1984. It is our view that assisted housing for elderly people should be able to serve a mixed-income population, that is persons with low and moderate incomes.

These trends indicate increasing need for lower-income housing for the elderly and decreasing availability of important housing resources.

The housing programs of the U.S. Department of Housing and Urban Development have already had devastating cuts over the last four years. The $7 billion proposed HUD budget for 1986, cut from $31 billion in 1985, would totally eliminate additional housing assistance to low- and moderate-income people, and no units of subsidized housing would be built.

Elimination of funding for these worthy programs must be opposed.

Please do all you can to assure that the funding levels for vital housing programs are not cut further in fiscal year 1986.

Sincerely,

Joseph A. Errigo, Jr.
President

Enclosure: CDC Annual Report

THE ATTACHED LETTER WAS SENT TO THE FOLLOWING

U.S. SENATORS AND REPRESENTATIVES:

THE HON. WM. H. GRAY
CHAIRPERSON
HOUSE BUDGET COMMITTEE
U.S. HOUSE OF
REPRESENTATIVES
WASHINGTON, D.C. 20515

THE HONORABLE MARTIN SABO
HOUSE OF REPRESENTATIVES
110 SOUTH FOURTH STREET
ROOM 462
MINNEAPOLIS, MN 55401

THE HON. PETE V.DOMENICI
CHAIRPERSON
SENATE BUDGET COMMITTEE
U.S. SENATE
WASHINGTON, D.C. 20510

THE HON. JAMIE L. WHITTEN
CHAIRPERSON
HOUSE APPROPRIATIONS
COMMITTEE
U.S. HOUSE OF
REPRESENTATIVES
WASHINGTON, D.C. 20515

THE HONORABLE
GERRY SIKORSKI
HOUSE OF REPRESENTATIVES
8535 CENTRAL AVENUE, N.E.
BLAINE, MN 55434

THE HON. MARK O.HATFIELD
CHAIRPERSON
SENATE APPROPRIATIONS
COMMITTEE
U.S. SENATE
WASHINGTON, D.C. 20510

THE HONORABLE TIM PENNY
HOUSE OF REPRESENTATIVES
PARK TOWERS
22 NORTH BROADWAY
ROCHESTER, MN 55901

THE HONORABLE
ARLAN STANGELAND
HOUSE OF REPRESENTATIVES
403 CENTER AVENUE,
FOURTH FLOOR
MOORHEAD, MN 56560

THE HONORABLE
RUDY BOSCHWITZ
U.S. SENATOR
419 ROBERT STREET
ROOM 210
ST. PAUL, MN 55101

THE HONORABLE VIN WEBER
HOUSE OF REPRESENTATIVES
P.O. BOX 279
NEW ULM, MN 56073

THE HONORABLE JIM OBERSTAR
HOUSE OF REPRESENTATIVES
231 FEDERAL BUILDING
DULUTH, MN 55802

THE HONORABLE
DAVID DURENBERGER
U.S. SENATOR
1020 PLYMOUTH BUILDING
12 SOUTH SIXTH STREET
MINNEAPOLIS, MN 55402

THE HONORABLE
BILL FRENZEL
HOUSE OF REPRESENTATIVES
8120 PENN AVENUE SOUTH
BLOOMINGTON, MN 55431

THE HONORABLE BRUCE VENTO
HOUSE OF REPRESENTATIVES
150 MEARS PARK PLACE
405 SIBLEY STREET
ST. PAUL, MN 55101

April 1, 1985

TO: City of Crystal Councilmembers

FROM: John A. Olson, Assistant City Manager

RE: Labor Agreement with Local #44 (Police Officers)

Late Friday afternoon Mr. Irving reached tentative agreement pending your approval of a 1985 labor contract with Local #44 (Police Officers).

The new agreement contains the following changes to the basic contract:

1. It increased salaries by 5%.
2. It increased the maximum employer contribution for insurance by $10.00.
3. Allows employee participation in the cafeteria plan/health care expense account, effective May 1, 1985.
4. Adds the following language to the court time provision: "Any employee who is required to appear in court during his/her scheduled off-duty time within twelve (12) hours of having completed either a 9:00 P.M. to 7:00 A.M. or a 11:00 P.M. to 7:00 A.M. shift shall receive a minimum of three (3) hours pay at one and one half (1½) times the employee's base pay rate." The above hours are indicated to cover an 8 hour and a 10 hour dog shift.
5. Increased the maximum vacation from 22 to 23 days whereby an employee attaining 16 years of service would receive 23 days of vacation.
6. Delete the following statement regarding vacation: "Each employee must expend a minimum of eighty (80) hours of vacation time each year" and change the next sentence to read, "~~additional earned~~ Vacation time may be accumulated and carried over to the following year."
7. Increase the detective differential by $10.00 per month.
8. Change ten (10) holidays to eleven (11) holidays.

Mr. Irving indicated that these are the only items which will change in the contract with Local #44 and has asked that you consider and approve these changes for 1985. Upon approval they will be retroactive to January 1, 1985 except as noted in item 3.

SENT WITH PRELIMINARY AGENDA 4/12/85

Council minutes of 3/19/85 & 4/2/85.

Planning Commission minutes of 4/8/85.

Memo from City Engr. re site impr. at 5510-94 W. Broadway for Crystal Gallery.

Letter from Cary Shaich, Towle Agency; summary of Home Insurance & League premiums; 5-year summary of Crystal premiums paid and claims paid out; numberous articles re insurance market.

Bid letter from City Engr. of 4/12/85, for street maintenance materials.

Bids for bleachers at North Lions Park from City Engr. of 4/12/85.

Memo from Ass't. City Mgr. of 4/10/84 re City Charter Commissions of surrounding communities.

Park & Rec. Adv. Comm. minutes of 3/6/85.

Park & Rec. Dept. March report.

Memo from Ass't City Mgr. re Betty Herbes inquiry about Police Chief's car.

SENT WITH AGENDA 4/16/85

1985 City of Crystal Budget.

COUNCIL AGENDA

April 16, 1985

Pursuant to due call and notice thereof, the regular meeting of the Crystal City Council was held on April 16, 1985, at 7:00 P.M., at 4141 Douglas Drive, Crystal, Minnesota. The Secretary of the Council called the roll and the following were present:

Councilmembers		Staff	
____	Schaaf	____	Irving
____	Smothers	____	Kennedy
____	Herbes	____	Olson
____	Pieri	____	Sherburne
____	Aaker	____	Peterson
Pha.	Moravec	____	Deno
____	Rygg	____	Ahmann

The Mayor led the Council and the audience in the Pledge of Allegiance to the Flag.

The minutes of the regular Council meeting of March 19, 1985 and April 2, 1985 were approved, with the following exceptions: _____
_____.

CONSENT AGENDA

1. Set 7:00 P.M., or as soon thereafter as the matter may be heard, May 7, 1985, as the date and time for the public hearing at which time the City Council will consider tentative approval of the proposed plat Luke Nan Addition located at the southeast quadrant of 47th Avenue and Hampshire Avenue North.

2. Set 7:00 P.M., or as soon thereafter as the matter may be heard, May 7, 1985, as the date and time for the public hearing at which time the City Council will sit as a Board of Adjustments and Appeals to consider a request from Mayer Electric for a variance in the required number of off-street parking spaces (17 in the required 19) at 5128 Hanson Court.

3. Set 7:00 P.M., or as soon thereafter as the matter may be heard, May 7, 1985, as the date and time for the public hearing at which time the City Council will consider tentative approval of the proposed plat Castonia Buss Addition located at 5419 Lakeland Avenue North.

4. Set 7:00 P.M., or as soon thereafter as the matter may be heard, May 7, 1985, as the date and time for the public hearing at which time the City Council will sit as a Board of Adjustments and Appeals to consider a variance, in lot width at 6712 - 44th Avenue North as requested by Ron Kubes.

CONSENT AGENDA (continued)

Moved by Councilmember _____ and seconded by Councilmember _____ to remove items _____, _____, _____, and _____ from the Consent Agenda. Motion Carried.

Moved by Councilmember Ry and seconded by Councilmember Jm to approve the Consent Agenda. Motion Carried.

REGULAR AGENDA

1. It being 7:00 P.M., or as soon thereafter as the matter may be heard, Mayor Aaker declared this was the date and time as advertised for the public hearing, at which time the City Council will sit as a Board of Adjustments and Appeals, to consider a request from Gene A. Brandt to expand a non-conforming use, said non-conformity being existing house encroaches 30' in the required 40' rear yard setback, to allow construction of a 26' x 30' attached garage at 4009 Douglas Drive. The Mayor asked those present to voice their opinions or ask questions concerning the variance. Those present and heard were: none.

Moved by Councilmember H and seconded by Councilmember _____ to approve the authorization to grant a variance pursuant to Section 515.13, Subd. 4a) to allow expansion of a non-conforming use, said non-conformity being existing house encroaches 30' in the required 40' rear yard setback, to allow the construction of a 26' x 30' attached garage at 4009 Douglas Drive, as requested in Variance Application #85-12. Motion Carried.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of Variance Application #85-12. Motion Carried.

2. It being 7:00 P.M., or as soon thereafter as the matter may be heard, Mayor Aaker declared this was the date the time as advertised for a public hearing, at which time the City Council will consider tentative approval of proposed plat Soule Addition located at the southeast quadrant of Lombardy Lane and U.S. Highway #169 (Lakeland Avenue), formerly Mr. Bob's. The Mayor asked those present to voice their opinions or ask questions concerning the proposed plat. Those present and heard were: Soule C.

Moved by Councilmember P and seconded by Councilmember Jm to (approve) (deny) (continue until _____ the discussion of) tentative approval of proposed plat Soule Addition located at the southeast quadrant of Lombardy Lane and U.S. Highway #169 (Lakeland Avenue), formerly Mr. Bob's. Motion Carried.

3. It being 7:00 P.M., or as soon thereafter as the matter may be heard, Mayor Aaker declared this was the date and time as advertised for the public hearing, at which time the City Council will sit as a Board of Adjustments and Appeals, to consider a request from Brutger Companies for variances in lot area per unit, rear yard setback, off-street parking in the front yard setback, required number of off-street parking spaces, and parking stall size, at 5500 Douglas Drive. The Mayor asked those present to voice their opinions or ask questions concerning the variances. Those present and heard were:

A. Moved by Councilmember H and seconded by Councilmember P to approve, as recommended by and based on the findings of fact of the Planning Commission, the authorization to grant a variance pursuant to Section 515.15, Subd. 2d) 4) ii), to allow a variance of 73 units to permit a total of 160 units to be constructed at 5500 Douglas Drive, as requested in Variance Application #85-14. Motion Carried.

87 st 8-

Moved by Councilmember H and seconded by Councilmember H to (deny) (continue until _____ the discussion of) Variance Application #85-14. Motion Carried.

B. Moved by Councilmember Jm and seconded by Councilmember J to approve, as recommended by and based on the findings of fact of the Planning Commission, the authorization to grant pursuant to Section 515.13, Subd. 4a), a variance of 28' in the required 40' rear yard setback and 3' in the required 15' side yard setback at 5500 Douglas Drive, as requested in Variance Application #85-15.

Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) Variance Application #85-15.

Motion Carried.

C. Moved by Councilmember D and seconded by Councilmember J to approve, as recommended by and based on the findings of fact of the Planning Commission, the authorization to grant pursuant to Section 515.09, Subd. 6e), a variance to allow 48 parking stalls in the front yard setback at 5500 Douglas Drive, as requested in Variance Application #85-16.

Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) Variance Application #85-16.

Motion Carried.

D. Moved by Councilmember H and seconded by Councilmember Jm to approve, as recommended by and based on the findings of fact of the Planning Commission, the authorization to grant pursuant to Section 515.09, Subd. 8c) a variance of 80 outdoor parking stalls in the required 160 stalls at 5500 Douglas Drive, as requested in Variance Application #85-17.

Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) Variance Application #85-17.

Motion Carried.

E. Moved by Councilmember Jm and seconded by Councilmember D to approve, as recommended by and based on the findings of fact of the Planning Commission, the authorization to grant pursuant to Section 515.09, Subd. 4h) 1), a variance of 6" to allow a 9' parking stall width in lieu of the required 9'6" parking stall at 5500 Douglas Drive, as requested in Variance Application #85-18.

Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) Variance Application #85-18.

Motion Carried.

F. Moved by Councilmember J and seconded by Councilmember Jm to (approve) (deny) (continue until _____ the discussion of) the Developer's Agreement with Brutger Companies for a multi-family housing project at 5500 Douglas Drive and further, to authorize the Mayor and City Manager to sign such agreement.

Motion Carried.

Steve Wilson v Brutger Companies

(584L)

4. The City Council considered the Second Reading of an ordinance rezoning property at 5259 Douglas Drive from B-4 to B-3; consideration of a conditional use permit to allow an auto repair-minor shop in a B-3 district; continued public hearing to discuss variance in lot area (a variance of 7500 sq. ft. in the required 22,500 sq. ft.).

Meineke Muffler Shops Bob Badovinac

A. Moved by Councilmember Jm and seconded by Councilmember Ry to adopt the following ordinance: (5 votes needed for approval)

ORDINANCE NO. 85-7

AN ORDINANCE RELATING TO ZONING: CHANGING THE USE CLASSIFICATION OF CERTAIN LANDS

and further, that this be the second and final reading.

Motion Carried.

Moved by Councilmember ___ and seconded by Councilmember ___ to (deny) (continue until ___ the discussion of) Second Reading of an ordinance changing use classification of certain lands. Motion Carried.

B. Moved by Councilmember ___ and seconded by Councilmember ___ to approve a conditional use permit to allow an auto repair-minor shop in a B-3 district at 5259 Douglas Drive. Motion Carried.

Moved by Councilmember ___ and seconded by Councilmember ___ to (deny) (continue until ___ the discussion of) a conditional use permit to allow an auto repair-minor shop in a B-3 district at 5259 Douglas Drive.

Motion Carried.

C. Moved by Councilmember H and seconded by Councilmember Jm to approve the authorization to grant pursuant to Section 515.35, Subd. 4c) 4) a variance of 7500 sq. ft. in the required 22,500 sq. ft. in lot area to allow construction of Meinke Muffler Shop at 5259 Douglas Drive as requested in Variance Application #85-3T.Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) Variance Application #85-3T. Motion Carried.

5. The City Council considered the Second Reading of an ordinance rezoning property at 5430 Douglas Drive from R-4 to PUD; continued public hearing to consider a request for a variance in the location of the barrier curb from 0' from the lot line in lieu of the required 5' from the lot line.

A. Moved by Councilmember ____ and seconded by Councilmember ____ to adopt the following ordinance: (5 votes need for approval)

ORDINANCE NO. 85-

AN ORDINANCE RELATING TO ZONING: CHANGING THE USE CLASSIFICATION OF CERTAIN LANDS

and further, that this be the second and final reading. Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) the Second Reading of an ordinance changing the use classification of certain lands. Motion Carried.

B. Moved by Councilmember ____ and seconded by Councilmember ____ to approve the authorization to grant a variance to locate the barrier curb 0' from lot line in lieu of the required 5' from lot line, at 5430 Douglas Drive, as requested in Variance Application #85-11. Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of Variance Application #85-11. Motion Carried.

6. The City Council considered setting surety as specified in the Developer's Agreement as a guaranty of faithful performance of certain requirements in the condition of building permit approval for Crystal Gallery for a retail and office building at 5510-94 West Broadway, ~~as recommended by the City Engineer.~~

A. Moved by Councilmember H and seconded by Councilmember O to set surety as specified in the Developer's Agreement as a guaranty of faithful performance of certain work requirements as a condition of issuance of building permit for Crystal Gallery for retail and office building at 5510-94 West Broadway.

Motion Carried.

B. Moved by Councilmember Jon and seconded by Councilmember J to accept letter of credit as specified in the Developer's Agreement as a guaranty of faithful performance of certain work requirements as a condition of issuance of a building permit for Crystal Gallery for a retail and office building at 5510-94 West Broadway.

Motion Carried.

C. Moved by Councilmember O and seconded by Councilmember Jon to (approve) (deny) (continue until _____ the discussion of) entering into agreement with Crystal Gallery for the purpose of guaranteeing faithful performance for certain work requirements of the condition of issuance of Building Permit #6389 for Crystal Gallery, 5510-94 West Broadway, and further, to authorize the Mayor and City Manager to sign such agreement.

Motion Carried.

D. Moved by Councilmember Ry and seconded by Councilmember A to (approve) (deny) (continue until _____ the discussion of) the authorization to issue Building Permit #6389 for a 102,000 sq. ft. retail and office building at 5510-94 West Broadway, subject to standard procedure, as recommended by the Planning Commission.

Motion Carried.

7. The City Council considered plans and specifications for the construction of Florida Avenue from 55th Avenue to 56th Avenue and the authorization to advertise for bids.

Moved by Councilmember ___ and seconded by Councilmember ___ to approve the authorization to advertise for bids for the construction of Florida Avenue from 55th Avenue to 56th Avenue North. Motion Carried.

Moved by Councilmember ____ and seconded by Councilmember ____ to (deny) (continue until _____ the discussion of) the authorization to advertise for bids for the construction of Florida Avenue from 55th Avenue to 56th Avenue North. Motion Carried.

8. The City Council considered the First Reading of an ordinance rezoning property at 3431 Douglas Drive from R-3 (medium density residential) to R-4 (high density residential) as requested by Julik and Adler Homes. (5 votes needed for approval)

Moved by Councilmember ____ and seconded by Councilmember ____ to adopt the following ordinance:

ORDINANCE NO. 85-

AN ORDINANCE RELATING TO ZONING: CHANGING THE CLASSIFICATION OF CERTAIN LANDS

and further, that the second and final reading be held on May 7, 1985. Motion Carried.

Moved by Councilmember ___ and seconded by Councilmember ___ to (deny) (continue until _____ the discussion of) the First Reading of an ordinance rezoning property at 3431 Douglas Drive from R-3 (medium density residential) to R-4 (high density residential) as requested by Julik and Adler Homes. Motion Carried.

9. The City Council considered the City insurance program for the Year 1985-1986.

Moved by Councilmember JH and seconded by Councilmember Jm to approve, as recommended in the memo by the Administrative Assistant, the City insurance program for 1985-1986. Motion Carried.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) the insurance program for the City for the year 1985-1986. Motion Carried.

10. The City Council considered final approval of plat Crystal Highlands 2nd Addition located at 7011 and 7021 Markwood Drive.

~~Betty Knudson~~ Charles W. and Marilyce B. Adams
Bonnie K. Anderson

5/5/83

Moved by Councilmember Jm and seconded by Councilmember D to adopt the following resolution, the reading of which was dispensed with by unanimous consent:

RESOLUTION NO. 85-36

RESOLUTION APPROVING PLAT

Certified 4/17/85

By roll call and voting aye: _____, _____, _____, _____, _____, _____, _____; voting no: _____, _____, _____, _____; absent, not voting: _____, _____, _____. Motion carried, resolution declared adopted.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) the final approval of the plat Crystal Highlands 2nd Addition located at 7011 and 7021 Markwood Drive.
Motion Carried.

11. The City Council considered bids for street maintenance materials.

Moved by Councilmember _____ and seconded by Councilmember _____ to adopt the following resolution, the reading of which was dispensed with by unanimous consent:

RESOLUTION NO. 85-37

RESOLUTION AWARDING A CONTRACT

By roll call and voting aye: _____, _____, _____, _____, _____, _____, _____; voting no: _____, _____, _____, _____; absent, not voting: _____, _____, _____. Motion carried, resolution declared adopted.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) a resolution awarding a contract. Motion Carried.

12. The City Council considered bids for purchase of bleachers at North Lions Park.

Moved by Councilmember _____ and seconded by Councilmember _____ to adopt the following resolution, the reading of which was dispensed with by unanimous consent:

RESOLUTION NO. 85-38

RESOLUTION AWARDING A CONTRACT

By roll call and voting aye: _____, _____, _____, _____, _____, _____, _____; voting no: _____, _____, _____, _____; absent, not voting: _____, _____, _____. Motion carried, resolution declared adopted.

Moved by Councilmember _____ and seconded by Councilmember _____ to (deny) (continue until _____ the discussion of) a resolution awarding a contract. Motion Carried.

13. City Engineer, Bill Sherburne, appeared before the City Council to discuss the Minnegasco Service Repair Program for the City of Crystal.

14. The City Council discussed possible Charter changes.

Moved by Councilmember Ry and seconded by Councilmember O to approve the list of license applications. Motion Carried.

Moved by Councilmember S and seconded by Councilmember H to adjourn the meeting. Motion Carried.

APPLICATIONS FOR LICENSE

APRIL 16, 1985

POOL - Outdoor ($66.00)

Krystal Court Apartments, 5930 West Broadway
Krystal Court Apartments, 5930 West Broadway, wading

POOL - Indoor (Whirlpool) $110.00

Spa Petite, 111 Willow Bend

GARBAGE AND REFUSE HAULER - One addn'l truck ($16.50)

Waste Management-Blaine, Inc., Blaine, MN

ITINERANT (Exempt)

Cavanagh School Carnival, One Day Only, April 19, 1985
5400 Corvallis Avenue North

FOOD ESTABLISHMENT - VFW Post #494 ($110.00)

Eat and Run, 5222 56th Avenue North

GAS FITTERS - ($30.25)

Kraemer Heating
Thermex

PLUMBING - ($30.25)

Delson Plumbing, Inc.
Larson Plumbing, Inc.

April 12, 1985

Dear Councilmembers:

The items on the Consent Agenda are self-explanatory.

I will just make a few comments. Regarding Item #2 on the regular portion of the agenda, the off-street parking in the front yard setback requested by Brutger came about as a requirement from us, even though they do not plan to build those parking spaces at this time. They believe that the parking spaces they intend to build now will be sufficient for their parking needs. We can give you a more detailed explanation on Tuesday night.

On Item #5, Lincoln Properties has given us a letter of credit in the amount of $150,000 as part of the developer's agreement. According to Dave Kennedy, this letter of credit also covers the items Bill Sherburne has listed in his letter regarding on-site improvements. We will go into this matter in more detail on Tuesday evening.

Regarding #11, the low bid for the bleachers, as you can see by the letter in the packet, is $100 over the budget amount for the bleachers. We are sufficiently under budget in several other categories in the North Lions Park improvement project. Therefore, I do not see this creating a problem.

Regarding #12, Minnegasco will conduct a service repair program this summer in the City. It will be easier for Bill Sherburne to explain in detail at the meeting than trying to write what this is all about so I will leave it up to Bill to explain it in more detail. However, if you have questions, please call me ahead of time.

That's it for the agenda.

The last time I heard from Jack he had been playing golf several times and the temperature was in the 90's.

We'll see you on Tuesday.

da

John Olson

P. S. Dave Kennedy called me this morning regarding the development agreement with Brutger Companies for the family housing. He indicated that Brutger has settled its financing, but that this financing arrangement would require a special joint powers agreement with other cities. This all has to be accomplished by April 29. It is quite possible that Dave will have a development agreement and a joint powers agreement for you to consider on Tuesday night. Dave can provide a detailed explanation at the meeting.

APPLICATIONS FOR LICENSE

APRIL 16, 1985

POOL - Outdoor ($66.00)

Krystal Court Apartments, 5930 West Broadway
Krystal Court Apartments, 5930 West Broadway, wading

POOL - Indoor (Whirlpool) $110.00

Spa Petite, 111 Willow Bend

GARBAGE AND REFUSE HAULER - One addn'l truck ($16.50)

Waste Management-Blaine, Inc., Blaine, MN

ITINERANT (Exempt)

Cavanagh School Carnival, One Day Only, April 19, 1985
5400 Corvallis Avenue North

FOOD ESTABLISHMENT - VFW Post #494 ($110.00)

Eat and Run, 5222 56th Avenue North

GAS FITTERS - ($30.25)

Kraemer Heating
Thermex

PLUMBING - ($30.25)

Delson Plumbing, Inc.
Larson Plumbing, Inc.

NO. 85-17

CITY OF CRYSTAL

4141 DOUGLAS DRIVE NORTH
Crystal, MN 55422
Phone: 537-8421

Date: 3/26/85

TYPE OF REQUEST: ( ) Rezoning ( ) Conditional Use Permit
(X) Variance ( ) Plat Approval
( ) Sign Variance ( ) Other

Street Location of Property: 5500 Douglas Drive

Legal Description of Property: 5.7 acres east of the intersection of Douglas Drive and 55th Avenue North.

Property Identification Number: Not Available

Owner: City of Crystal
(Print Name)

4141 Douglas Drive North, Crystal, MN 55422 (612) 537-8421
(Address) (Phone No.)

Applicant: Brutger Companies, Inc.
(Print Name)

One Sunwood Drive, P.O. Box 399, St. Cloud, MN 56302 (612) 252-6262
(Address) (Phone No.)

DESCRIPTION OF REQUEST: Allow 160 units on 5.7 acres for a density of 28 DU/Acre as requested by Crystal HRA

APPLICANT'S STATEMENT WHY THIS REQUEST SHOULD BE APPROVED:
(attach additional sheets if necessary)

To allow for project development as approved by the Crystal HRA.

NOTE: Attach plan or survey of proposal.

THIS PROPERTY IS:

TORRENS / ABSTRACT
(Circle one)

Steven P. Wilson
(Applicant's Signature)

(Owner's Signature)

(Office Use Only)

FEE: $ 75.00 DATE RECEIVED: 3/29/85 RECEIPT # 23854

(Approved) (Denied) - Planning Commission
(Date)

(Approved) (Denied) - City Council
(Date)

NO. 85-15

C I T Y O F C R Y S T A L

4141 DOUGLAS DRIVE NORTH
Crystal, MN 55422
Phone: 537-8421

Date: 3/26/85

TYPE OF REQUEST: ( ) Rezoning ( ) Conditional Use Permit
(X) Variance ( ) Plat Approval
( ) Sign Variance ( ) Other

Street Location of Property: 5500 Douglas Drive

Legal Description of Property: 5.7 acres east of the intersection of Douglas Drive and 55th Avenue North.

Property Identification Number: Not Available

Owner: City of Crystal
(Print Name)

4141 Douglas Drive North, Crystal, MN 55422 (612) 537-8421
(Address) (Phone No.)

Applicant: Brutger Companies, Inc.
(Print Name)

One Sunwood Drive, P.O. Box 399, St. Cloud, MN 56302 (612) 252-6262
(Address) (Phone No.)

DESCRIPTION OF REQUEST: Allow 12' setback around Phase II building

APPLICANT'S STATEMENT WHY THIS REQUEST SHOULD BE APPROVED:
(attach additional sheets if necessary)

To allow for project development as approved by the Crystal HRA.

NOTE: Attach plan or survey of proposal.

THIS PROPERTY IS:

TORRENS / ABSTRACT
(Circle one)

Steven P. Wilson
(Applicant's Signature)

(Owner's Signature)

(Office Use Only)

FEE: $ 75.00 DATE RECEIVED: 3/29/85 RECEIPT # 23854

(Approved) (Denied) - Planning Commission
(Date)

(Approved) (Denied) - City Council
(Date)

NO. 85-16

C I T Y O F C R Y S T A L

4141 DOUGLAS DRIVE NORTH
Crystal, MN 55422
Phone: 537-8421

Date: 3/26/85

TYPE OF REQUEST:
( ) Rezoning ( ) Conditional Use Permit
(X) Variance ( ) Plat Approval
( ) Sign Variance ( ) Other

Street Location of Property: 5500 Douglas Drive

Legal Description of Property: 5.7 acres east of the intersection of Douglas Drive and 55th Avenue North.

Property Identification Number: Not Available

Owner: City of Crystal
(Print Name)

4141 Douglas Drive North, Crystal, MN 55422 (612) 537-8421
(Address) (Phone No.)

Applicant: Brutger Companies, Inc.
(Print Name)

One Sunwood Drive, P.O. Box 399, St. Cloud, MN 56302 (612) 252-6262
(Address) (Phone No.)

DESCRIPTION OF REQUEST: Allow front yard parking as per plan in the event that extra parking is needed.

APPLICANT'S STATEMENT WHY THIS REQUEST SHOULD BE APPROVED:
(attach additional sheets if necessary)

To allow for project development as approved by the Crystal HRA.

NOTE: Attach plan or survey of proposal.

THIS PROPERTY IS:

TORRENS / ABSTRACT
(Circle one)

Steven P. Wilson
(Applicant's Signature)

(Owner's Signature)

(Office Use Only)

FEE: $ 75.00 DATE RECEIVED: 3/29/85 RECEIPT # 23854

(Approved) (Denied) - Planning Commission
(Date)

(Approved) (Denied) - City Council
(Date)

NO. 85-17

C I T Y O F C R Y S T A L

4141 DOUGLAS DRIVE NORTH
Crystal, MN 55422
Phone: 537-8421

Date: 3/26/85

TYPE OF REQUEST: ( ) Rezoning ( ) Conditional Use Permit
(X) Variance ( ) Plat Approval
( ) Sign Variance ( ) Other

Street Location of Property: 5500 Douglas Drive

Legal Description of Property: 5.7 acres east of the intersection of Douglas Drive and 55th Avenue North.

Property Identification Number: Not Available

Owner: City of Crystal
(Print Name)

4141 Douglas Drive North, Crystal, MN 55422 (612) 537-8421
(Address) (Phone No.)

Applicant: Brutger Companies, Inc.
(Print Name)

One Sunwood Drive, P.O. Box 399, St. Cloud, MN 56302 (612) 252-6262
(Address) (Phone No.)

DESCRIPTION OF REQUEST: Allow a parking ratio of 1.5 stalls per unit with enough designated space to increase that ratio to 2.0 per unit, should the need arise.

APPLICANT'S STATEMENT WHY THIS REQUEST SHOULD BE APPROVED:
(attach additional sheets if necessary)

To allow for project development as approved by the Crystal HRA.

NOTE: Attach plan or survey of proposal.

THIS PROPERTY IS:

TORRENS / ABSTRACT
(Circle one)

Steven P. Wilson
(Applicant's Signature)

(Owner's Signature)

(Office Use Only)

FEE: $ 75.00 DATE RECEIVED: 3/29/85 RECEIPT # 23854

(Approved) (Denied) - Planning Commission
(Date)

(Approved) (Denied) - City Council
(Date)

NO. 85-18

C I T Y O F C R Y S T A L

4141 DOUGLAS DRIVE NORTH
Crystal, MN 55422
Phone: 537-8421

Date: 3/26/85

TYPE OF REQUEST:
( ) Rezoning ( ) Conditional Use Permit
(X) Variance ( ) Plat Approval
( ) Sign Variance ( ) Other

Street Location of Property: 5500 Douglas Drive

Legal Description of Property: 5.7 acres east of the intersection of Douglas Drive and 55th Avenue North.

Property Identification Number: Not Available

Owner: City of Crystal
(Print Name)

4141 Douglas Drive North, Crystal, MN 55422 (612) 537-8421
(Address) (Phone No.)

Applicant: Brutger Companies, Inc.
(Print Name)

One Sunwood Drive, P.O. Box 399, St. Cloud, MN 56302 (612) 252-6262
(Address) (Phone No.)

DESCRIPTION OF REQUEST: Allow 9' parking stall width

APPLICANT'S STATEMENT WHY THIS REQUEST SHOULD BE APPROVED:
(attach additional sheets if necessary)

To allow for project development as approved by the Crystal HRA.

NOTE: Attach plan or survey of proposal.

THIS PROPERTY IS:

TORRENS / ABSTRACT
(Circle one)

Steven P. Wilson
(Applicant's Signature)

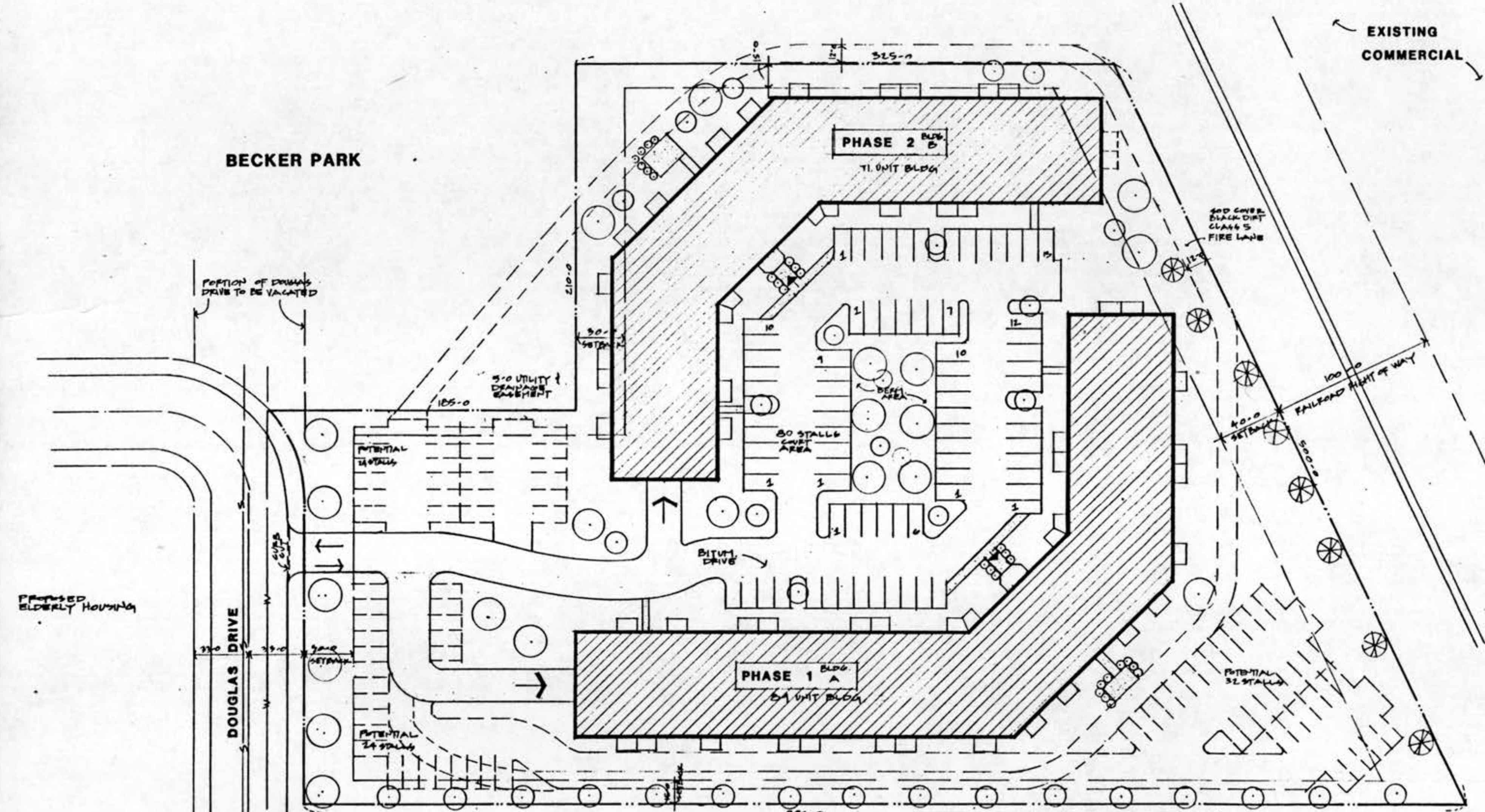
(Owner's Signature)

(Office Use Only)

FEE: $ 75.00 DATE RECEIVED: 3/29/85 RECEIPT # 23854

(Approved) (Denied) - Planning Commission
(Date)

(Approved) (Denied) - City Council
(Date)



SITE PLAN

1" = 30'-0"

NORTH 0 25 50 100

SITE INFORMATION		
	1½:1 PARKING	2:1 PARKING
SITE AREA	234,788	5.4 ACRES
BUILDING AREA	60,775 S.F.	60,775 S.F.
PARKING & DRIVE	43,256	77,636
SIDEWALKS	1570	1570
OPEN SPACE	129,187	94,807
TOTAL UNITS	160	160
UNDERGROUND PARKING	160 STALLS	160 STALLS
ON GRADE PARKING	80 STALLS	160 STALLS
TOTAL PARKING	240 STALLS	320 STALLS

johnson, sheldon & sorensen
ARCHITECTS inc.
10249 yellow circle drive
minnetonka, mn. 55343
suite 220 612-935-6337

date 2/27/85

project 160 UNIT FAMILY HSG FOR CRYSTAL HRA
CRYSTAL, MN

SITE PLAN

1

April 12, 1985

Mr. John T. Irving
City Manager
City of Crystal, MN

Re: BIDS - Street Maintenance Materials
Bituminous Patching Mixture
Sand
Class 5 Gravel
Granular Material

Dear Mr. Irving:

The sealed bids received on April 10, 1985, were checked for completeness and accuracy. The results are as follows:

	AT PLANT	DELIVERED
BITUMINOUS PATCHING MIXTURE (3/8") (5.0% oil)		
Commercial Asphalt Co.	$18.25/ton	
C. S. McCrossan, Inc.	18.75/ton	
Bury & Carlson, Inc.	22.60/ton	
Midwest Asphalt Corp.	22.95/ton	$29.00/ton
BITUMINOUS PATCHING MIXTURE (3/8") (5.5% oil)		
Commercial Asphalt Co.	$19.20/ton	
C. S. McCrossan, Inc.	19.75/ton	
Midwest Asphalt Corp.	23.95/ton	$30.00/ton
Bury & Carlson, Inc.	24.25/ton	
BITUMINOUS PATCHING MIXTURE (3/4") (5.0% oil)		
Commercial Asphalt Co.	$17.65/ton	
C. S. McCrossan, Inc.	17.75/ton	
Bury & Carlson, Inc.	22.10/ton	
Midwest Asphalt Corp.	22.95/ton	$29.00/ton
BITUMINOUS PATCHING MIXTURE (3/4") (5.5% oil)		
Commercial Asphalt Co.	$18.60/ton	
C. S. McCrossan, Inc.	18.60/ton	
Bury & Carlson, Inc.	23.35/ton	
Midwest Asphalt Corp.	23.95/ton	$30.00/ton
BITUMINOUS PATCHING MIXTURE (Winter Mix)		
C. S. McCrossan, Inc.	$26.00/ton	
Midwest Asphalt Corp.	30.00/ton	
Bury & Carlson, Inc.	35.00/ton	
	AT PIT	**DELIVERED**
SAND		
Barton Sand & Gravel Co.	$ 2.25/ton	$ 4.40/ton
CLASS 5 GRAVEL		
Barton Sand & Gravel Co.	$ 2.20/ton	$ 4.35/ton
Bury & Carlson, Inc.	2.50/ton	
Midwest Asphalt Corp.	4.50/ton	5.00/ton

Re: BIDS - Street Maintenance Materials
April 12, 1985

GRANULAR MATERIALS	AT PIT
Barton Sand & Gravel Co.	$ 1.35/ton
Bury & Carlson, Inc.	2.00/ton

It is recommended that the contracts be awarded as follows:

BITUMINOUS PATCHING MIXTURE (3/8") (5.0% oil)	AT PLANT
C. S. McCrossan	$18.75/ton
BITUMINOUS PATCHING MIXTURE (3/8") (5.5% oil)	
C. S. McCrossan	$19.75/ton
BITUMINOUS PATCHING MIXTURE (3/4") (5.0% oil)	
C. S. McCrossan	$17.75/ton
BITUMINOUS PATCHING MIXTURE (3/4") (5.5% oil)	
C. S. McCrossan	$18.60/ton
BITUMINOUS PATCHING MIXTURE (Winter Mix)	
C. S. McCrossan, Inc.	$26.00/ton

SAND	AT PIT	DELIVERED
Barton Sand & Gravel Co.	$ 2.25/ton	$ 4.40/ton
CLASS 5 GRAVEL		
Barton Sand & Gravel Co.	$ 2.20/ton	$ 4.35/ton
GRANULAR MATERIAL		
Barton Sand & Gravel Co.	$ 1.35/ton	

Sincerely,

Wm. L. Sherburne

William L. Sherburne, P.E.
City Engineer

WLS:jrs

April 12, 1985

John T. Irving
City Manager
City of Crystal, MN

Re: Bleacher Bids
April 10, 1985

Dear Mr. Irving:

Sealed bids were received for the purchase of four, 5-row Bleachers for the Park Department and were checked for completeness and compliance with the specifications.

The tabulation is as follows:

Stadiums Unlimited, Inc.	$3565.00
Earl F. Andersen & Associates	3784.00
Flanagan Sales, Inc.	4000.00
West Central Recreation Supply	4410.00
P. M. Johnson's, Inc.	4620.00

It is recommended that the contract be awarded to Stadiums Unlimited, Inc. in the amount of $3565.00.

Sincerely,

Wm. L. Sherburne

William L. Sherburne, P.E.
City Engineer

WLS:jrs

April 12, 1985

Honorable Mayor & City Council
City of Crystal, MN

Re: Improvement Needs
Crystal Gallery

Dear Councilmembers:

A study was made of the improvement needs as they pertain to the above-captioned site.

The items listed below were found to be reasonable and necessary for the orderly development of the City of Crystal and the site, also being in the best interests of the public:

- Prepare and record plat of property.
- Construct 5' wide concrete sidewalk as indicated.
- Grade boulevards to conform to Crystal standards.
- Construct concrete driveway apron across boulevard.
- Construct 4 curb openings at driveway and repair street adjacent.
- Close abandoned driveway openings in curb and repair street adjacent.
- Construct V6 cast-in-place concrete barrier curb per approved plot plan.
- Construct parking area, access aisles and drives with a minimum of 6" Class 5 base and 2" bituminous surface.
- Stripe parking stalls with white paint.
- Erect 8 handicap parking stall signs.
- Construct storm sewer and appurtenances to collect and dispose of all surface water on the site.
- Provide screening from adjacent property in accordance with Section 515.07, Subd. 9, of the Crystal City Code, at locations shown on approved plot plan.
- Erect stop signs at exits from parking area.
- Disconnect all abandoned water services at the main.
- Prepare and submit "as built" utility plans.
- Designate and sign fire lanes.
- Area lighting shall conform to Section 515.07, Subd. 10, of the Crystal City Code.
- Landscape all open areas.
- Provide all lot irons in place and to grade at the time of final acceptance.

It is recommended that the above work be required as a condition of issuance of a building permit; that the work be completed prior to issuance of an occupancy permit but not later than June 1, 1986; that the work be unconditionally guaranteed for a period of one year from date of final acceptance of all the work; and that surety in the

amount of $237,000 be required as a guarantee of the faithful performance of the above construction and requirements.

Sincerely,

Wm. L. Sherburne

William L. Sherburne, P.E.
City Engineer

WLS:jrs

cc: John T. Irving, City Manager
Don Peterson, Building Inspector
Lincoln Companies
7205 Ohms Lane
Edina, MN 55435

Encls

towle agency

April 9, 1985

Nancy Deno
Administrative Assistant
City of Crystal
4141 Douglas Drive
Crystal, Minnesota 55422

Re: Insurance Renewal

Dear Nancy:

I have now received the renewal premiums for the City's Insurance Program for 1985-86 which is as follows:

PROPERTY/LIABILITY PACKAGE	$59,616.00 *
AUTOMOBILE	$30,647.00
WORKER'S COMPENSATION	$132,070.00
PUBLIC OFFICIAL LIABILITY	$5,500.00
3% Tax	$165.00
	25.00

* If Police Professional Liability is separately provided deduct $3,730.00.

As you have noted, the premium has increased back to a level similar to that level of five years ago which was prior to what has been called a soft insurance market. I am enclosing afew articles that may help explain the situation currently taking place with all commerical insurance and they all highlight the fact that a severe change in pricing, capacity and coverage is taking place at this time.

The Home Insurance Company has been one of the few insurers to provide a consistant program at a competative price for municipalities and it is well to point out they plan to continue with this program. To do so however, does require higher premiums at this time, and where claims have demonstrated a rate inadequacy.

The enclosed premium and claim summary demonstrates the past three years losses under the package policy which exceeds the premiums by 40% and the average worker's compensation losses have been $129,213.00 annually. This does not allow for expenses, other margins and dividends, and further losses you mentioned which did not get into the computer yet.

I would like to point out that the municipal program has returned very significant dividends to the City. I find we have returned the following:

1981	$21,968.15	
1982	$10,984.09	
1983	$27,482.17	TOTAL PAID: $60,434.41

I am also enclosing an additional $2,226.74 which was just received. This is a final payment for premiums earned in 1981.

From all this I feel the present renewal is in line and we have been given every consideration in the past. I feel it is best to stay with the program even though there will be some changes in pricing at this time.

If I can be of any further help to you, please call on me at any time.

Very Truly Yours,

Cary Shaich

Cary M. Shaich

HOME INSURANCE

1985 RENEWAL

PROPERTY	$24,653.00	
GENERAL LIABILITY	$34,966.00	*
AUTO	$30,647.00	
WORKER'S COMPENSATION	$132,070.00	
	$222,336.00	

* Liability if $31,236.00 if Police Professional Liability is provided under separate policy.

Worker's Compensation Experience modification 1.12

LEAGUE OF MUNICIPATLITES PREMIUMS

1985

PROPERTY	$39,882.00	
LIABILITY	$35,380.00	*
AUTO	$31,393.00	
WORKER'S COMPENSATION	$92,926.00	
BOILER	$881.00	
BOND	$600.00	Estimated
TOTAL PREMIUM	$201,062.00	

* Premium savings to exclude Policy Professional Liability $7,959.00.

Worker's compensation ecperience modification 1.12

CITY OF CRYSTAL.

FIVE YEAR PREMIUM SUMMARY:

YEAR	PACKAGE	AUTO	WORKER'S COMPENSATION
1984-85	$23,269	$22,581	$ 79,474
1983-84	$24,683	$22,687	$108,583
1982-83	$24,227	$20,629	$106,985
1981-82	$34,544	$21,900	$ 93,364
1980-81	$46,026	$29,720	$108,609

FIVE YEAR CLAIMS SUMMARY:

YEAR	PACKAGE	AUTO	PAID WORKER'S COMP.	INCURRED WORKER'S COMP.
1984-85	$30,823	$ 4,001	$ 570	$ 3,273
1983-84	$30,571	$12,446	$ 45,268	$ 67,727
1982-83	$39,769	$ 5,198	$ 2,734	$ 2,734
1981-82	$ 2,730	$ 4,640	$ 87,999	$116,634
1980-81	$ 5,232	$22,302	$315,765	$329,758

american business risk services, inc.

February 13, 1985

Mr. Cary Shaich
Towle Agency, Inc.
409 Minnesota Federal Building
Minneapolis, MN 55402

RE: LEAGUE OF MINNESOTA CITIES INSURANCE TRUST

Dear Cary:

Per your request the following is some information regarding the reinsurers for the League. The reinsurers participating in the captioned's reinsurance program are Mentor (57.5%), Interamerican Re (10%), Aneco Re (15%), Insco Ltd. (7.5%), INA International (7.5%) and Western General (2.5%). Seventy five percent of the League's insurance business is ceded to these reinsurers on a quota share basis and the League's net retained 25% portion is also covered by these reinsurers on an excess annual aggregate basis. All of the reinsurers have had their annual financial statements filed with our office in order to analyze the quality of their security.

As fail safe protection for the League we have required all reinsurers to post letters of credit equal to the amount of outstanding loss for which they are liable and the amount of unearned premium they are holding. The letters of credit now total $1,400,000 and the League is well protected against any reinsurer default or insolvency. We require these letters of credit to remain in effect until all outstanding losses are paid by the reinsurers and all unearned premiums become earned.

Attached please find some literature regarding the League Program and also who handles the claims.

Cary, if you have any additional comments or questions about the League's reinsurance program, please give us a call.

Sincerely,

Debbie Williams

RECD FEB 14 1985

Debbie Williams

DW/ksc
Encl.

7701 YORK AVENUE SOUTH • SUITE 200 • MINNEAPOLIS, MINNESOTA 55435 • (612) 830-3000 TELEX 290-382

FEBRUARY 4, 1985

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/$1.50 a copy; $52 a year

update

Manville faces property claims filed by government entities

NEW YORK—School districts and other local government entities hurried last week to beat the deadline for filing claims against Manville Corp. for alleged property damage in buildings containing asbestos.

According to Manville, more than 3,500 claims had been filed as of Jan. 28.

The local governments, which are seeking to recover billions of dollars

Continued on next page

Superfund bill high on Congress' agenda

By JERRY GEISEL

WASHINGTON—Congress is preparing to tackle a wide variety of bills related to risk management and property/casualty insurance issues, although only one of these issues is certain to be enacted this year, Washington observers say.

Congress this year almost surely will reauthorize the federal Superfund law, the 1980 federal pollution cleanup law that expires in September, experts say.

Congress also will consider proposals that would establish a federal product liability law and would affect the tax deductions that property/casualty insurers can take for loss reserves. However, it's not likely these proposals will pass both houses this year, observers say.

Possible changes to the McCarran-Ferguson Act, the federal law that leaves regulation of the insurance industry to the states, also will be discussed, just as they have during recent congressional sessions. But the chances of action on such changes seem remote, experts say.

In addition, congressional committees will discuss what role the banking industry should have in the insurance marketplace. The outcome of that debate is uncertain (*BI*, Jan. 28).

But there is virtually no doubt that Congress will pass Superfund legislation, since the existing law authorizing a federal hazardous-waste cleanup fund will expire this year.

Industry observers say the Superfund law that Congress will eventually pass this year—unlike the proposal considered last year by the House of Representatives—will not sharply increase employers' liabilities.

"I'm in an upbeat mood," said Leslie Cheek III, vp-federal affairs in Crum & Forster's Washington office. "Now, there is a recognition (among legislators) that Superfund reauthorization will have to be

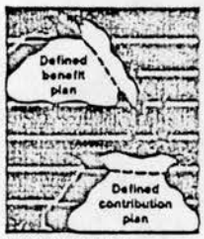
Continued on page 28

Firms can shift assets from overfunded plans

By JERRY GEISEL

WASHINGTON—Employers can shift excess assets from their defined benefit pension plans to their defined contribution plans, the Internal Revenue Service says.

For instance, instead of contributing general corporate funds to a 401(k) salary reduction plan, a company could transfer surplus assets from an overfunded defined benefit plan to the 401(k) plan.



Graphic: Amy Palmer

The IRS said such shifting of assets would be allowed if the employer received an opinion from an enrolled actuary that the assets in the defined benefit plan were more than what is required to pay accrued benefits to participants if the plan is terminated.

Such asset transfers may appeal to employers with overfunded defined benefit plans that want to recoup the excess assets without terminating the plan.

The IRS position on asset transfers is contained in a general information letter the agency sent late last month to Frederick Rumack, director of tax and legal services at Buck Consultants Inc. in New York. In 1980, the IRS sent a letter to consultant Towers, Perrin, Forster & Crosby that appeared to endorse asset transfer. However, that letter did not provide the kind of detail contained in the Buck letter, and it aroused considerably less interest.

Buck's Mr. Rumack in November had written the IRS asking for the agency's opinion on an asset transfer from an overfunded defined benefit plan to a profit-sharing plan with a 401(k) salary reduction feature. The transferred assets would be used to match employee contributions to the plan.

"It is a tremendously exciting development," Mr. Rumack says of the IRS letter.

But other experts are cautioning employers that may be considering an asset transfer to wait until the U.S. Department of Labor and the Pension Benefit Guaranty Corp. have endorsed such transactions. The Labor Department and the PBGC, along with the IRS, regulate retirement plans.

Consultants also point out that employers could face lawsuits from participants if assets were removed from a defined benefit plan and the plan was later terminated without sufficient assets to pay all benefits.

Mr. Rumack, though, contends asset transfers will benefit both employers and employees.

Employers will have more flexibility in how they fund their benefit plans. An employer, for instance, might be able to eliminate a contribution to a savings plan through an asset transfer and thus be able to conserve corporate cash resources.

"It opens up (funding) avenues that didn't exist before," he says.

Employees could benefit, he adds, because employers might be more willing to set up new defined contribution plans or sweeten existing plans if they knew they could draw on pension plan surpluses to fund the plans.

If that occurs, there would be more retirement income available to employees, Mr. Rumack says.

The IRS decision comes at a time when there is tremendous employer interest in tapping surplus pension plan assets.

Continued on page 34

Mentor, two other markets close their doors

By DOUGLAS McLEOD

NEW YORK—The already squeezed commercial insurance market is suddenly tighter after announcements by three far-flung insurers that they are closing their doors to new and renewal business.

In unrelated developments late last month:

- Bermuda-based Mentor Insurance Ltd., a unit of Ocean Drilling and Exploration Co., announced it has stopped all underwriting, including that of parent-related risks.
- Corroon & Black Corp. said it has shut down its excess/surplus lines underwriting management unit, Baccala & Shoop Insurance Services, following an unsuccessful effort to sell the company to Zenith Insurance Co. of Encino, Calif.
- Mission Reinsurance Corp., a unit of Mission Insurance Group, is "retiring from the reinsurance market," according to a spokesman. Some Mission Re policies are being canceled mid-term and the remainder of the book will be run off, the spokesman said.

While observers express dismay over the loss of the three markets, most say that their withdrawal came as no surprise since all three companies had drastically reduced their underwriting activity in recent months.

The withdrawal of Mentor, founded in 1968 by New Orleans-based ODECO, does not include other units of Mentor Holding Corp., an intermediate holding company created by ODECO in 1981.

These other units include Mentor Insurance & Reinsurance Co. and Mentor Excess & Surplus Lines Insurance Co., both formed as admitted insurers in Louisiana in 1983.

ODECO had planned to have the two companies licensed in all 50 states to gain access to better-quality U.S. business. However, the companies are still licensed only in Louisiana, are writing only ODECO-related risks and have no immediate plans to expand into underwriting non-related business, according to Clovis H. Steib Jr., vp and treasurer of Mentor Holding Corp.

> 'They (Mentor) had an underwriting guide 10 feet thick,' notes Amberco Vp Julian Griffiths.

Another Mentor Holding subsidiary, Mentor Insurance Co. (U.K.) Ltd., stopped underwriting in 1983 and has since been running off its book.

Mentor has been writing on a net-line basis only since Jan. 1, without any reinsurance support, and its per-risk capacity dropped to a maximum of $250,000, Bermuda sources say. Gross capacity per risk last year had been about $1 million.

Bermuda brokers and insurers say that these restrictions blunted the impact of the loss of Mentor's capacity.

"It's just like Insco," said A.W. Hunt, vp of Pearson Webb Springbett (Bermuda) Ltd., referring to Gulf Oil Corp.'s Insco Ltd., which stopped writing related and non-related risks last November.

"It's a decision on something we had perhaps been expecting for some time," Mr. Hunt commented.

Mentor has not yet released 1984 financial data, and company officials refused to comment on last year's results or their reasons for shutting down the Bermuda Mentor operation.

However, poor underwriting experience is generally thought to have prompted the decision.

In 1983, Mentor produced net written premiums of $72.5 million, up 43% from $50.6 million in 1982. Net earned premiums rose 28% to $60.3 million in 1983 from $46.9 million the previous year.

Parent-related business accounted for a relatively small portion of Mentor's volume. According to the company's 1983 annual report, net earned premiums from writing "proportionate risks" of ODECO amounted to $3.9 million—6% of total volume—in 1983 and $3.3 million—7% of total volume—in 1982.

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transfer insurers

Satellite owners launching proposals to cope with rate hikes, capacity crunch

Page 3

Mentor, two other markets shut down

Continued from page 1

Mentor reported underwriting expenses of $68.8 million in 1983, up from $55.8 million the year before, and an underwriting loss of $8.5 million in 1983 compared with a loss of $8.9 million in 1982.

Net investment income fell 14% to $13.6 million in 1983 from $15.9 million in 1982.

All of this translated to an operating loss of $654,000 in 1983, compared with a gain of $7 million the year before. After income taxes and other gains, Mentor reported net income of $115,000 in 1983, compared with net income of $5.4 million in 1982.

Mentor had been more restrictive in its underwriting practices for more than a year, and in recent months had drastically reduced its per-risk capacity, according to sources.

"They had an underwriting guide 10 feet thick," said Julian Griffiths, vp with Amberco Brokers Ltd. in Bermuda.

Bad experience led the company to stop underwriting U.S. facultative reinsurance in October 1983 and to demand better terms on about 60% of its business in 1984, Mentor Chairman J. Douglas Higley said in an interview last year (*BI*, April 2, 1984.)

"We've done very little business with them" recently, noted Roger Gillett, vp with J&H Intermediaries Ltd., adding that Mentor previously had been a strong market for J&H.

Mr. Griffiths said Amberco probably placed more business with Mentor going into 1985 than the previous year, but that Amberco would have problems replacing Mentor's capacity on only a couple of very large accounts.

Several Bermuda sources said Mentor's closing will have a greater impact on the island's reputation than on market capacity.

Mentor, whose ultimate parent is Murphy Oil Corp., is the fourth insurance subsidiary of an oil company to restrict or abandon underwriting, and the third to do so in the last four months.

Walton Insurance Co. Ltd., a unit of Phillips Petroleum Co., stopped writing unrelated risks in January 1983. It was followed last October by Exxon Insurance Holdings Inc., which stopped accepting unrelated business, and by Insco a month later (*BI*, Oct. 8, 1984; Nov. 26, 1984).

Texaco Inc.'s Heddington Insurance Ltd. is the only major oil company insurance subsidiary still writing third-party business.

"The political implication is more upsetting than anything else," Mr. Griffiths observed. "People are going to point a finger (at Bermuda) once again."

If the core of the Bermuda market is considered to be insurers that write third-party risks, then the closing of Mentor is "one more nail in the market's coffin," explained Nicholas Poschl, vp-underwriting at Insco.

"Whether Bermuda is hurt by third-party writers that are no longer writing third party is an open question," Mr. Poschl explained, noting that some might consider captives writing parent company business to be the "guts" of the Bermuda market.

ODECO said Mentor's Bermuda offices will be maintained to handle the run-off of existing business, but it did not say how many of the company's approximately 40 employees will be terminated.

Meanwhile, Corroon & Black has closed Baccala & Shoop and apparently plans to dispose of two other units in its Underwriting Management Group: National Excess Insurance Co. and National known as Global Aviation.

If the core of the Bermuda market is considered insurers that write third-party risks, then the closing of Mentor is 'one more nail in the market's coffin,' says Nicholas Poschl, vp-underwriting at Insco.

"In the long term we, as other brokers, have come to the conclusion that the underwriting business is a business to which we do not want to have a lot of exposure," said Stephen Crane, senior vp and chief financial officer of C&B.

"The shorter-term problem was a catalyst," he said, referring to an anticipated 1984 operating loss at Baccala.

C&B announced last month that its 1984 earnings will exceed $18.5 million, or about $2.15 per share. The Underwriting Management Group, however, is expected to post an operating loss of about $7.7 million, or 90 cents per share, about half of which is attributable to Baccala & Shoop.

C&B executives would not comment on Baccala & Shoop's 1984 premium volume or gross revenues.

William P. Baccala, a founder of the firm, said last year's premium volume totaled about $60 million.

Mr. Baccala, who resigned as chairman of Baccala & Shoop last month, said he was not consulted by Corroon & Black before it decided to close the firm.

Baccala & Shoop had been an underwriting manager for Twin City Fire Insurance Co. and Nutmeg Insurance Co., both units of Hartford Insurance Group. But Baccala & Shoop's relationship with Hartford was terminated as of Jan. 1, according to Mr. Baccala.

Hartford had demanded that C&B improve the reinsurance security behind the Baccala & Shoop programs and that it find a third policy-issuing company, Mr. Baccala said.

Baccala & Shoop's in-house capacity before termination of its agreements with Hartford was $500,000 on property and casualty risks, and automatic facultative reinsurance agreements provided gross capacity of $5 million on casualty business, Mr. Baccala said.

Baccala & Shoop had already suffered a significant loss of capacity in early 1984, when the loss of one or more property treaties reduced its capacity per risk to $500,000 from at least $9 million and perhaps as high as $20 million.

Baccala's premium volume and revenues have fluctuated in recent years. Premium volume in 1984 declined from $109.1 million in 1983 and $121.9 million in 1982. But the company's 1982 volume represented an increase from $98.5 million in 1981. Premium volume in 1980 was $112.9 million.

Similarly, revenues fell in 1983 to $10.5 million from $13.6 million in 1982. Revenues amounted to $10.5 million in 1981 and $11.3 million in 1980.

Until early January, C&B had been negotiating to sell Baccala & Shoop and the two National Excess companies to Zenith, a property/casualty insurer of which 24% is owned by Reliance Insurance Co.

But the negotiations broke down because of a disagreement over the price to be paid for the group, sources say.

Corroon & Black was "very adamant about what it thought the group was worth," says Stanley B. Zax, Zenith's president. "Nobody in the world was willing to give them what they asked and that's why they had to close (Baccala & Shoop)

based with Baccala & Shoop in Newport Beach, Calif., posted net written property/casualty premiums of $2.9 million in 1983, most of which was reinsurance business.

National Excess Insurance Services, an aviation specialist, was an MGA for Ideal Mutual Insurance Co. until its relationship with Ideal was terminated in early 1984.

The MGA recently canceled some policies it still had with Ideal, which has been placed in rehabilitation by the New York Insurance Department (see story, page 2). Some of this business has been rolled over into National Excess Insurance Co., according to Mr. Crane.

No decision has yet been made on the fate of the National Excess companies, which may be sold or closed or may continue to operate as C&B subsidiaries for a given period, Mr. Crane said.

Mr. Baccala said that C&B is negotiating a possible sale of the MGA to Aviation Office of America Inc., a Crum & Forster affiliate.

In any case, C&B announced that the National Excess companies will be accounted for as discontinued operations in 1984.

A charge of between $12.5 million and $15 million will be taken against 1984 earnings for expected losses on disposition of the discontinued operations, the compan
said. After including an addition
write-off of about $7.7 million co
nected with those operations, C&
expects to post a net loss for th
year.

As with Mentor, brokers we
disappointed by the closing of Ba
cala & Shoop but were not su
prised.

"We had all been hoping th
they could get new treaty capacit
but the reinsurance market is
bad, they couldn't get the capacity
said Donald K. Sherwood, pre
dent of Sherwood Insurance Se
vices in San Francisco.

Mr. Sherwood added, howeve
that the closing would not have
major impact on his business, sin
Baccala's capacity had already be
reduced for a year.

The third market to close
doors recently was Mission Re. T
company's operating results we
apparently not good enough to co
vince Mission Insurance Group
maintain it, a spokesman indicate

"The expected downstream r
turn was not enough to support t
operation," the spokesman sai
"Consequently, we have decided
concentrate our efforts on special
lines," including workers comp
sation and the business unde
written by Mission's surplus lin
affiliate, Sayre & Toso Inc.

Mission Re's 1984 results are
available, the spokesman said.
1983, Mission Re booked gross rei
surance premiums of $28.2 millio
ceding $13.2 million for net prem
ums of $15 million.

It suffered a net underwritin
loss of $4.2 million and a net ope
ating loss of $326,661. Missio
Re's combined ratio for 1983 w
118.2%.

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update

Punitive damage class OK'd for schools in asbestos litigation

PHILADELPHIA—A federal court judge has certified a nationwide mandatory class action for all public and virtually all private schools suing asbestos companies for punitive damages over the cost associated with removing asbestos from schools.

U.S. District Court Judge James M. Kelly, however, denied a mandatory class action for school districts seeking liability and compensatory damage

Continued on next page

Supreme Court will decide on insurance, benefit cases

By JERRY GEISEL

WASHINGTON—The Supreme Court will decide whether the media's constitutional protections against libel judgments also protect a business credit reporting service and other non-media commercial enterprises.

At issue is whether New York-based Dun & Bradstreet Inc., which supplies business credit information to subscribers, is entitled to the same First Amendment guarantee of freedom of expression that is afforded to newpapers, magazines and the electronic media.

During its fall term, which began last week, the Supreme Court also will decide whether:

- Workers injured on an offshore drilling platform are covered under the federal Longshoremen's and Harbor Workers' Compensation Act.
- States can impose higher premium taxes on out-of-state insurance companies than on domestic insurers.
- Airlines can be liable for passenger injuries that are not caused by an accident or a malfunction aboard an aircraft.
- The Employee Retirement Income Security Act allows workers to seek punitive damages from their employers.
- State rules restricting attorneys who advertise for product liability cases are constitutional.

The justices, though, declined to review hundreds of cases, including two appellate court decisions that expand the liability of companies that manufactured DES, an antimiscarriage drug (see story, page 26).

The libel case involves a $350,000 jury award against Dun & Bradstreet, including $50,000 in compensatory damages and $300,000 in punitive damages.

Dun & Bradstreet had been sued by Greenmoss Builders Inc., a central Vermont construction company, after it published a report that Greenmoss had filed a voluntary bankruptcy petition. The report was published in Dun's "Special Notices," whose subscribers are interested in a particular business. Five subscribers received the special notice reporting the Greenmoss bankruptcy petition.

On Aug. 3, 1976, eight days after the special notice was published, Greenmoss President John Flanagan contacted Dun & Bradstreet's Manchester, N.H., office to advise that the report was erroneous.

On the same day, Dun & Bradstreet published a correction, ex-

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Exxon stops underwriting commercial reinsurance

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Despite modest profits, Exxon Corp. is suddenly out of the commercial reinsurance business after a five-year foray.

The management of New York-based Exxon unexpectedly decided late last month to order its three reinsurance operations under Exxon Insurance Holdings Inc. to stop accepting new or renewal non-related risk insurance business as of Oct. 1.

"Exxon reassessed the non-related risk business and decided to wind down that activity," said Exxon Insurance Holdings President Clayton P. Cormier from his Bermuda office. "The decision was that it was not the right fit. It was a strategic decision. . .based on a long-term assessment of the reinsurance industry."

Out of commercial reinsurance underwriting are: Bermuda-based Ancon Insurance Co. S.A., the most highly capitalized reinsurer in Bermuda with $739.6 million in capital and surplus; Ancon Insurance Co. (U.K.) Ltd., with 10 million pounds in capital; and the ANEX Syndicate on the New York Insurance Exchange, with $4.4 million in policyholder surplus.

Ancon in Bermuda will continue to underwrite Exxon-related risks, which have always been the largest source of its business, accounting for 82.6% of its 1983 consolidated net premiums of $140.7 million. The British company and ANEX, which reported 1983 net earned premiums of $7.9 million and $3.5 million respectively, could be sold.

The three operations had consolidated gross premiums of $38 million on unrelated risks in 1983 and were expected to book slightly more in 1984. The 1984 volume will be less without renewals, however.

Exxon's withdrawal from commercial reinsurance underwriting further reduces worldwide reinsurance capacity for the January reinsurance renewals, which already are expected to be difficult because of previous withdrawals of reinsurers.

And, with its largest operation in Bermuda, Exxon's withdrawal from commercial reinsurance is certain to resurrect the debates over the long-term stability of Bermuda as a commercial reinsurance center and non-insurance companies' commitment to diversification into the reinsurance business.

The last major captive in Bermuda to stop underwriting unrelated risk business was Walton Insurance Co. Ltd., owned by Phillips Petroleum Co., which stopped underwriting unrelated risks in January 1983 due to big losses on the business.

Exxon did not base its decision to withdraw from commercial reinsurance underwriting on the combined ratio produced by the non-related business, Mr. Cormier said. Exxon Insurance's three reinsurance operations have made a "modest profit" after investment income on unrelated business, Mr. Cormier said.

In its 1981 annual report, Exxon Insurance disclosed its experience on unrelated risk business: a 78.9% loss ratio on net premiums of $1.3 million in 1979; 110.1% on net premiums of $3.4 million in 1980; and 83.6% on net premiums of $10 million in 1981.

Since 1982, however, Exxon Insurance has not disclosed its loss experience on its consolidated unrelated risk business of $19.7 million in net earned premiums in 1982 and $24.6 million in net earned premiums in 1983.

(ANEX reported to the New York Insurance Exchange a combined ratio of 114% in 1983 and net income of $16,000 after investment income. Ancon (U.K.) has not closed its first year of business under the three-year method of accounting used in London.)

The reported consolidated loss ratio for all of Exxon Insurance's business for the past two years has been enviably low because of few losses on Exxon-related business: 29.1% in 1983 and 30% in 1982.

An Exxon spokesman confirmed that "the unrelated operations did yield a modest profit but, we felt as we looked at this business it was not wise to stay in it."

Tax considerations also did not motivate Exxon's decision, Mr. Cormier said. "We didn't get into the business for tax advantages, and the withdrawal is not tax-driven."

It has been suggested that a company whose captive insurer underwrites unrelated risks will be in a better position to prove to the Internal Revenue Service that

Continued on page 4

Liability market shrinking for public entities

By MEG FLETCHER

Public entities seeking to renew liability coverages are being buffeted by gale-force winds of change.

Seven insurers that wrote public officials and police professional liability coverages 18 months ago have left the market. And, the remaining insurers are raising rates anywhere from 15% to 400% on comprehensive general liability policies that include endorsements for public officials and police professional liability coverages.

In the last 90 to 120 days, there has been a 180-degree turn in the market for municipalities seeking a total liability package, says James W. Chapman, resident vp of the governmental programs division of Markel Service Inc., a broker and managing general agent in Richmond, Va.

And, the winds are not abating yet.

"There will be some real weeping and gnashing of teeth in the next two months," predicts D. Michael Enfield, managing director for broker Marsh & McLennan Inc. in San Francisco.

"I expect to see a continued erosion of the public entity liability insurance market through the first quarter of 1985," he adds.

Changes are generally being felt on the West Coast now, but the wind is blowing toward the East.

Feeding the storm are tighter reinsurance conditions that reduce direct insurers' capacity and increase their costs; growing underwriting losses on policies underwritten at rock-bottom rates; and legal decisions that have broadened the exposure of municipalities, sources say.

Several insurers have responded by pulling out of the public officials and police professional liability markets completely.

Two years ago, there were about 20 insurers in California that would underwrite low-layer liability coverage for public entitites. Now there are fewer than seven, Mr. Enfield said.

In the last month, Ideal Mutual Insurance Co. of New York and Great Southwest Fire Insurance Co. of Scottsdale, Ariz., have stopped underwriting police professional and/or public officials lia-

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. . . MARKET ALERT. . .

Illustration: Roger Schillerstrom

Liability market shrinking for public entities

Continued from page 1

bility coverage either as separate or combined policies or as endorsements to comprehensive general liability policies.

Last month, Ideal Mutual canceled all police professional liability policies midterm with a 30-day notice, said Daniel R. Varona, Ideal's vp, secretary and general counsel.

Ideal's exodus from the police professional liability market is part of an ongoing redirection of the insurer's priorities, he said. The company is moving out of the agency business and concentrating on writing large, direct accounts, he said (*BI*, May 21)

Those police professional liability policies that were canceled, some of which also covered public officials, generated $3 million to $5 million of the company's total 1983 premiums of $200 million, he said. The loss ratio for this line was generally worse than the company's 71.5% loss ratio for all its liability lines in 1983, Mr. Varona said.

About 1½ years ago, Ideal changed its reinsurance arrangement so it was retaining more of the risks and, therefore, felt the losses more, he said.

Most of the police liability coverage was written in rural areas.

Great Southwest is letting the book run out on the vast majority of the public officials and police professional coverages it underwrites, said Eugene J. Keating Jr., chief operations officer. Although it is not canceling any existing coverage, it is notifying policyholders now that it is neither writing new coverage nor renewing existing coverage while evaluating its position.

"We just don't think we can make money on it," Mr. Keating explained.

Also this spring, Compass Insurance Co. decided to close its doors and is running off its business, including public entity business. The Cherokee Insurance Co., which has been in voluntary rehabilitation in Tennessee since July 17, also stopped writing all policies this spring, including a CGL policy with special endorsements for police and public officials. That municipal package generated $300,000 to $350,000 of Cherokee's $24.8 million in direct written premiums in 1983, according to Billy Akin, senior vp and secretary.

The loss ratio for the municipal package was better than the company's 165.3% loss ratio for all liability lines, Mr. Akin said.

Another three insurers—Guaranty National Insurance Co., Canadian Indemnity Co. and United National Insurance Co.—have dropped out of the market since spring of 1983.

And, Transit Casualty Co. has directed broker Bayly, Martin, & Fay International Inc. to stop writing all police and public officials liability coverage for it, according to George P. Bowie, chairman and general counsel. However, he said Transit Casualty will still consider insuring a municipality on a selected underwriting basis.

Transit Casualty's program had been endorsed by the International Assn. of Chiefs of Police, but that endorsement was given to Markel's program in September, according to Mr. Chapman. Markel is also forming a national advisory board on the topic of police liability.

A surplus lines insurer that dropped out of the market in January said its losses in the public entity liability market coverages were less than those in other liability lines, but it found it increasingly difficult to find municipalities that would accept policies written by non-admitted insurers because such policies are not protected by guaranty funds and are not subject to state rate and form regulations.

As a result, the insurer anticipated a problem in maintaining the necessary volume to keep reinsurance treaties that supported the program and decided to drop out of the market.

The exodus of these insurers has made it extremely difficult for public risk managers to get competitive bids on the coverage they need.

Getting competing bids for excess cover for his self-insured liability and property program was a problem for Allen Hyman, risk manager in Corpus Christi, Texas, and president of the Public Risk & Insurance Management Assn. He queried at least six potential insurers; half refused to quote and two others never responded.

"Two years ago people would jump at this business," said Mr. Hyman. "Now they are lying back. The tide is finally turning and it is going to become a seller's market instead of a buyer's market."

Brokers are also less interested in public entity accounts.

David Van Dyke, a partner in wholesale broker Charter House in Nashville, Tenn., said that since July 1 no competing brokers have shown up to bid on accounts that he has been interested in. Last year there would have been seven or eight others there, he said.

Meanwhile, the insurers remaining in the market are charging more for the coverage.

The city of Santa Ana, Calif., a community of fewer than 220,000 about 35 miles south of Los Angeles, was hit this year with a 220% increase in the premium for a CGL policy that includes public officials and police professional liability coverage, said Risk Manager Jeff Stevens. He declined to name his insurer.

For the fiscal year beginning July 1, the city paid $315,625 for $60 million in coverage, up from $97,250 for $50 million in coverage the previous year.

The insurer also doubled the city's self-insured retention to $200,000 from $100,000.

Some increase in premium was expected because two non-police claims were settled earlier this year for a total in excess of $1 million, he said. But, Mr. Stevens said he was surprised by the size of the increase and worked a month trying to finding a better rate, but was unable to do so.

"Already my concern is what will happen next year," he adds.

And, when Corpus Christi did find excess liability coverage, its rates were up 35%, said the city's broker Gerald Michalak, area vp with Arthur J. Gallagher Co. in Dallas.

For the year beginning Oct. 1, the city is paying $97,750—compared with $72,335 last year—for $25 million in liability coverage above the city's self-insured retention of $250,000 for all casualty coverages, Mr. Michalak said.

Rates on comprehensive general liability policies that include police and public officials coverage are up anywhere from 15% to 400%, said M&M's Mr. Enfield said. The size of increase depends on the entity's loss experience and how underpriced the coverage was previously, he explained.

Markel's Mr. Chapman says rates are going up 50% to 300% for liability packages that include general liability, police and public officials, auto liability and third-party property coverages.

The market for public officials and police professional liability coverages written as separate policies is in "real distress and flux," said Mr. Enfield.

Police professional coverage in particular is becoming more restrictive and harder to find, adds Bob Bieber, director of client services for Ebasco Risk Management Consultants in New York.

Among the insurers most often identified as writing coverages for police professionals or public officials, as part of a CGL policy or separately, are National Casualty Co., Scottsdale Insurance Co., International Surplus Lines Insurance Co., Imperial Casualty & Indemnity Co., The Forum Insurance Co. and INAPRO, a CIGNA Corp. subsidiary that is the professional liability underwriting manager for CIGNA.

Mr. Chapman of Markel, which is the managing general agency for National Casualty and Scottsdale Insurance, expects average premium increases of 20% to 50% for public officials coverage and 20% to 40% for police professional coverage.

Markel generated $1.25 million in premium volume for public officials coverages and $4.25 million in premium volume for police professional coverages in 1983.

However, Robert M. Bryant, vp at Special Risks Inc., a wholesale broker in Virginia Beach, Va., that is the managing general agency for Imperial Casualty, said the national market is still competitive with increases of only 10% to 20% for police professional liability coverage.

In 1983, Imperial Casualty generated $3.3 million of its $86.9 million in premium volume from a separately written police professional policy. It generated an additional $2 million to $3 million in premium volume from comprehensive general liability policies that include endorsements for public officials and police liability coverages, according to Mel Epstein, Imperial Casualty's manager of property and casualty underwriting.

Forum Insurance, which generated $6 million of its $54 million in direct written premiums in 1983 from separately written public officials liability policies, may not increase rates that have remained the same for seven years for some policyholders, while others will get increases of up to 30%, according to Ted Padgett, assistant vp for commercial underwriting.

Forum did not cut rates over recent years to remain competitive, even though this cost the insurer business, says Mr. Padgett. Public officials coverages, which generated $8 million in premium volume two or three years ago, will generate only $4 million in premium volume this year, he said.

Premiums also have remained stable because Forum bases premiums on the public entities' budgets, which have been kept down through belt tightening and propositions to reduce taxes.

Forum's loss ratio on its public officials coverage was worse than its 91.7% loss ratio for its liability lines as a whole, Mr. Padgett said. Losses were greatest in industrial states and in states where the sovereignty of public entities has been eroded by state statute, he said.

Insurers are also tightening underwriting terms, especially by increasing deductibles and self-insured retentions. M&M's Mr. Enfield said insurers are gradually eliminating aggregate deductibles and stop-loss provisions on SIRs.

But, the dramatic tightening in the public entity liability market is most evident in Western states and does not seem to have hit the East Coast and Deep South yet. For example, rates are currently up only 10% to 20% for public entities on the East Coast, sources say.

Likewise, in the Mid- and Deep South, premiums for liability packages including coverage for police and public officials are up a moderate 10% to 15%, said Mr. Van Dyke of Charter House. The wholesale broker writes only regional business from offices in Kentucky, Tennessee, Georgia and Alabama.

One of the largest factors behind the tightening of the market is the extent to which public entity liability products were underpriced.

Two years ago, there was a lot of competition in the market, says Markel's Mr. Chapman. And, a lot of insurers didn't appreciate the exposures and underpriced the public officials and police professional liability coverages, he said.

"There are so few who understand the potential exposure of the business itself," Mr. Chapman said. "I think they all got burned."

"The biggest factor is the product has been terribly underpriced and poorly underwritten by most companies," agrees Jim Bliss, who is president of wholesale brokerage The Bliss Group Co. and president of the Governmental Interinsurance Exchange, a pool-like group based in Bloomington, Ill., that includes about three dozen cities and counties.

Mr. Chapman, however, says the biggest factor is the tightening of the reinsurance market. "The reason the market has collapsed is the lack of reinsurance," he says.

Reinsurers are increasing their rates on the contracts they renew this fall and will pull out of some classes of business entirely to stem their underwriting losses, which have hit historic highs this year (*BI*, Sept. 17).

The legal climate and specific court rulings also have broadened public entities' liability exposures, which has produced more claims and losses.

Municipalities are a special class among special classes when it comes to insurance, said Mr. Bliss. "The laws are unique, arcane and changing rapidly," he explained.

The frequency of lawsuits against public officials and law enforcement personnel is up 400% in the past five years, said Markel's Mr. Chapman.

And, the cost of defending suits is more than the insurance industry anticipated, Mr. Chapman said. Out of every $4 paid out on lawsuits, $3 goes to legal costs and only $1 goes to the plaintiffs, he said. ■

Cities' property rates also rising

Rates for public entity property insurance are expected to rise more moderately than casualty rates, except for high-risk areas subject to earthquake and hurricane perils.

Higher premiums and larger deductibles are expected, said Mel Epstein, manager of property/casualty underwriting for Imperial Casualty & Indemnity Co. of Omaha.

There will be a significant increase in property rates, but how much depends upon the individual public entity because loss experience is still an important factor, said Doug MacLeod, vp at Public Entities National Corp., a Nashville, Tenn., wholesaler with a $50 million book of property and casualty programs for public entities.

Rates are expected to rise as the general property market hardens, but there are storm clouds on the horizon for public entities seeking earthquake coverage, said D. Michael Enfield, managing director for broker Marsh & McLennan Inc. in San Francisco.

He predicted a return to deductibles equal to 2.5% of the insured value. Lately, the deductibles for large clients—those with earthquake values for a single location of $25 million or more—were as low as 1% of the values and frequently negotiated dollar amounts.

Also, Texas cities and counties are now feeling the effects of Hurricane Alicia, which hit in August 1983. However, not all government entities are feeling the same effect.

The city of Corpus Christi had little or no property damage as the result of the storm, despite its Gulf Coast location. However, the city, which has a self-insured retention of $100,000 for first-party property coverage, saw its premiums increase 88% on Oct. 1 to $65,125 from $34,688 for $93 million in excess, per-occurrence coverage, according to broker Gerald Michalak, vp with Arthur J. Gallagher Co. in Dallas.

Harris County, which surrounds Houston, suffered hurricane losses of $700,000, and had its coverage canceled by Hartford Insurance Co. It then negotiated coverage with the Liberty Mutual Fire Insurance Co., according to Alvin Hollas, first assistant county auditor.

The premium to insure property valued at $220 million rose 61% to $125,900 from $78,000, he said.

The city of Houston suffered nearly twice the amount of damage to municipal property as did Harris County. Yet its premium for property insurance for the year beginning July 1 rose only 25%, said a city spokesman. He declined to provide additional details. ■

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update

Utah mine disaster to cost General Re up to $10 million

STAMFORD, Conn.—General Re Corp. says its subsidiary, General Reinsurance Corp., will suffer a net loss of no more than $10 million in connection with the Utah mine disaster last month that killed 27 miners.

General Re reinsures the workers compensation coverage purchased by Emery Mining Co., a subsidiary of Savage Industries of American Fort, Utah, according to a General Re exec-

Continued on next page

Tough times in new year

Insurers search for reinsurance

By DOUGLAS McLEOD

Reinsurance brokers, who worked overtime through the holiday season trying to complete placements for ceding companies, say they are finding about what they had expected: higher rates, more stringent conditions and, in some cases, a shortage of capacity.

Some brokers add that a sizable amount of placements were not completed by year-end.

"All in all, it was probably the tightest market in the last 15 years," summed up E.W. Blanch Jr., chairman of E.W. Blanch Co. in Minneapolis.

"From the standpoint of brokers and their clients, reinsurers are being extremely unreasonable," adds Gene Taylor, chairman and chief executive officer of John F. Sullivan Co., the reinsurance brokerage unit of Fred S. James & Co. Inc.

Some reinsurers were apparently more reasonable than others, though. A few companies were still "pretty aggressive" in their pursuit of business while others were "timid," demanding higher rates or smaller lines, according to one broker who asked not to be named.

"There was a tremendously inconsistent reaction in the marketplace," the broker said.

Some reinsurers, for their part, agree there is room for the market to tighten further.

"It tightened, but it did not tighten enough," said the president of one reinsurer, who expects tougher conditions to prevail during the July renewal season.

The market is already tough enough for many reinsurance brokers.

One day during renewals, Mr. Taylor says, he was up working until 1 a.m. and then up again at 4:30 a.m. to call London.

"We had a lot of people in on days we were closed. We had people in on Christmas Eve," said Kenneth A. Hecken, chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries, the reinsurance brokerage unit owned by Johnson & Higgins and Willis Faber. "The thing that's really demoralizing to us is that some of our markets are closed."

Despite these efforts, most brokers say they still have placements to complete.

Mr. Taylor estimated that as much as one-third of the total business in the marketplace may not have been fully subscribed by the Jan. 1 renewal date.

Ward B. Gordon, chairman of Intere Intermediaries Inc. in New York, says the firm has finished about 80% of its renewals. "I have no doubt we are going to finish, but whether it will be Jan. 1 or Feb. 15, we don't know," Mr. Gordon commented.

Of the unfinished business, he added, "We have a pretty good idea what it's going to cost but not who the participants are going to be."

"There is tremendous congestion in the market" caused by reinsurers cutting back on certain risks or pulling out of the market altogether, Mr. Blanch said. "The people were working like hell but the quantity of stuff they had to look at increased geometrically."

Capacity has shrunk in some areas, Mr. Gordon said, including casualty pro-rata treaty business and all types of reinsurance for risks like professional liability.

An executive for one reinsurer said the company had declined to renew the reinsurance on a municipal liability policy for a California municipality, and that the municipality is still looking for replacement coverage 60 days later.

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Buyers see rates rise, limits fall

By MICHAEL BRADFORD and STACY SHAPIRO

For many risk managers and brokers, the current insurance renewal season is the worst ever.

Brokers report that the rapidly constricting reinsurance market is causing direct insurers to boost some liability rates dramatically—as much as 300% to 500% in some lines (see related story). In addition, a lack of reinsurance is causing insurers to slash the capacity they offer in some lines, especially for high-layer excess and umbrella liability coverage.

MARKET ALERT

While some brokers did believe that the year-end renewals were not as difficult as had been predicted, others were still negotiating renewals that were to be completed by Dec. 31.

"There are clients with renewals not completed," summed up Richard E. Meyer, senior vp of Johnson & Higgins in New York.

"This is the most volatile market we have ever experienced. It is more serious than the '70s crunch. Rates are going up fast," Mr. Meyer said.

"I do not think we have seen anything as intense as this ever because of the conditions we were in," said Earl Lanning, vp at The Crump Cos. Inc. in Memphis, Tenn.

"It is like the tight market in the '60s, except this time (the market) went so far down that, as it comes back up, the effect is much more drastic," Mr. Lanning said.

"Capacity has dried up overnight," added an Atlanta broker who asked not to be named. "It is no longer a question of pricing. Even at exorbitant rates, we are finding it difficult—if not impossible—to place risks."

Some brokers said they would hold off completing some renewals until mid-January, hoping that insurers will line up additional reinsurance and be able to supply more capacity. Others chose to complete some renewals with lower limits than the policyholder had sought, hoping that more capacity will become available as the year progresses.

At Robinson-Conner Inc. in Erie, Pa., year-end renewals were "going right down to the wire," according to William B. Conner, the company's president.

Mr. Conner said last week that two of the broker's significant accounts that renew on Jan. 1 were still uncompleted. "And of those that are resolved, I don't think there was one that we didn't have problems with."

"We're scrambling around," Mr. Conner reported. "I've been around 27 years, and I haven't seen it like this. I've seen it tough, but before it was sort of a sustained tough, not in one fell swoop like this."

Robinson-Conner received a lot of quotes that are contingent on the underwriter placing its reinsurance, said Mr. Conner. "It happens in about one of every four accounts where there would logically be reinsurance. The reinsurance is coming through, but the carriers are having to revise their rates, make them higher."

But, he noted only one instance—an account involving a manufacturer's product liability coverage—in which an insurer reneged on a firm quote because of a lack of reinsurance.

Andrew Marks, senior vp of Reed Stenhouse Inc., the U.S. brokerage arm of Reed Stenhouse Holdings Ltd. of Toronto, said the lack of reinsurance capacity has affected his company's business.

"I'm sorry to say, yes," Mr. Marks replied when asked if the New York-based broker was feeling the capacity crunch. "We're

Continued on page 26

The top stories of 1984

For the second consecutive year, *Business Insurance* readers have selected what they consider the most important risk management and employee benefit stories of the past year. And this year, the *BI* Risk Management and Employee Benefit Boards both came up with clear-cut winners. Stories on both board surveys begin on page 3; synopses of the top risk management stories appear on pages 9-12; and summaries of the top benefit stories appear on pages 19 and 20.

Complete vote calculations

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Risk management winners

1. *Rising rates and shrinking capacity*
2. *ISO's revised CGL form*
3. *No tax deductions for self-insured loss reserves*
4. *EIL insurance market shrinks*
5. *Asbestos claims facility proposed*

Employee benefit winners

1. *New rules for FSAs*
2. *Reagan re-election threatens benefit plan tax breaks*
3. *New rules proposed for 401(k) plans*
4. *'Flat tax' bills proposed in Congress*
5. *New rules for cafeteria plans*

Tough renewal

Continued from page 1

finding it difficult because so many carriers haven't finalized their own reinsurance arrangements. As a result, we're having a hard time getting them to make commitments."

Many brokers report that cuts in capacity—especially in casualty lines—forced them to work harder than ever before to complete renewals by year-end.

At Frank B. Hall & Co. of New York, for example, brokers worked on New Year's Eve to fill out excess liability layers even though the rest of the office was closed, said President William A. Quinn.

Brokers at Marsh & McLennan Inc. had to work doubly hard to complete renewals, according to Managing Director Lawrence J. Drake in M&M's New York office.

For example, Mr. Drake cited one client that last year had bought $25 million excess liability coverage from one insurer over a $10 million primary layer.

"Now the (insurer) only comes in at the upper layers—$50 million to $100 million," said Mr. Drake. "It took five players to replace the underwriter and five to 10 times the work. We put five people where one had been."

Brokers generally agreed that a lack of excess and umbrella liability capacity has posed the biggest problems.

"What is happening in the umbrella liability insurance industry is a black eye to the entire insurance industry," said Hall's Mr. Quinn. "They waited too long to get their (reinsurance) treaties in place. . . . Everybody expected the price to go up. But, the magnitude of the increases has caught people by surprise.

"It goes back to the reinsurance market," Mr. Quinn continued. "The direct writers didn't have reinsurance lined up in time to take Jan. 1 renewal business in an orderly manner. This is true in the U.S. and England. As of now, they can only give the capacity they have squared themselves.

"So, some companies that traditionally gave $15 million now can offer $5 million. Some with $5 million to $10 million don't have any insurance to give at all. And, some did a super job and did reinsure early and received the capacity they needed."

Generally, according to M&M's Mr. Drake, buyers searching for extremely high liability limits aren't finding what they want.

"The chemical and pharmaceutical companies which had $300 million to $500 million last year may only get $150 million this year," he said.

Other brokers agree. According to a broker in Atlanta, a chemical manufacturer that had liability limits of $100 million last year could only find $15 million during renewals. And, unlike other accounts, the broker said the capacity cut had nothing to do with last month's poisonous gas leak at a Union Carbide Corp. plant in Bhopal, India (see related story).

The broker added that a construction company that had $100 million in liability coverage last year could only get $25 million upon renewal.

"Anything with products won't end up with the same limits," he said. "Frankly, the industry is acting irresponsibly. The underwriting community has an obligation to provide capacity at a price."

Excess coverages for trucking risks and aircraft products liability have been the toughest to place, said Mr. Conner at Robinson-Conner. One trucking firm wanted to increase its excess liability limits to $25 million from $15 million, "and we had a very difficult time getting those layers," he said.

"Usually when you get to the high layers, people will take a good bit of it because there is so much (coverage) underneath," Mr. Conner said. "Now they're not taking nearly as much. . . ."

For instance, "Nobody is responding" to a particular aircraft product liabilty account that is seeking higher excess limits, Mr. Conner said. "It's like everybody shut down."

Mr. Conner noted that rates for umbrella layers have risen anywhere from 20% to 300%, depending on the risk, but added that a 300% rate increase only "puts the cost just about where it was four years ago."

A competitive marketplace had beaten umbrella prices down "until they became ridiculous," he said. "And now some companies are trying to get it all back in one year. I thought it would work its way up, but obviously that's not the case."

Such fluctuating rates "don't do anything for the credibility of the insurance business," Mr. Conner said.

Thomas Etling, senior vp of Lawton-Byrne-Bruner Agency Co. in St. Louis, said "most prices are at least doubling" for umbrella layers. "That's where the reinsurers have really increased their prices."

William Poe, chairman of broker Poe & Associates Inc. of Tampa, Fla., agreed that umbrella rates are "going way up."

"What might have cost $5,000 before might cost $40,000 now," he explained.

Mr. Poe said that his brokerage has not faced the capacity crisis other brokers encountered because most of the accounts handled by his company involve limits of $10 million or less.

"So far we have been able to find what we want, but at a much higher price."

Besides rising rates and tight capacity in high excess and umbrella layers, brokers also agree that buyers are seeing large rate hikes —sometimes as much as 300%—in the working excess liability layers, the layers in which claims are likely to be incurred.

In addition, brokers note that many general liability policies that have been renewed specifically exclude both sudden and non-sudden pollution risks. Previously, general liability policies have included coverage for sudden or accidental pollution risks (*BI*, Oct. 29, 1984).

The brokers also agree that generally there's enough property insurance capacity to cover the largest risks, though earthquake coverage is a different matter.

"So far, with very limited exceptions, (capacity problems) are in casualty lines," says Thomas D. West, senior vp at Alexander & Alexander Inc. in Dallas.

Mr. West only noted "isolated instances in property (lines) where capacity is not there—such as earthquake coverage. When there is a need for earthquake insurance, the capacity is very limited."

Earthquake insurance has "shrunken dramatically," said M&M's Mr. Drake. Insurers are worried about the accumulation of earthquake risks in areas of California and Japan and are cutting back on what they will write this year.

So, a company looking for $100 million dollars of earthquake insurance may have to settle for only $5 million to $10 million this year, said Mr. Drake.

Mr. Marks at Reed Stenhouse concurs, noting that earthquake coverage for property on the West Coast is especially hard to locate.

"There's been a major increase in price, whereas before it was almost a throw-in. Now it's three, four, maybe five times more."

Even at those rates, he said, "It's not a question of price. It's a question of whether you can find it. I'd say there is a worldwide limit of $250 million available for earthquake coverage and you'd have to scrounge to find that."

Reed Stenhouse places property insurance for a chain of television stations on the West Coast and "we had a lot of difficulty putting that one to bed," Mr. Marks noted.

While some brokers admitted they could not place all the coverage their clients had requested—especially on the casualty side, others maintain the capacity is there—although it's not necessarily easy to get.

"We have customers who are very concerned about who will be without insurance or how expensive it will be," said J. Patrick Gallagher, area executive vp of Arthur J. Gallagher & Co. in Rolling Meadows, Ill. "But in general, we will have insurance for everybody."

A&A's Mr. West said, "I don't know if crisis is a proper term" for current market conditions.

"Yes, it is a very difficult market, but I don't think things are falling down around our ears."

Mr. West noted that the "vast majority" of the year-end renewals handled by A&A have been completed "or I would be hearing screams right now."

Mr. Etling at Lawton-Byrne-Bruner agreed that while capacity for certain lines has shrunk, his company didn't feel the pressure that other brokers report.

"We have enough markets to go to so that we can usually find what we need. The smaller agent with 10 markets may have a problem," he said.

Most of Lawton-Byrne-Bruner's Jan. 1 renewals were finished, Mr. Etling reported a few days before year's end. But, he noted that many other accounts were up for renewal later this month.

"We're not always getting the limits we want," Mr. Etling conceded. "If we are renewing with a company that's been on the risk, most of the time we get what we want. If it's a new piece of business, then we may have a problem."

But problems stemming from a lack of reinsurance capacity haven't been as bad as he expected, Mr. Etling said.

"We've had a few individual instances where underwriters couldn't give a Jan. 1 quote because they didn't know if they could get the reinsurance. But I think most of the paranoia about reinsurance has passed."

Reinsurance hasn't caused a lot of grief at Emett & Chandler of Northern California, said Executive Vp Jeff McKinley. "We've had several quotes contingent on reinsurance, but that's true every year," he noted.

Most of the firm's 50 Jan. 1 renewals were finished by Dec. 28, Mr. McKinley noted.

Some brokers also believe that the recent renewal season was not as bad as during other years when the market turned.

"I have seen many, many cycles, and no, this one is not as bad," added Robert E. Gallagher, president of Arthur J. Gallagher. "This one is just starting. We're just going into this; it could be a two- to three-round fight."

Gas leak affects coverage

Although brokers say that almost all policyholders had a tough time during recent year-end coverage renewals, some were especially hard hit because of the recent poisonous gas leak at a Union Carbide Corp. plant in Bhopal, India, which killed 2,500 people.

Thomas Etling, senior vp of Lawton-Byrne-Bruner Agency Co. in St. Louis, said repercussions from the Union Carbide disaster affected "a long-term relationship with a profitable account" that his brokerage handles.

The client, a chemical manufacturer whose processes involve chlorine gas, was seeking to renew a liability policy with limits of $500,000, explained Mr. Etling. However, the insurer that had written the plant's coverage for 30 years decided not to renew because of the risk of escaping chlorine gas.

The decision not to renew the coverage was a fear of the repeat of the Bhopal tragedy, said Mr. Etling. "After 30 years on a profitable account, that's why they want out—because of the Union Carbide incident."

Shortly before the end of the year, Mr. Etling said Lawton-Byrne-Bruner was still trying to find coverage for the manufacturer.

Although broker Robinson-Conner Inc. of Erie, Pa., does not have a chemical manufacturer for a client, it still experienced some fallout from the Bhopal tragedy, says President William B. Conner.

For instance, he noted that a quote for products liability coverage for a trucking company was withdrawn because the company transports hazardous chemicals. Coverage was finally written through the assigned risk pool.

NAIC silent on ISO proposed forms

WASHINGTON—The National Assn. of Insurance Commissioners will remain silent on the Insurance Services Office's new versions of a proposed comprehensive general liability policy that call for the elimination of both sudden and non-sudden pollution coverage (*BI*, Oct. 29, 1984).

ISO's new CGL policy, which includes an occurrence form and a claims-made form, was outlined earlier this month to the NAIC during its winter meeting in Washington by Carole Banfield, ISO's vp of government relations.

C. Courtney Wood, the state-national director of the Independent Insurance Agents of Oklahoma, urged regulators to delay approval of the new forms in their states. The group is concerned about the confusion that could arise from the introduction of two forms at the same time. He also said the elimination of all pollution coverage from the form would result in a form of "reverse discrimination."

However, Andre Maisonpierre, president of the Reinsurance Assn. of America, supported the removal of the pollution cover and said "specialized coverage should be handled specially."

ISO has been working on the new form for about nine years, Ms. Banfield said, and it was filed and approved earlier this year in 22 states.

But, the recently revised forms, with the elimination of pollution cover, have only been approved by 11 state insurance departments, and the NAIC recently decided to receive a report on the proposal without taking a position.

The implementation date of the new form is Jan. 1, 1986.

THE HONEYMOON IS OVER

1985 will see high property/casualty prices, restrictive policies

By Robert A. Wilson

ALL SIGNS INDICATE that the honeymoon of unusually low property/casualty premium levels is over.

For the past five years, premiums have, with rare exceptions, been steadily declining. This is a result of several factors:

- Insurance companies' underwriting profits were relatively high in 1977 and 1978 after major rate increases in 1975 and 1976.
- Investment income was extremely high, which resulted in "cash-flow underwriting." Cash-flow underwriting was a term coined to reflect the fact that insurance company underwriters were mandated by management to increase the cash flow without regard to intelligent pricing and sound underwriting principles. Management simply wanted more cash flow from new accounts so they could increase the funds available for investment purposes. As a result, management was not overly concerned when underwriting loss ratios reached 110% and higher.

However, in 1983 there were, in addition to normal losses, major catastrophic losses that increased loss ratios to 115%, 120% and 130%.

This condition continued to deteriorate in 1984. For the first time, we saw major reductions in the surplus of leading insurance companies.

For example, one leading insurance company's surplus was reduced by almost 25%. Other major companies also suffered declines. This situation could lead to insurance company bankruptcies in 1985 and 1986. It also will lead to significantly higher prices, more-selective acceptance of policyholders, more-restrictive insurance policies and more-stringent loss control. Here is our prognosis in each area:

- Higher prices. With the diminished underwriting profits in 1983 and 1984, you can expect higher prices in several key areas. The areas where you may expect the greatest increases are where losses have been the highest: automobile, general liability, property and workers compensation. The severity of the increases will depend on how bad your losses have been, how good you are in complying with loss-control recommendations and whether you have a good track record with the insurance company.

You will have to adjust your goals to respond to the dramatically tighter marketplace by balancing costs with coverage requirements. Your skills as a risk manager. . .must be honed as sharp as possible.

For example, one company with severe losses has seen its property/casualty premiums increase from $60,000 to $145,000.

- More-selective acceptance. In the past few years, underwriters would accept coverage on almost any risk. The underwriters would not often insist on compliance with loss-control recommendations. They also would frequently ignore sound underwriting practices. You could just about dictate your terms and prices to the insurance companies.

You can expect this to change dramatically. Underwriters will be more selective in accepting new accounts and renewing existing policies. Underwriting guidelines will be more closely followed. If your business is in an undesirable class, insurance coverage will be more difficult and more expensive to buy. In a few cases, you might not be able to buy adequate coverage, or you might be able to buy it only at tremendously higher premiums.

- More-restrictive insurance policies. Again, in recent years, insurance companies readily agreed to broaden coverages and policy conditions. They removed exclusions and/or restrictions. They more readily provided "all-risk" coverage. They agreed to conditions that enhanced the policies for the insured, often at no additional cost.

However, the tide is rapidly changing. Underwriters are now reviewing any special provisions or changes in policy conditions with the utmost care. Many are simply refusing to accept any modifications of standard forms.

In addition, underwriters may increase their underwriting requirements before they broaden your policy to an all-risk basis. In fact, you might even be faced with that problem at renewal time. Underwriters, for example, may require a better alarm system, a guard service or even physical alterations to your building.

- More-stringent loss control. Underwriters have been very lenient in insisting on compliance with their engineering departments' loss-control recommendations.

As the companies return to tougher underwriting standards, loss-control recommendations will begin to play a more-important role in their decision-making process. They may begin to insist that you comply with optional recommendations, which hasn't happened in the past five years. You should prepare yourself to become more accommodating to their requests.

In conclusion, 1985 and 1986 will be difficult years for implementing a cost-effective insurance program. You will have to adjust your goals to respond to the dramatically tighter marketplace by balancing costs with coverage requirements. Your skills as a risk manager and negotiator will have to be honed as sharp as possible. You must be prepared to explore alternate non-traditional methods of insuring the assets and liabilities of your company.

Robert A. Wilson is president of Corporate Risk Management Inc. in Hinsdale, Ill. Mr. Wilson also is the author of the book, "Save 50% on Casualty Insurance—Yet Improve Coverage."

Global programs can offer world of advantages

By S. Robert Beane

international issues

THE THESIS BEHIND global insurance programs is that ultimate consolidation yields ultimate benefit.

This concept is not new; in the United States, risk managers have for years recognized the advantages of consolidating their companies' exposures and insuring them in one or a few policies.

Most risk managers of U.S.-based multinational companies embrace the concept to the extent of coordinating the insurance of their foreign subsidiary companies.

The move toward truly global programs has been relatively slow, however. Figure 1 on page 18 illustrates how multinationals have traditionally insured their domestic and foreign property and/or casualty exposures. As the diagram shows, the domestic program is entirely segregated from the international program.

Global interdependencies and contingent business interruption exposures are presumably handled separately. However, these exposures are often difficult to identify and even more difficult to quantify. Too often, they are inadequately addressed.

Figure 2 illustrates the first move toward global consolidation. Primary domestic and international programs are still written separately, but the difference-in-conditions exposure is now covered by one insurance contract.

This solution has obvious benefits. The scope of the all-risk coverage is now uniform in its application to domestic and foreign exposures. The interdependency and contingent business interruption exposures can be covered with little opportunity for a loss "falling between the cracks." Pricing should be improved by presenting one underwriter a greater spread of risk, which enables him to offer his product at a lower unit cost.

A single underwriter should be selected to provide local admitted coverage as well as non-admitted DIC coverage to avoid arguments among underwriters when a loss falls in the gray area between local admitted and the non-admitted DIC.

It is extremely important, therefore, to select the DIC underwriter with care, taking into account what relationship, if any, the DIC underwriter has with the foreign insurers providing the local admitted coverage.

Figure 3 represents a further move toward consolidation, with the DIC underwriter now insuring the primary domestic program as well. The DIC underwriter will either issue the paper directly or use a fronting insurer and reinsure most or all of the primary domestic risk.

Because some countries, predominantly those in Western Europe, permit non-admitted or unlicensed insurers to provide insurance, it might be possible to extend a global program even further. Figure 4 shows a global underwriter now providing primary all-risk coverage in the United Kingdom and Australia, primary cover in the United States and DIC insurance worldwide.

There are numerous advantages to this format. First of all, the insured obtains uniform all-risk cover wherever possible. And, the greater spread of risk may reduce the cost and cushion losses more effectively.

Most importantly, however, the risk manager now exerts the greatest possible control over the program, whether it is a monoline program (that is covering either all property, or liability, or crime, or marine or cargo), or a multiline program covering a combination of exposures.

This progression seems to indicate that a full-scale "global" is the most desirable program, one that the risk manager of every multinational would like to develop.

There are, however, a number of factors that must be considered in contemplating a global insurance program, and there are many hurdles to be overcome in effecting one. These hurdles include:

Continued on next page

S. Robert Beane is vp and manager of the New York international department of Johnson & Higgins. His column on international issues appears the first Monday of every month. This article is based on a presentation made at the 1983 Risk & Insurance Management Society conference by Michael Linde, a vp in J&H's New York international department.

Insurance Shake-Out

By Eben Shapiro

ASK THE generally composed Robert Provost of the Minnesota Insurance Information Center how things are going in the property and casualty insurance business, and his composure disappears.

"The industry is going through its most horrendous down cycle ever," Provost says. "Survival is the name of the game. Companies are hurting, defensive, clawing and scraping to get by."

In 1982 and 1983, the property and casualty industry sustained $21 billion in underwriting losses, more than the previous 23 years combined. The first three months of 1984 was the worst quarter in industry history, and some believe the end of the tunnel is still dark. The industry's pre-tax operating income — investment income minus underwriting losses — has been on the decline since 1979 and is projected to be near zero this year.

FIERCE COMPETITION

The current problems began in the mid-1970s, when historically high interest rates and intense competition among insurance companies fundamentally altered the way the industry made money.

Insurance companies generate dollars in two ways: from policy premiums and from investment income. Underwriting profits result when premiums received exceed claims paid out. This is measured by the industry bellwether, the combined loss ratio, which uses 100 as a base. When the industry is making underwriting profits, the ratio is below 100, which indicates that for every dollar received in premiums, a percentage is being retained by the company. For example, in 1973 — a good year — the ratio was 93, meaning the company retained 7 cents from each premium dollar generated.

Last year, the industry's combined loss ratio was 118. For every dollar received in premiums, $1.18 was paid out in losses. In other words, companies were selling insurance for less than it cost to provide it.

The situation resulted from fierce competition between the nation's 3,000 property and casualty companies, all vying for a stagnant premium pool of about $100 billion. That led to "suicidal rate cutting," according to William Sirola, regional manager of the Insurance Information Institute, a trade group.

But high inflation allowed the industry to shift away from its reliance on underwriting profits. High interest rates, creating high investment returns, enabled companies to write policies at a loss and make up the difference with investment income. This practice has become known as cash-flow underwriting.

"It's not a sound insurance principle," says Gordon Lindquist, president and chief executive officer of MSI Insurance. "Under sound underwriting practices if you pay in a dollar, you don't pay out more than that. Before interest rates went up, insurers were forced to keep their underwriting profitable."

Sirola and other industry watchers claim that companies are writing policies without regard for the risk involved, just to get premium income. As a result, underwriting losses have increased from $1.3 billion in 1979 to $13 billion in 1983. Losses are projected at $18 billion next year.

RATE WARS

The situation further deteriorated as inflation dropped, investment income plateaued and competition kept prices low. The winner, at least in the short run, has been the consumer and businesses.

Sirola tells of an apartment complex that paid $58,000 premiums in 1981, $32,000 in 1982 and $7,000 in 1983.

"The business community knows they've been getting a fantastic bargain," says Lindquist. He described a recent bidding war in which five company bids came in at $135,000, only to see a company with an $80,000 bid walk off with the policy.

While competition held rates down, weather-related loss claims have soared to historically high levels. In addition, many large corporations have been turning to self-insurance, taking large premiums off the market.

Insurance regulators currently have 700 companies on a "watch list," 300 of which are considered to be in serious trouble. "There is no other term for this than 'shake-out,' " says Sirola.

In response, the property and casualty industry is planning to raise prices to the point where they are more in line with the cost of the service. Experts say only a consolidated, industry-wide increase will be effective.

Last year, in what industry executives call a courageous step, Aetna Life and Casualty increased its rates. But courage has its price: In six months the company lost 13 percent of its market share, which eventually forced Aetna to drop its prices to previous levels.

Insiders agree that the industry can no longer continue to subsidize its growing underwriting losses. "As a total industry we can't go on," Lindquist says. "We have to turn the results around or we won't be here anymore."

Turning it around means raising premium prices. Commercial insurance is expected to face the biggest increase, up to 75 percent in some lines. Lindquist predicts price increases from 25 percent to 50 percent at MSI. "We are taking aggressive action to increase our rates and will be able to get them," he says.

Sirola predicts that increases won't be uniform, however. Businesses with a low loss ratio and good payment records will probably sustain only 3 percent increases, he says.

Lindquist and others say the industry won't feel the effect of price increases until 1986. "We need to return to more sound concepts of insurance," Lindquist says. "It's like pro football. In July you work on the basics."

WHAT LIES AHEAD

Sirola isn't so sure whether the industry can return to profitability by 1986. One thing he does know, however, is that a reshaped property and casualty industry lies ahead.

"We've seen the last of a combined loss ratio of below 100. From now on, insurance will be written based on premium and investments. It's sort of scary, because we primarily should be underwriters."

Although Sirola says the only certainty at this point is that prices will go up, he does have a few ideas about the future of the industry. Sirola predicts there will be a few "very, very strong" national companies, with another strata of regional companies that have highly segmented market niches.

Sirola also envisions the entrance of major conglomerates willing to run insurance companies at a loss in order to use them as "cash flow machines."

"We are going to be playing on a razor's edge," Sirola warns. "There isn't much room for error. The industry is in a very careful mood of cash planning. There will be major consequences for companies that don't adapt. Maybe we don't need 3,000 companies." ■

Umbrella liability renewal a tough task

By LORRIE GIBSON

Renewing umbrella liability coverage can be one of a risk manager's toughest tasks in this tight market, according to a *Business Insurance* survey.

Seventy-seven percent of the risk managers responding to the most recent survey of the *BI* Risk Management Board renewed some type of coverage within the last eight months. Of these respondents, 40% said renewal of umbrella coverage was the toughest in terms of the price charged, the limits available and the restrictions attached to the policy.

The task may have been the roughest for the director of risk management for a manufacturing and retailing company that was hit in January with a 500% increase in premium for $250 million in coverage, down from the original $500 million. The risk manager obtained this quote after going into the market and essentially replacing the current insurers.

"Coming from the base they were at, 100% (increase) for two to three years could be understood; 500% in one blow is poor management," he said.

"Generally," he adds, "insurers want to return to their pet preprinted forms and shy away from manuscripts."

Umbrella liability insurance costs rose 160% for a government entity that also renewed its coverage in January. However, its risk manager says market conditions were worse when the market tightened in the mid-1970s than they are now.

The bulk of the risk managers who renewed umbrella coverage in the last eight months reported increases in the range of 70% to 85%. The lowest increase was 25%, reported by the risk manager for an auto club services and personal lines insurance company who renewed coverage in January.

Two other respondents reported relatively small premium increases of 40% and 35%, but said the umbrella insurers insisted on an "absolute pollution exclusion."

The risk manager who reported the 35% increase also was able to raise the policy limits to $25 million from $10 million. However, he had sought limits of $50 million for his company, a manufacturer of industrial and consumer goods.

The 40% increase was reported by the risk manager for a chemicals and precious metals company, who had sought limits of $150 million but had to settle for his current limits of $101 million.

The director of risk management for a manufacturing company whose premium was increased 79% —and who had to agree to a $150,000 deductible when the policy originally required no deductible—said his lead umbrella insurer required an increase in the limits of the primary comprehensive general liability policy.

However, renewing umbrella liability insurance is not the only tough task for risk managers.

The director of risk management for a chemicals manufacturer who renewed environmental impairment liability coverage in January is paying 334% more, after the premium was increased to $160,000 from $46,500. He also had to accept a 900% increase in his deductible, which rose to $500,000 from $50,000. He did not indicate the limits of the policy.

The premium for directors and officers liability insurance for a department store increased 240% to $170,000 from $50,000. Limits of $45 million were retained, but the self-insured retention was increased to 5% of all losses. Formerly, the 5% retention applied only to the first $1 million in losses.

And, a small manufacturing firm renewing its product liability coverage reported a premium increase of 232%, to $83,000 from $25,000.

A building materials company that had its premiums for architects and engineers professional liability coverage increased 111% also had its limits cut to $10 million from $15 million, and its deductible increased 233% to $250,000 from $75,000.

And, on top of everything else, the insurer slapped on an exclusion for liability arising from product testing.

A hospital that renewed its medical malpractice is now paying more than twice as much for its coverage, but coverage for doctors that are doing their residency at the hospital was reduced drastically.

A California education and research company squeaked by with a 20% premium increase for earthquake coverage in September, only to have one third of its insurers cancel its coverage in January. As of last month, the coverage still had not been replaced.

Others, however, apparently have still been able to find bargains. A manufacturing and services company renewed its casualty coverage in January with an increase of less than 10% in premium for its loss-sensitive program.

Although the fidelity bond market for financial institutions has tightened dramatically (*BI*, March 18), a state university that renewed its blanket fidelity and crime bond in January had its premium increased only 9% for three times as much coverage. However, its deductible was increased to $25,000 from $10,000.

And, a hospital succeeded in renewing its excess workers compensation coverage in October with primarily the same insurers on its expiring policy for about 30% less, while doubling its limits and reducing its deductible.

Although it had received a quote of $40,000, it finally negotiated a premium of $15,300, down from the $22,000 it paid for the expiring policy. The limits of the new policy are $2 million, up from $1 million. The hospital's deductible was reduced by 33.3%. ■

'Issues in Insurance' revisions made

MALVERN, Pa.—CPCU 10—"Issues in Insurance"—has been revised by the addition of four new monographs, according to Norman A. Baglini, senior vp and dean of the American Institute for Property & Liability Underwriters.

The new monographs added to the two-volume text are: "Environmental Impairment Liability—An Insurance Perspective," by David Sterling of The Hartford Insurance Group; the National Assn. of Insurance Commissioners report on "Regulating Workers Compensation Groups"; "Report of the Investment Income Task Force to the National Assn. of Insurance Commissioners"; and "Expansion of Banks into Insurance," by the Financial Services Consulting Group of Coopers & Lybrand.

For more information, contact Everett Randall at the American Institute, 720 Providence Road, Malvern, Pa. 19355. ■

APRIL 1, 1985

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update

A&A's proposal to acquire Reed Stenhouse hits snag

NEW YORK—Alexander & Alexander Services Inc. and Reed Stenhouse Cos. Ltd. may have each failed to meet the conditions of their proposed merger agreement, but discussions pertaining to the merger were still continuing late last week (*BI*, Dec. 10, 1984).

A&A, the nation's second-largest broker, agreed in December to acquire Reed Stenhouse, Canada's larg-

Continued on next page

Pioneers combine comp with group health plans

By CAROL CAIN

A handful of insurers and administrators of self-insured programs are aggressively cultivating hybrid programs that package workers compensation insurance with group health coverage, and others are expected to follow their lead.

By packaging the two coverages in an integrated program, the insurers and administrators say they can coordinate workers compensation and health care claims administration and cost-containment measures, which will save employers money.

However, some major insurers say they are not currently planning to offer a combined workers compensation/group health package—often dubbed "24-hour coverage"—because their current practices "are good enough."

Employers, state insurance regulators and some insurers and brokers have advocated the integration of workers compensation and group health insurance programs in the past as a way of eliminating payment of duplicate claims and streamlining claims processing and other administrative responsibilities.

Some also maintained that such an approach could fuel competition in the market, further enhancing the savings (*BI*, April 16, 1984; May 2, 1983; Aug. 2, 1982).

But the complexities and differences between the two types of coverage, along with state regulations, have stymied development of combined workers compensation/group health packages until only recently.

The two insurers and two administrators of self-insured programs that are now actively marketing combined programs define their parameters differently and are going after a distinct niche in the market.

For instance, Philadelphia-based CIGNA Corp. describes its "24-Hour Coverage" as a comprehensive insurance program combining the administration of workers compensation coverage and group health benefits, although the coverages are written on separate policies. The five employers that have signed up for the coverage, which was scheduled to be marketed nationally late last month after a six-month test period, are all large accounts.

Meanwhile, Blue Cross & Blue Shield of South Carolina and two of its subsidiaries are offering "Protector 24," a package plan that includes separate health care, workers compensation, life and disability coverages. The product is being sold to employers with seven to 49 employees; 15 have signed up since it became available last fall.

Broker Arthur J. Gallagher & Co. in Rolling Meadows, Ill., is offering a single excess insurance policy to self-insurers that includes coverage for workers compensation, employers liability and group health risks. So far two clients have been attracted to the "Gallagher Integrated Employee Security Plan."

And, Waters Insurance Management Corp. in Sarasota, Fla., took what it learned from 25 years of managing a self-insured workers compensation pool for Florida contractors and its recent experience with a similar group health program and combined the two into its "Total Care Program." The plan is now being used by 12 Florida employers (see story, page 6).

None of these markets are yet estimating how much their products can save buyers, noting that the programs are too new to track cost savings. Likewise, employers generally have not yet determined how well the programs will work.

At the heart of most of these workers compensation/group health packages is coordinated claims management, which relies on sophisticated data collection and analysis. Through this type of monitoring,

Continued on page 4

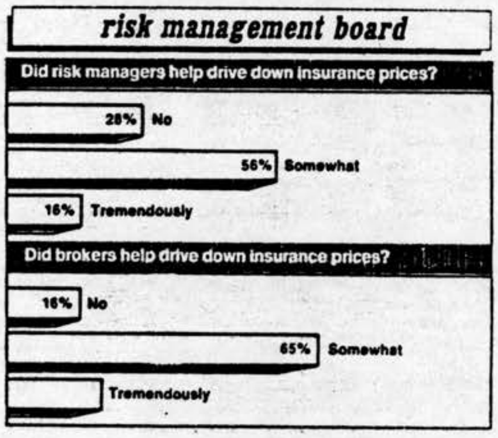
Rate hikes are necessary, concede risk managers

By LORRIE GIBSON

Most risk managers hit with insurance rate increases averaging 105%—and some reaching as high as 500%—accept them as reasonable and necessary, according to a recent *Business Insurance* survey.

But, this hasn't stopped them from blaming the current state of the market on the poor management of insurance companies.

Nor is it stopping them from fighting back: They are taking a more aggressive stance in renewal negotiations and are exploring more self-insurance of risks to cut their costs, the latest survey of the *BI* Risk Management Board shows.



The Risk Management Board is composed of 73 risk managers who have volunteered to respond to periodic surveys on risk management topics. The latest survey had a 59% response rate; 74% of the respondents renewed some type of insurance coverage within the last eight months.

Almost half of the risk managers responding to the latest survey said the recent increases in insurance prices are dramatic, but conceded they were acceptable given the bargain-basement prices that preceded the tightening of the market.

Another 23% found the increases to be reasonable given the recent declines in insurers' operating income and reports of inadequate loss reserves. For instance, 25 commercial property/casualty insurers tracked by *Business Insurance* reported a 52.4% aggregate decline in aftertax operating income during 1984 (*BI*, March 25).

Still, one-third of the respondents said current insurance prices were "outrageous and intolerable" because the price increases are more than insurers need to make a profit on the coverage offered.

And, 79% of the risk managers criticized the insurance industry when asked to pinpoint the cause of insurance cycles of hot competition and cheap prices followed by periods of tight capacity and dramatic price increases.

Fifty-one percent said the dramatic swings in cycles are the result of poor management of insurance companies; another 28% said the cycles are intolerable because modern data processing should provide insurers with the statistics they need to properly price their products and avoid such dramatic swings.

Continued on page 29

Former self-insured client wins $2.2 million from GAB

By MEG FLETCHER

LOS ANGELES—A former client of GAB Business Services Inc. is entitled to $2.2 million from the third-party claims administrator for GAB's failure to adequately administer and pay its third-party liability claims, a federal district court judge has ruled.

Judge Robert J. Kelleher of the U.S. Central District Court of California ruled March 20 that GAB, which is based in Parsippany, N.J., should pay $2.2 million in compensatory damages for breaching the terms of its contract with the Southern California Rapid Transit District.

At issue was GAB's handling of RTD claims under a three-year contract that was in force for 21 months from Aug. 1, 1978, to April 15, 1980.

The RTD notified GAB it was canceling the contract in February 1980. Shortly thereafter it sued GAB to recover the additional expenses the RTD incurred when it says it was forced to replace GAB's services and to recover losses from excessive payment of claims. RTD also had sought punitive damages, charging that GAB had breached its fiduciary responsibilities.

This may be the first suit against a TPA alleging mishandling of a large number of claims over a long period of time. It is more common for a TPA to be sued over its handling of one particular claim.

The GAB case also may be the first time a major TPA has been successfully sued.

The RTD, which operates the public bus service in Los Angeles and surrounding counties, also is suing GAB over its handling of claims from Aug. 1, 1975, to July 31, 1978. That suit, covering an earlier period than the suit that RTD has won, was filed while the first case was in litigation and is pending before Judge Kelleher.

Meanwhile, GAB has been named as a defendant in a lawsuit filed by its current errors and omissions insurer against its former errors and omissions insurer over which underwriter is responsible for paying the RTD judgment (see story, page 40).

"We are elated with the results," said RTD General Counsel Richard T. Powers of the $2.2 million award. But GAB's attorney in the case, David J. Prager of Fisher & Prager of Los Angeles, said the RTD was "excessively compensated."

"I think it is quite likely that we will appeal," said GAB's Chairman Irvine E. Williamson.

The 100-year-old GAB, which is owned by UAL Inc. in Elk Grove Village, Ill., is the third-largest property/casualty claims administrator for self-insurers, according to a recent *Business Insurance* ranking (*BI*, Jan. 28).

In 1984, GAB paid out $400 million in claims on behalf of 1,000 self-insured clients.

The relationship between RTD and GAB began Aug. 1, 1974, when GAB took over the administration of RTD's liability claims from Transit Casualty Insurance

Continued on page 40

Senate proposals threaten ...al

Majority of risk managers admit rate hikes are needed

Continued from page 1

"I seriously question the need for such traumatic rate increases and restrictions in coverage," wrote the director of the office of risk management for a county government, that as of March 1, had not been able to replace liability coverage that expired Jan. 1.

"I place primary responsibility for the problem on the reinsurance underwriters for their cyclical behavior.

"I was a property insurance underwriter during the 1970s. While underwriting positions were conservative, they were somewhat rational," he continued. "It is not the case now. There is no logic or reason behind the existing and probably coming insanity."

"The carriers are greedy," was the conclusion of the risk manager for a transportation and trucking company.

"It's all so unnecessary—insurers continue to overreact to conditions, creating cycles," said another respondent.

'Risk managers and brokers have lost their bargaining positions,' one risk manager says.

"I certainly agree that companies need higher premiums, but they shouldn't try to get it all back in one year," lamented the risk manager for a household products manufacturer who was hit with an 87% premium increase. (He did not indicate what type of insurance he was renewing.)

However, 12% of the respondents said the cyclical nature of the insurance market is uncontrollable because the law of supply and demand dictates insurance prices. Nine percent said the swing in cycles is inevitable because of the uncertain ultimate cost of insurers' assumed liabilities.

A majority of the respondents to the *BI* survey also conceded that risk managers and their brokers played a role in driving down the price of insurance over the last eight years.

Almost three-quarters of the respondents said risk managers must share the blame for pushing insurance prices into the bargain basement. Sixteen percent said they played a tremendous role in forcing insurance prices down because they purchased insurance based primarily on its cost.

An additional 56% said they had "some" influence on the cost of insurance because they did consider price as well as other factors in choosing insurers.

And, 84% said their brokers helped create and sustain the last competitive cycle. Nineteen percent said brokers had a tremendous part in forcing prices down because they played insurers off one another to drive down premium quotes.

An additional 65% said the brokers influenced insurance prices "some" because they generally sought the lowest price possible so they would not be underbid by a competitor.

On the other hand, 28% of the respondents absolved risk managers of any blame for the underpricing of insurance, agreeing that insurance companies willingly drove prices down in their quest for a larger market share. Similarly, 19% said brokers had nothing to do with forcing insurance prices down because insurers—not brokers—issue the quotes.

Regardless of who is to blame, it is a fact that insurance prices have shot up over the last year; available limits have been reduced; and insurers have placed more restrictions on policies. Two-thirds of the risk managers surveyed said current market conditions are the worst they have ever seen.

The respondents, however, are somewhat split on exactly how tight the market is.

Half said risk managers can get whatever coverage they want if they are willing to pay for it, but about a third disagreed with that assessment.

Several risk managers pointed out that availability often depends on what type of coverage is being sought.

Continued on next page

Risk managers report rate increases

Continued from preceding page

Fifty-three percent said environmental impairment liability coverage is the most difficult to obtain; 44% said finding high limits of liability coverage is the risk manager's biggest headache.

Twenty-six percent said professional liability coverage—including medical malpractice coverage and errors and omissions insurance for insurance agents, architects and engineers and publishing companies—was the most difficult to obtain. Another 21% said they had the most trouble finding directors and officers liability insurance. (Many respondents marked more than one type of coverage as the most difficult to obtain).

While the majority agreed that the market appears to be tighter for liability coverages, three respondents cited difficulties in obtaining property coverage, both primary layers and high-layer difference-in-conditions coverage.

'I seriously question the need for such traumatic rate increases and restrictions in coverage. I place primary responsibility for the problem on the reinsurance underwriters for their cyclical behavior,' says one risk manager.

To counter these tight market conditions, risk managers have developed strategies for successful coverage renewals.

Forty-four percent said the most important thing a risk manager can do before renewal negotiations is to prepare detailed underwriting information to show the insurers exactly what the policyholder's exposures are and what the loss experience has been.

About a fifth of the respondents said a risk manager should meet with top management before renewals and decide what risk retention levels will be acceptable if they must be increased to hold down premium costs. Others stressed the need to let management know ahead of time that insurance costs will probably increase significantly.

Twenty-three percent advised risk managers renewing coverage in this market to start early.

But, when the actual negotiations begin, risk managers' strongest bargaining chip for getting coverage they want at the most reasonable price in this market will be good loss experience, a longstanding relationship with insurers and the existence of sound loss-control programs, survey respondents said.

Good loss experience is the best thing a company can have going for it when renewing coverage in a tight market, according to the survey. It was cited as one of the most effective bargaining tools by 47% of the respondents.

Another 37% said the existence of a sound loss-control program will help convince insurers that a good risk will continue to be a good risk.

And, 30% said risk managers' past loyalty to their insurers will pay off.

In another section of the survey, 26% said risk managers who built long-term relationships with insurers will be able to secure lower prices than those who shopped around. Forty-two percent said those who remained faithful will find limits closer to what they are seeking than those who switched often.

However, many others surveyed doubted loyalty would pay off in this market. A third said risk managers who built long-term relationships would get no better treatment.

"Insurers preached longevity and then they ignored it," complained one risk manager.

"Loyalty means nothing in this market," agreed another. "Loyalty does not exist anymore."

Forty-seven percent said that if a risk manager could achieve a premium savings of 25%, he or she should forego a longstanding relationship and switch insurers to save money. Another 30% said the savings would have to be 50% of their previous premium before they would switch insurers.

Only 5% thought a 10% savings would warrant changing underwriters. Another 7% recommended hanging onto the existing insurer unless the savings achieved by switching would be 75% to 100% of the current premium.

However, the assistant vp for a chain of retail drug stores cautioned against choosing an insurer whose price is too low. "Accepting too low a price lessens security. Sooner or later we will be paying our own losses," he warns.

Twenty-three percent said a company's ability to accept higher deductibles or self-insured retentions also increases its bargaining position.

In fact, most of the respondents are considering abandoning the commercial insurance market completely and self-insuring their risks.

Seventy percent said the tightening of the market has prompted them to explore alternative risk-funding mechanisms such as captive insurers, group captives or other forms of self-insurance.

But, others will "grin and bear it" until the cycle turns again in their favor.

"Risk managers and brokers have lost their bargaining positions," admits the manager of corporate insurance for a building materials manufacturer. His company's premium for architects and engineers professional liability insurance increased 111% to $230,000 from $109,000 for only $10 million in coverage with a $250,000 self-insured retention, down from $15 million limits with a $75,000 retention.

"For the time being, the insurers have it all their way—but it won't last because insurers won't hang together on rate increases," he said. "Eventually, desire for new business will become important."

The assistant vp of risk and insurance management for a commercial bank shares this optimism:

"I can't wait for 1987 for the price-cutting to begin again!" ■

Analysts predict large increase in businesses' insurance costs

Associated Press

New York, N.Y.
Businesses can expect large increases in their insurance premiums because the nation's property and casualty insurers suffered record underwriting losses in 1984, analysts said Wednesday. They said home and auto owners would be less affected.

The $21 billion in underwriting losses in 1984, combined with $13.3 billion in losses in 1983, was more than the total underwriting deficit for the previous 25 years, according to the Insurance Information Institute.

The 1984 losses were not offset by investment income, which was $17.3 billion, said the institute, a communications organization for the property and casualty insurance business.

"The last year was far worse than anyone imagined that it would be," said Leandro Galban Jr., a security analyst for Donaldson, Lufkin & Jenrette Securities Corp.

Galban said his company's forecast called for about a 20 percent increase in commercial insurance premiums, a 5 percent to 10 percent increase in personal homeowners insurance premiums, and a 6 percent to 7 percent increase in personal auto insurance premiums in 1985. Businesses also can expect higher deductibles, limits on coverage and reductions of discounts, he said.

Herbert Goodfriend, an analyst for Prudential-Bache Securities, Inc., said his company's forecast called for about a 15 percent increase in commercial premiums and a 5 percent increase in premiums for homeowners and auto owners.

The biggest losses occurred in the commercial insurance field, where competition for business and the underestimation of settlement costs, particularly in the workers compensation area, hurt insurers, the institute said. Settlements for injuries caused by pollution in the workplace soared in 1984, it said.

"The courts and juries have been liberal in some parts of the country in awarding damages to the disabled and the sick and people who are hurt on the job," Goodfriend said.

Premium increases will not be large enough to be reflected in price increases for most goods and services, although medical malpractice insurance rate increases could raise the cost of medical care, the analysts said.

April 12, 1985

TO: Mayor & Councilmembers

FROM: John A. Olson, Assistant City Manager

RE: Inquiry by Councilmember Herbes

Before the last meeting, Councilmember Herbes requested some information regarding the lights and electronic equipment installed on the Police Chief's car. When we purchase new police vehicles, some of the electronic equipment is installed by our mechanics at the garage, however, the more technical equipment is installed by a company called Emergency Service Systems, which specializes in custom electronic emergency equipment installation.

Following the request of Councilmember Herbes I asked the Police Chief for an explanation and his explanation is attached to this memo.

To: John A. Olson, Assistant City Manager

From: James F. Mossey, Chief of Police

Date: April 8, 1985

Subj: Vehicle #210 Electronic Equipment Conversion

Per your request, the following is in response to questions posed by Council Member Herbes regarding the equipment conversion on police vehicle # 210.

Emergency Service Systems is a local company which specializes in custom electronic emergency equipment installation. This company has an outstanding reputation throughout the entire Public Safety community. This firm is the only one in our area that specializes in this type of work. Our department has utilized this firm for quite some time now. We have purchased custom switch control heads and specialized lighting equipment in the past. We also had our Police Reserve vehicle outfitted by ESS. Their work has always been exceptional. When our present marked cars develop a problem, we send them to ESS for repair. Due to the nature and complexity of today's emergency equipment on our police vehicles, it has become necessary to rely on outside expertise to solve some electrical problems which arise.

Many area departments have made the decision to have ESS do all public safety vehicle equipment conversion/installation instead of the regular city mechanics. We have not gone into outside installation and repair lightly. We are taking it a step at a time and only after consultation with the city mechanics. We must be able to determine if our mechanics have the time and necessary equipment to solve the complex problems which tend to plague us from time to time. I can forsee a day in the future when it may be necessary to have ESS or a similar company do all police car conversions for our department.

The experience that this firm has gained in this area is immense. One of their specialties is equipment concealment. It is important that our unmarked vehicles be as covert as possible because of the nature of the work. It is also important for some vehicles, such as the car I use, to have various electronic items situated out of plain sight so as to lessen the possibility of theft when the vehicle is left unattended.

It can be very time consuming for a mechanic who is not familiar with equipment concealment to research how and where to install equipment in non-standard places. The personnel at ESS do this on a daily basis.

We have seen many vehicles that ESS has done in a similar manner to what we desire for our unmarked vehicles. The microphone cable in the #210 vehicle had to be extended from the glove compartment to an area next to the driver. The siren had to be modified so as to allow for remote operation. ESS was able to do this in a short period of time because of their vast experience. We now have a model that our mechanics can copy for future un-marked vehicle conversion.

The city mechanics were doing the conversions on our marked squad cars at the time I had scheduled the #210 vehicle to be converted. With their (city mechanics) other responsibilities, the complex nature of this conversion and the time anticipated to complete same, I felt all concerned would be better served if the work was done by an outside agency.

The following are departments in our area which have work done by ESS;

Eden Prairie	South Lake Mtka
Brooklyn Park	Minnetonka
Medina	NMMC
H.C. Park Rangers	Orono

If you have any further questions or if I can be of further assistance regarding this issue, please let me know.

dent of Argonaut Insurance Co. in Menlo Park, Calif. Mr. Baker is serving as a judge for the first time, representing a stock insurance company.

- Sidney D. Blatt, risk manager of The Holloway Cos. in Wixom, Mich. Mr. Blatt was named to the Risk Management Honor Roll in 1984 for outstanding risk management for a small corporation.
- Warren G. Brockmeier, vp, with The Wyatt Co.'s Chicago office. Mr. Brockmeier represents the risk management consulting viewpoint.
- Frederick J. England Jr., president of Hastings-Tapley Insurance Agency in Cambridge, Mass. Mr. England served as a judge of the 1983 competition, representing regional insurance brokers.


Mr. Baker


Mr. Blatt


Mr. Brockmeier


Mr. England


Mr. Hat


Mr. Inserra


Mr. O'Connell


Mr. Riffle


Mr. Snyder


Mr. Wil

Cancellation hikes cities' coverage costs

By STEVE SHERWOOD

LAGUNA BEACH, Calif.—Twelve California cities are paying 300% more for their excess municipal liability coverage after Mead Reinsurance Corp. pulled out of the municipal liability market in California.

The cities, each a member of the Orange County Cities Risk Management Authority that collectively paid about $300,000 annually for the Mead Re coverage, will now pay almost $1 million a year collectively for excess coverage written by Planet Insurance Co., a Reliance Insurance Group subsidiary, said Ross Oliver, contract risk manager for the OCCRMA.

The Planet coverage, like the Mead Re policies, provides $11 million in liability coverage excess of each city's self-insured retention.

In addition, Mead Re canceled the cities' excess workers compensation coverage along with the municipal liability coverage. The cities have since purchased workers comp coverage with General Reinsurance Corp., although their rates increased 49%.

"Mead Re canceled as of Dec. 12, saying loss experience was unsatisfactory and they could see nothing better in the future unless the joint and several liability provisions of the state's tort liability law were repealed," Mr. Oliver says. The policies were to expire on March 1, 1985.

Under joint and several liability, a city could be forced to pay an entire tort judgment even if it is only found partly liable, Mr. Oliver says.

"This is killing public entities. Plaintiffs' attorneys are looking for any reason to find negligence on the part of cities. We've worked unsuccessfully for several years to relieve this situation," he says.

"Mead Re is no longer in the public entity insurance business (in California)," says Steve Petrakis, president of Petrakis Insurance Services of San Francisco, a surplus lines broker representing Mead Re and Planet's underwriting manager.

Because of "deep-pocket" statutes that call for joint and several liability, (Mead Re) can't continue underwriting the cities' risks, he says.

Mead Re, which was on the OCCRMA policy for about five years, "got out of the field about 18 months ago but stayed on the accounts it had. Premiums are too low with the losses going on."

"We had gotten out of most of it in 1983," says Patricia Fleischman, president of Patricia Fleischman Inc. in New York, Mead Re's underwriting manager. "In 1985, we will not renew the few (municipal liability) policies in California we have left."

Ms. Fleischman also blamed Mead Re's withdrawal in California and other states like Arizona on joint and several liability statutes.

"It is not a problem limited to California, but it is exaggerated there, where they have more plaintiffs' attorneys, antagonistic juries and judges who dislike insurance companies.

"We were sorry to get out of this line in these states, but you reach

Continued on page 30

Tougher surplus li

By MEG FLETCHER

WASHINGTON—The capital and surplus requirements for surplus lines insurers should be increased significantly to weed out financially weak companies, an insurance industry-based advisory committee told state regulators.

The committee, which gave a verbal report last week to the Surplus Lines Task Force of the National Assn. of Insurance Commissioners, prefers this type of regulation of surplus lines insurers to the establishment of surplus lines guaranty funds to pay policyholder claims if a surplus lines insurers goes broke.

The committee also made three other suggestions for dealing with insolvencies among surplus lines insurers.

Attorney Donald J. Greene, who reported on the work of the advisory committee at the NAIC winter meeting in Washington last week, said a significant number of surplus lines insurers would be forced out of business by the "remarkably" higher capital and surplus requirements considered by the committee.

Seaway's potential l

By MICHAEL BRADFORD

MONTREAL—The Canadian St. Lawrence Seaway Authority won't know if it has sufficient insurance to cover claims from owners and operators of 164 stranded vessels until losses have been totaled and lawsuits actually have been filed.

The authority is denying liability in a Nov. 21 breakdown of a bridge it owns that spans the St. Lawrence Seaway near Montreal. A malfunction in the pulley system that raises the bridge caused it to rise only 40 feet above the water, too low for ships to pass under on the 190-mile link between the Great Lakes and the Atlantic.

Shippers have filed around 200 notices of intent to file lawsuits, charging economic losses that could go as high as $40 million, according to one company.

Fred Petrie, vp of marketing for Canada Steamship Lines in Montreal, said lost earnings from the 15 ships his company had stranded in the waterway would amount to about $4 million. Industrywide, he calculates shippers will lose at least $40 million because of idle time spent in the waterway and lost business opportunities.

"We've done the mathematics," he said, "figuring it is costing the average ship around $12,000 per day."

Norm Willans, general counsel for the seaway authority, would not release insurance information except to say Johnson & Higgins in Toronto was the bro-

Burlington currently self insures its employee benefit plans, he added.

Although the license clears the way for Burlington to fund employee benefits through the Virgin Islands operation, it would still presumably be subject to the so-called "50% rule." That rule, drafted by the Labor Department in 1979, states that an insurance company subsidiary can underwrite its parent's employee benefits as long as that business does not comprise more than 50% of the company's total

Agency on St. Thomas, satisfying the requirement in the Exempt Insurance Act that requires support businesses to include one principal that has been licensed in the territory for at least one year.

Also, in addition to the Burlington captive, Ms. England said during the conference that a local insurer, North American Insurance Co., has also applied for a license under the Exempt Insurance Act. "They are locally owned and have no other branches," she said. ■

Cancellation hikes cities' costs

Continued from page 3

a point where the conditions make the risks uninsurable," she said.

When Mead canceled the coverage for the OCCRMA members, the authority's broker, Robert F. Driver Co. of Newport Beach, Calif., sought quotations from about a dozen insurers, Mr. Oliver says. Of these, four submitted quotes, and Planet won the account.

However, the new coverage is not as comprehensive as the former coverage.

The Mead Re policy provided the cities with inverse condemnation liability coverage, which protects a city if a person is denied access to his or her home due to a catastrophe and the city is found to have done nothing to prevent it.

"In California, inverse condemnation is a significant risk," Mr. Oliver said. "We were among the only cities in the country to have coverage for it. It protected against physical damage to real and personal property."

However, "We were able to retain inverse condemnation defense cost coverage, which is good since such costs can be high."

Although each of the cities will pay an average of 300% more for the Planet coverage, the cancellation will be even more costly to three of the cities: Laguna Beach, San Clemente and Stanton. Those cities' self-insured retentions will increase to $250,000 from $100,000. The other nine cities will keep their $100,000 retentions.

"Laguna Beach is a small beach community of 17,000 people, but on weekends the population soars to about 200,000 people with the influx of tourists, and San Clemente is in much the same situation," Mr. Oliver explained.

"But Stanton is landlocked and unexceptional as far as risk and loss experience are concerned," he said. "Even after talking to the underwriter, I don't understand why it was included."

Mr. Oliver sees the increase in retentions as a trend. On the quotes supplied by the other insurers, "the underwriters would have required all the cities to raise their retentions to $250,000 and they were not all that much better in premium."

Loss experience for the member cities vary, but if calculated on incurred losses to total earned premium, the loss ratio is less than 100%, Mr. Oliver said. "That's high, but not awful. In the last three months, we settled several claims that had frightened the underwriters for within the self-insured retention."

But, municipalities can pose large exposures to underwriters, Mr. Oliver said, citing a recent claim against Newport Beach, Calif., which is not an OCCRMA member.

A man who dived into the surf off Newport Beach hit a sand bar and became a paraplegic. He then sued the city and recently won a $6 million judgment, Mr. Oliver says.

"The theory of the courts is that the city should have warned the diver that he might hit a sand bar," Mr. Oliver says. "The real story here is that there is a rotten tort liability situation in California."

Besides the change in the excess liability coverage, the cities also had to buy new excess workers compensation coverage because Mead Re canceled their work comp coverage, too.

"Mead was not heavily involved in excess workers compensation, but we negotiated with them for the coverage," Mr. Oliver says.

Most of the insurers OCCRMA and its broker contacted about replacing the work comp coverage required the cities to increase their self-insured retention for work comp risks from the previous $100,000 retention.

Eventually, the cities opted to increase their retentions only slightly to $125,000, even though substantially increasing their retentions would have meant a smaller rate increase.

The coverage purchased from General Re cost the cities a total of $107,000, compared with the $57,500 premium they had paid to Mead Re for the work comp portion of the coverage. However, Mr. Oliver explains that the cities' rate actually increased only 49% because their payrolls had risen.

Besides Laguna Beach, Stanton and San Clemente, the other OCCRMA members are the cities of Cypress, Irvine, LaPalma, Los Alamitos, Orange, Tustin, Villa Park, Westminster and Yorba Linda. ■

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RESOLUTION APPROVING A JOINT PROGRAM
FOR FINANCING RENTAL HOUSING AND
GIVING PRELIMINARY APPROVAL TO A
JOINT POWERS AGREEMENT AND REGULATORY AGREEMENT
IN CONNECTION THEREWITH AND APPROVING
AN INCREASE IN BONDING AUTHORITY

WHEREAS:

(A) The City Council of the City of Crystal, Minnesota, by resolution has approved a multi-family rental housing development, (the "Project") and the financing thereof pursuant to Minnesota Statutes, Chapter 462C with approximately $6,500,000 revenue bonds;

(B) It is now proposed that the Project should be financed, together with certain other multi-family rental housing projects located in various municipalities in the State of Minnesota, pursuant to a single issue of revenue bonds or obligations;

(C) It is anticipated that such revenue bonds or obligations will be structured as a "loan-to-lender" transaction with Midland Financial Savings and Loan Association of Des Moines, Iowa acting as the "lender", and that the bonds will be underwritten by Piper, Jaffray & Hopwood Incorporated;

(D) It is further proposed that the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (the "St Paul HRA") should issue the revenue bonds or obligations, acting on behalf of itself with respect to certain projects located within the city limits of the City of Saint Paul, and on behalf of such other municipalities, including this City, as may approve the financing of multi-family rental housing projects located therein for financing pursuant to a joint program;

(E) It appears that such an issue of bonds or obligations to finance a joint financing program will result in substantial financial benefits to the developers of the multi-family rental housing developments and will accordingly assist the economic viability of such developments and will result in lower rental housing costs to the residents of such developments;

(F) There has been submitted to this City Council a form of Regulatory Agreement and a form of Joint Powers Agreement providing for a joint housing program and for the issuance of bonds or obligations to finance such joint housing program;

(G) The City Council has been advised by Piper, Jaffray & Hopwood Incorporated, that the joint powers financing referred to above has been structured so that the bonding authority for each municipality must provide for the funding of a pro-rata portion of a letter of credit commitment fee with respect to the issue and the funding of a reserve fund; and

(H) It appears that the bonding authority of $6,500,000 approved by resolution must be increased by approximately $693,000 to provide funding for the portion of the letter of credit commitment fee and the reserve fund allocable to the Project.

NOW THEREFORE, BE IT RESOLVED by the City Council of the City of Crystal, Minnesota, as follows:

1. The City hereby approves the financing of the Project, together with certain other multi-family rental housing developments located in various municipalities in the State of Minnesota, by the issuance of a single issue of revenue bonds or obligations to be issued by the St. Paul HRA on behalf of itself and all of such other municipalities.

2. The form of the Joint Powers Agreement submitted to this City Council is hereby approved. The Mayor and such other officers or employees of the City as may be appropriate are hereby authorized and directed to execute the Joint Powers Agreement upon execution thereof by such other municipalities or other political subdivisions as may also approve the financing of multi-family rental housing developments located in each of them for financing under the joint program. This City Council hereby authorizes and directs the Mayor and other appropriate officers and employees of the City to execute the Joint Powers Agreement with such variations, alterations, modifications or other changes as may be required to effectuate the purposes of this resolution and are not, in the opinion of the City Attorney, materially adverse to the interests of this City.

3. The Mayor and other appropriate officers or employees of the City are further authorized and directed to execute a Regulatory Agreement by and among the developer of the Project, the City, the Trustee for the revenue bonds or obligations issued to finance the joint program, and such other parties as may be appropriate. Such Regulatory Agreement shall be subject to the approval of the City Attorney, and shall contain such terms and conditions as may be required to implement this City's policies with respect to rental housing, with respect to the payment of fees, expenses and other charges associated with revenue bond financing, and with respect to any other matters which would normally be included in agreements between the City and the developer of a project financed by revenue bonds. The approvals and authorizations contained in this resolution are hereby made expressly subject to the execution of such Regulatory Agreement containing such terms and conditions as may be acceptable to the Mayor and City Attorney.

4. The City hereby approves an increase in bonding authority for the Project by the sum of approximately $693,000 to a total bonding authority of approximately $7,193,000.

5. Except as amended herein, the City hereby ratifies and approves the resolution previously adopted, with respect to the Project.

Adopted: _____

_____
Mayor

Attest:

_____
City Clerk

(SEAL)

Draft No. 4
4/16/85

CONTRACT FOR PRIVATE DEVELOPMENT

Among

THE CITY OF CRYSTAL, MINNESOTA,

and

THE HOUSING AND REDEVELOPMENT AUTHORITY
OF THE CITY OF CRYSTAL

and

CRYSTAL APARTMENTS LIMITED PARTNERSHIP

This Instrument Drafted by:

LeFevere, Lefler, Kennedy,
O'Brien & Drawz
a Professional Association
2000 First Bank Place West
Minneapolis, Minnesota 55402
Telephone: (612) 333-0543

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CONTRACT FOR PRIVATE DEVELOPMENT

THIS AGREEMENT, made and entered into as of this _____ day of March, 1985, by and between the HOUSING AND REDEVELOPMENT AUTHORITY IN AND FOR THE CITY OF CRYSTAL, MINNESOTA, a Minnesota public body corporate and politic, (HRA), the CITY OF CRYSTAL, a Minnesota municipal corporation, (City) and CRYSTAL APARTMENTS LIMITED PARTNERSHIP, a Minnesota limited partnership, (DEVELOPER).

WITNESSETH:

WHEREAS, the City and the HRA have created and established the Bass Lake Road-Becker Park Redevelopment Project Area (Project Area) pursuant to the authority granted in Minnesota Statutes, Sections 273.71 to 273.77 and Chapter 462 (collectively, the Act); and

WHEREAS, the HRA and the City have, pursuant to the Act, duly established a Redevelopment Tax Increment Financing District (TIF District) and adopted a tax increment financing plan (TIF Plan) to finance all or a portion of the public redevelopment costs of the Project Area;

WHEREAS, in order to achieve the objectives of the Redevelopment Plan as hereinafter defined and particularly to make land in the Project Area available for redevelopment by private enterprise for and in accordance with the uses specified in the Redevelopment Plan, the City has determined to provide substantial aid and assistance through the sale of bonds or other obligations to finance the public redevelopment costs of the Project Area; and

WHEREAS, the Developer has proposed a development as hereinafter defined within the Project Area which the HRA has determined will promote and carry out the objectives for which redevelopment in the

District has been undertaken, will assist in carrying out the Project Area and the TIF objectives of the TIF Plan, will be in the vital best interests of the City and the health, safety, morals and welfare of its residents, and is in accord with the public purposes and provisions of the applicable state and local laws and requirements under which redevelopment in the District has been undertaken and is being assisted:

NOW, THEREFORE, in consideration of the premises and mutual obligations of the parties contained herein, each of them does hereby represent, covenant and agree with the other as follows:

ARTICLE I.
DEFINITIONS, EXHIBITS, RULES OF INTERPRETATION

Section 1.1 Definitions. In this Agreement, the following terms have the following respective meanings unless the context hereof clearly requires otherwise:

(a) Tax Increment Bonds (TIF Bonds). The $5,865,000 General Obligation Tax Increment Bonds, Series 1985 issued by the City to finance the acquisition of the Property and related costs; the term also includes any bonds or obligations issued to refund any TIF Bonds.

(b) Construction Plans. Collectively the plans, drawings, specifications, related documents and construction progress reports, together with any and all changes therein that may thereafter be made, required of Developer to be submitted to the HRA as hereinafter provided.

(c) Development. The Development consists of the Improvements to be constructed in phases as shown in the Preliminary Plan documents attached hereto as Exhibit C. Phase I of the improvements consists in the construction of a residential multi-family structure of approximately 89 rental units and related site improvements. Phase II consists of the construction of a residential multi-family structure of approximately 71 rental or condominium residential units as further described in section 4.6, and related site improvements, but the total of the residential units shall be at least 160.

(d) Improvements. Each and all of the improvements specified in the preliminary plans and provided in the Construction Plans which are approved by the City and the HRA as hereinafter

provided, and having the minimum market values contained in Exhibit F.

(e) Market Value. The market value of the respective Phases of the Property and Improvements as determined by the City Assessor in accordance with Minn. Stats. Section 273.11 (or as finally adjusted by an assessor, board of equalization, commissioner of revenue, or any court).

(f) Maturity Date. The date on which the last TIF Bonds issued to assist the Project Area mature, February 1, 2008 or the date on which all of the TIF Bonds are defeased or redeemed and paid, whichever occurs first.

(g) Mortgage and Holder. The term "mortgage" includes a deed of trust or other instrument creating an encumbrance or lien upon the Property or any part thereof, as security for a loan. The term "holder" in reference to a mortgage includes any insurer or guarantor (other than the Developer) of any obligation or condition secured by such mortgage or deed of trust. Such terms also include the holder of any security interest and the interest of the trustee for any industrial revenue bonds or housing revenue bonds issued by the City in aid of the Project Area, except where the application of such terms would conflict with the legal requirements of such security interest or duty of a trustee.

(h) Property. The real property located within the Project Area and collectively consisting of separate parcels of land described and numbered in Exhibit A.

(i) Redevelopment Plan. Collectively, the Redevelopment Plan and the Tax Increment Financing Plan (TIF Plan) for the Project Area.

(j) Tax Increment. The tax increments resulting from by increases in the assessed valuation of property in the Project Area and related Tax Increment Financing District (TIF District).

(k) Preliminary Plan Documents. Collectively the schematics, site plan, elevations and outline specifications contained in Exhibit C.

(l) Other Terms. Terms defined in other sections of this agreement have the meanings given them.

Section 1.2 Exhibits. The following Exhibits are attached to and by reference made a part of this Agreement.

A. Property Descriptions
B. Form of Deed
C. Preliminary Plan Documents
D. Schedule of Construction
E. Certificate of Completion
F. Assessment Agreement and Certificate of Director of

Property Taxation
G. Letter of Credit
H. Agreement to Pay Deficiencies.
I. List and Schedule of Public Improvements.

Section 1.3 Rules of Interpretation.

(a) This Agreement shall be interpreted in accordance with and governed by the laws of the State of Minnesota.

(b) The words "herein" and "hereof" and words of similar import, without reference to any particular section or subdivision refer to this agreement as a whole rather than any particular section or subdivision hereof.

(c) References herein to any particular section or subdivision hereof are to the section or subdivision of this instrument as originally executed.

(d) Any titles of the several parts, articles and sections of this Agreement are inserted for convenience and reference only and shall be disregarded in construing or interpreting any of its provisions.

ARTICLE II.

REPRESENTATIONS AND UNDERTAKINGS

Section 2.1 By the Developer. The Developer makes the following representations as the basis for its undertakings herein:

(a) The Developer has the legal authority and power to enter into this Agreement.

(b) If, to the extent allowed by law, the City or HRA makes available to the Developer the proceeds of tax exempt bonds or other obligations in the exercise of their respective reasonable discretion, the Developer has the necessary equity capital and will use its best efforts to obtain commitments for mortgage financing necessary for construction of the Improvements.

(c) The Developer will construct, operate and maintain the Improvements in accordance with the terms of this Agreement, the Redevelopment Plan and all local, state and federal laws and regulations.

(d) The Development is comprised of uses permitted under the ordinances of the City, is in conformity with the Redevelopment Plan and will be acquired and developed by Developer to produce the minimum market values shown on Exhibit F.

(e) At such time or times as may be required by law, the Developer will have complied with all local, state and federal environmental laws and regulations, will have obtained any and all necessary environmental reviews, licenses or clearances thereunder, and will be in compliance with the requirements of the National Environmental Policy Act of 1969, the Minnesota Environmental Policy Act, and the Critical Area Act of 1973. The Developer has not received notice or communication from any local, state or federal official indicating that the activities of the Developer may be or will be in violation of any environmental law or regulation. The Developer is not aware of any facts the existence of which would cause Developer to be in violation of any local, state or federal environmental law, regulation or review procedure or which would give any person a valid claim under the Minnesota Environmental Rights Act.

(f) The Developer will use its best efforts to obtain, in a timely manner, all required permits, licenses and approvals, and will meet, in a timely manner, all requirements of all local, state and federal laws and regulations which must be obtained or met before the Improvements may be constructed. Without limitation to the foregoing, the Developer will request and seek to obtain from the City all necessary variances, conditional use permits and zoning changes.

(g) Any signing erected upon the Property shall satisfy the following criteria:

i. Only the signs depicted in the approved Construction Plans will be permitted.

ii. Any signs thereafter erected upon the Property, whether in addition to or as a replacement of the signs contained in the Construction Plans will be an integral part of the building in terms of design and quality. Billboard type signs on the rooftop, building facades or other areas on the property will not be permitted except that temporary billboard and construction and promotional signs which are permitted by ordinance may be erected. All signs erected or placed on the property will advertise only the businesses or products or services of the businesses occupying the property.

iii. The criteria contained in this Paragraph 2.1 (g) are intended to be minimum criteria, and the Developer represents that it will abide by any more restrictive requirements contained in applicable City ordinances or state statutes currently existing or hereafter enacted. Nothing contained in this subparagraph 2.1 (g) iii. shall be deemed to limit or restrict the right of the Developer to challenge the application of any such restriction or criteria to it, nor shall any of the forfeiture provisions contained in Section 9.3 of this

Agreement apply to a violation of this paragraph by the Developer.

Section 2.2 By the HRA. The HRA makes the following representations as the basis for its undertaking herein:

(a) The HRA is authorized by law to enter into this Agreement and to carry out its obligations hereunder.

(b) The HRA shall use its best efforts to obtain and convey marketable title to the Developer to all the parcels of land described in Exhibit A in accordance with Section 3.4. Subject to the provisions of Section 3.3, failure to deliver marketable title to the Property shall make this Agreement void and release the parties from any obligation hereunder.

(c) The HRA will consider and adopt appropriate modifications to this Agreement if in its judgement such modifications are necessary to enable Developer to obtain necessary financing for the Improvements.

Section 2.3. By the City. The City makes the following representations as the basis for its undertaking herein:

(a) The City is authorized by law to enter into this Agreement and to carry out its obligations hereunder.

(b) The City will, in a timely manner, subject to all notification requirements, review and act upon all submittals and applications of the Developer and the HRA and will not unreasonably withhold or deny the granting of any permit, license, variance, conditional use permit or other approval required to allow the construction of the Improvements; provided, however, that nothing contained in this subparagraph (b) shall be construed to limit in any way the reasonable and legitimate exercise of the City's legislative discretion in considering any submittal or application.

(c) The City will use its best efforts, in the reasonable exercise of its discretion, and consistent with state and federal law, to make available tax exempt financing to Developer for the Project, including the prompt adoption of necessary preliminary resolutions and other necessary plans and programs incumbent to the issuance of housing revenue bonds to assist in the financing of the Improvements.

(d) The City will consider and adopt appropriate modifications to this Agreement if in its judgement such modifications are necessary to enable Developer to obtain necessary financing for the Improvements.

ARTICLE III.
SALE AND CONVEYANCE

Section 3.1. Sale by HRA. Subject to the terms, covenants and conditions of this Agreement, the HRA agrees to sell to Developer and the Developer agrees to purchase from the HRA the real estate described in Exhibit A at a price of $80,000 which amount the parties acknowledge is less than the fair market value of the Property. The date of such purchase and sale is referred to herein as "Closing".

Section 3.2. Taxes and Assessments. Real estate taxes and special assessments against the Property shall be pro rated at Closing.

Section 3.3. (Blank)

Section 3.4. Closing Schedule. The HRA has acquired fee title to a portion of the Property, has commenced eminent domain proceedings to acquire the balance of the Property, and is diligently pursuing steps to acquire such balance of the Property by direct purchase from the fee owner thereof. The Closing shall take place no later than July 1, 1985 or on such earlier date as may be agreed upon by the parties. In the event that Closing does not take place as provided in this section, this Agreement shall become void and the parties hereto shall be discharged from any further liability or obligation hereunder.

Section 3.5. Closing Documents. On the date of Closing the HRA shall deliver to the Developer:

(a) an affidavit covering all judgments, tax liens, bankruptcies, pending actions in any court, mechanic's

liens and unrecorded contracts, leases, easements, or other agreements relating to the property;

(b) deeds in the form indicated in Exhibit B; and

(c) a title insurance commitment as described in Section 3.6.

On the date of closing the Developer shall deliver to the HRA:

(a) the Letter of Credit;

(b) an acknowledgement of the reversionary rights of the HRA specified in Section 9.3;

(c) the Assessment Agreement; and

(d) the Agreement to Pay Deficiencies.

Section 3.6. Title Insurance. The HRA shall obtain a commitment for the issuance of an owner's title insurance policy. The commitment shall commit the insurer for the issuance of an owner's title insurance policy (ALTA FORM "B"), shall name the HRA the proposed insured party, shall be certified to date, including searches and bankruptcies and state and federal judgments, tax and other liens and for all special assessments levied or pending. The HRA shall furnish the Developer a copy of the commitment not later than 30 days prior to the date of closing. The Developer shall be allowed ten days from receipt of the commitment for examination of the commitment and delivery to the HRA of a list of all encumbrances or other interests which are unacceptable to the Developer. Objections may be raised only as to defects consisting of encumbrances or other interests which make title unmarketable or restrict or prohibit its intended use. Objections not made within such period are deemed waived. The HRA shall have 90 days from the date of timely objection to correct a defect and supply the Developer with an updated commitment. In the event that the defect is not removed during that period and is not waived by the Developer, the Developer's obligation to purchase the Property shall terminate unless the Developer shall elect to purchase the property subject to the defect and charge the HRA for the actual cost of removing such defect including reasonable attorneys' fees.

Section 3.7. Hazardous Wastes. On the date of closing the HRA and the Developer agree to execute a document in recordable form containing the following provisions:

(a) neither the HRA nor the Developer is aware of any hazardous wastes, chemicals, substances or other pollutants which are current stored, kept or located upon the property;

(b) that the Developer is satisfied as a result of its own investigation that no such materials are located within the site;

(c) that the Developer for itself, its successors and assigns, releases and discharges forever the HRA, the City and their officers, agents and employees from any claim, or cause of action in law or in equity, including any claim or cause which may hereafter by created, for property damage, personal injury or death arising out of or occasioned by the presence or removal of any hazardous wastes, chemicals, substances or other pollutants which may be located upon or under the Property except such wastes, chemicals or substances deposited thereon or therein by the HRA or the City, or either of them;

(d) if prior to completion of construction of the Improvements the existence of hazardous wastes, chemicals, substances or other pollutants results in the Developer being directed by a lawful governmental authority to remove same, then the Developer may at its option choose to abandon the project, terminate this agreement and be relieved from any further obligation hereunder and under the Assessment Agreement, and the Agreement to Pay Deficiencies and the Letter of Credit shall be returned to Developer. Provided, however, that such termination shall not be deemed to revest title in the HRA.

Section 3.8. Limitation on Total Guaranty and Deficiency Payments. The Developer agrees to pay to the HRA at the times and subject to the limitations hereinafter provided, the amount needed, in addition to the Tax Increment plus any other amounts available to the City and pledged to pay principal of and interest on the TIF Bonds plus any interest earnings available to the City, to pay the principal of and interest on the TIF Bonds when due in accordance with the Agreement to Pay Deficiencies contained in Exhibit H. The City will no later than 15 days before an interest payment date on the TIF Bonds

notify and request payment from the Developer of the amount required, if any, in addition to such Tax Increment and interest earnings, to pay the principal, if any, and interest coming due on the Bonds on said interest payment date. The Developer agrees to pay such amount to the City immediately upon receipt of such request from the City; provided that in no event shall the amount paid to the City pursuant to any such request from time to time exceed: (a) to pay principal, 25% of the aggregate principal amount of the TIF Bonds that has been retired or is then due and payable, less the amount of any previous payments made for this purpose; and (b) to pay interest, 25% of the interest that has been paid on the TIF Bonds or is then due and payable thereon, less the amount of any previous payments made for this purpose. Failure of the HRA to give the notice of demand required by this section does not relieve the Developer of its obligations hereunder. The HRA covenants and agrees that it will not accept any payments from Developer under this section which would cause the interest on the Bonds to become subject to federal income taxation. The City and HRA reserve the right to obtain an opinion of nationally recognized bond counsel as to the effect of the acceptance of any such payment or any payment made pursuant to this section upon the taxable status of the interest on the Bonds. The HRA and the City represent to Developer that all tax increments from the TIF District in which the Improvements and the Development are located have been duly pledged to payment of the TIF Bonds pursuant to a Tax Increment Agreement between the City and the HRA, dated February 19, 1985, now on file with the Director of Property Taxation of Hennepin County and will be applied to the payment of principal and interest on the TIF Bonds in accordance with Minnesota Statutes, Section 273.75, Subdivision 2 and the TIF Plan.

Section 3.9. Utility, Street Relocation, and Public Improvements.

a) Prior to the date of closing, the City shall have vacated all public streets and alleys, if any, located within the boundaries of the Development and all public utilities located therein, all at the

sole expense of the City and the HRA. If, on or before the time of closing the City shall notify the Developer and the HRA that the City will be unable to vacate all or any portion of such streets or alleys, and vacate and relocate such public utilities, then this Agreement may be terminated by either the Developer or the HRA and the City and no party shall be further liable to any other party hereunder.

b) Within 30 days following the execution of this Agreement, the City will provide the Developer and the HRA with plans and specifications showing the proposed relocation of all public streets, curb cuts and public utilities, and the location and nature and schedule for construction of all public improvements to be constructed by the City in connection with the Development as described in Exhibit I to this Agreement.

c) The HRA and the Developer shall review such plans and specification and notify the City in writing within ten days after receipt whether they are approved. Failure to give such notice is deemed approval.

d) The City and the HRA represent that there exist or will exist public utilities serving the Property which are adequate to serve the purposes of the Improvements.

e) Developer shall install necessary utility improvements on the Property as described in the Construction Plans to enable connection to available public utilities, but shall not be assessed or otherwise required to pay for public improvements made by the City as part of the Project Area.

f) City and HRA shall, subject to unavoidable delay, construct the Public Improvements in substantially the manner and at the time set out in Exhibit I.

Section 3.10. Demolition. The Developer shall prior to or by the Closing Date raze, demolish and remove all structures which are located on the Property. The HRA will reimburse Developer for the costs of such demolition and removal up to the sum of $38,000. The Developer agrees that it will indemnify and hold harmless the City and the HRA from any claim or cause occasioned by or arising out of such activities. The HRA agrees that it will permit the Developer and its

agents and employees to enter upon any part of the Property to which that HRA has title and possession prior to closing for the purpose of conducting soil testing and analysis, provided, however, that before such entry the Developer shall agree to indemnify and hold harmless the HRA and the City, its officers, agents and employees from any claim arising from such activities and will not permit or allow the filing of any liens on such property by virtue of such work.

Section 3.11. Site Assembly. It is the responsibility of the HRA to convey title to the Developer by deed which contains the existing legal descriptions at the sole expense of the HRA. The Developer is responsible for obtaining any necessary subdivision, platting, registered land survey, proceeding subsequent or land registration required by law or the City in connection with the transactions contemplated by this Agreement except as may be necessary for the HRA to furnish marketable title to the Property. To that end, and without placing an additional obligation on the HRA and City, the HRA and the City shall cooperate with the Developer in seeking such approvals, including joining in any necessary petition or application.

Section 3.12. Conditions Precedent to Developer's Obligation to Purchase Property. In the event that on or before the Closing the Developer notifies the HRA that:

(a) it will be financially unfeasible to sell limited partnerships in the project; or

(b) that it has been unable to obtain the necessary rezoning and other land use and environmental permits necessary to proceed with the project; or

(c) it will be unable to economically and feasibly finance the project; or

(d) as certified by a professionally qualified soils testing firm, the soils located on and under the property are unsuittable for the contemplated use and cannot be economically corrected.

Then, at the option of the Developer this agreement may be terminated and the parties hereto are released from any further obligation hereunder. In the event of automatic termination pursuant to this

Section Developer agrees to execute and deliver to HRA and City a quit cliam deed extinguishing Developer's interest in the Property under this Agreement.

ARTICLE IV.
CONSTRUCTION OF IMPROVEMENTS

Section 4.1. Construction of Improvements. The Developer agrees that it will construct the Improvements on the Property in accordance with the Construction Plans and will at all times operate, maintain, preserve and keep the Improvements in good repair and condition.

Section 4.2 Construction Plans. Not later than 90 days from the date of this Agreement, the Developer shall submit to the HRA and to the City its Construction Plans. The Construction Plans shall be in conformity with Preliminary Plan, which is attached to this Agreement as Exhibit C, the TIF Plan, the Redevelopment Plan, this Agreement and all local, state and federal regulations. The HRA and the City shall, within 15 days of receipt of Construction Plans review such plans to determine whether the foregoing requirements have been met. If the City and HRA determine such plans to be deficient, they shall notify the Developer in writing stating the deficiencies and the steps necessary for correction. No building permit or other permit required for the construction may be applied for until the Construction Plans have been approved by the HRA.

Section 4.3 Completion of Construction. Subject to unavoidable delays and Section 4.7, construction of the Phase I Improvements must be 70% completed no later than December 31, 1985 and all of the Phase I and Phase II Improvements must be completed as contemplated in the Assessment Agreement and Agreement to Pay Deficiencies. For the purpose of this Section 4.3, unavoidable delays mean delays which are the direct result of strikes, fire, war, material shortage, causes beyond the Developer's control or other casualty to the improvements, or the act of any federal, state or local government unit except those acts of the City and HRA authorized or contemplated by this Agreement.

All construction shall be in conformity with the approved Construction Plans. At intervals of not less than 30 days during the construction of the Improvements and until completion, the Developer shall make reports to the HRA in such detail as may reasonably be requested by the HRA concerning the actual progress of construction.

Section 4.4 Certificate of Completion. Promptly after notification by the Developer of completion of each phase of construction, the HRA and the City shall inspect the Improvements to determine whether the Development is completed in accordance with the terms of this Agreement (including the date for the completion thereof). In the event that the HRA and the City are satisfied with the construction, the HRA will furnish the Developer with a Certificate of Completion for each Phase as described in Exhibit E. Such certification by the HRA shall be a conclusive determination of satisfaction and termination of the agreements and covenants in this Agreement with respect to the obligations of the Developer to build the Improvements.

The certification provided for in this Section 4.4 shall be in recordable form. If the HRA shall refuse or fail to provide a certification in accordance with the provisions of this Section 4.4, the HRA shall within ten days of such notification provide the Developer with a written statement, indicating in adequate detail in what respects the Developer has failed to complete the Development in accordance with the provisions of this Agreement, or is otherwise in default, and what measures or acts it will be necessary, in the opinion of the HRA, for the Developer to take or perform in order to obtain such certification. Without written authorization from the HRA the Developer may not occupy or permit the occupancy of any part of the Development until the Certificate of Completion has been issued.

Section 4.5 Failure to Construct. In the event that the Developer fails to commence or complete construction of each respective phase of the Improvements as provided in Sections 4.3 and 4.7 of this Agreement, the HRA may give written notice of such failure and if within 90 days after the giving of such notice the Developer has not

cured such failure or failures then the Developer shall be liable to the HRA for liquidated damages in the amount of $225,000. The liquidated damages contained in this Section 4.5 and modified by Section 4.7 represent a reasonable determination by the parties of the compensable monetary loss which the City and the HRA may reasonably be expected to suffer by virtue of the Developer's failure to commence or complete construction of the phases of Improvements required by this Agreement. Forfeiture of such amount by the Developer shall constitute a complete discharge and release of the Developer from all claims by the HRA and the City for money damages created in this Agreement. As security for the obligations created in this Section 4.5 the Developer shall on or before the date of closing deliver to the HRA an irrevocable letter of credit in substantially the form attached as Exhibit G in the amount of $225,000. The Letter of Credit shall be retained by the HRA and the City in accordance with Section 4.7. Upon such happening the Letter of Credit shall be returned to the Developer and all liability under this Section 4.5 shall terminate. The provisions of this Section 4.5 shall not be construed to prejudice or limit the additional right of the HRA created in Section 9.3 of this Agreement.

Section 4.6 Construction in Phases. The parties contemplate and agree that the Improvements will be constructed as follows and in accordance with the Assessment Agreement and Agreement to Pay Deficiencies:

(a) Phase I Improvements with 70% completion of construction no later than December 31, 1985, and complete construction by April 1, 1986;

(b) Phase II Improvements with completion of construction no later than December 31, 1986;

provided, however, that Phase II may consist of residential units in condominium ownership in one or more structures and provided further that in no event shall the combined minimum market value of Phase I

and Phase II be less than that specified and at the times specified in the Assessment Agreement. If Developer wishes to construct Phase II as condominium units in one or more structures, it shall so notify the HRA no later than December 31, 1985, and the HRA shall within 30 days thereafter notify Developer of approval of such request which approval shall not unreasonably be withheld. No later than 60 days after such approval, Developer shall submit to the HRA Construction Plans for the construction of Phase II and the construction of Phase II shall be in accordance with the terms of this Agreement.

Section 4.7 Construction; Letter of Credit and Other Documents; Schedule of Obligations.

(a) Phase I Improvements, Start. On the date of commencement of construction of the Phase I Improvements as certified by Developer, Developer's obligation under the Letter of Credit shall be reduced by an amount equal to the percentage determined by a fraction of which the numerator is the number of dwelling units to be constructed in the Phase I Improvements and the denominator is 160.

(b) Phase I Improvements, Completion. On the date of issuance of the Certificate of Completion of the Phase I Improvements the provisions of Section 9.3 as they relate to Phase I shall cease and be of no further force or effect.

(c) Phase I Improvements, Failure to Start. If construction of the Phase I Improvements as certified by Developer is not commenced by January 1, 1986, (i) the HRA may draw upon the Letter of Credit, (ii) the HRA may exercise its rights under Section 9.3 as they relate to the Property and Developer agrees to convey all of its interest in the Property to the City, and (iii) Developer's obligation under the Agreement To Pay Deficiencies will terminate.

(d) Phase II Improvement, Start. On the date of construction of the Phase II Improvements as certified by Developer, Developer's obligation under the Letter of Credit shall cease.

(e) Phase II Improvements, Completion. On the date of issuance of a Certificate of Completion for the Phase II Improvements the provisions of Section 9.3 as they relate to the Property shall cease and be of no further force or effect, provided, however that if the Phase II Improvements are constructed as other than rental units

as contemplated in Section 4.6 the reversionary interests of the HRA specified in Section 9.3 may be released in part and from time to time as necessary to accomodate the partial sale of the Phase II Improvements by Developer.

(f) Phase II Improvements, Failure to Start. If construction of the Phase II Improvements as certified by the Developer and acknowledged in writing by the HRA has not commenced by December 31, 1988 the HRA and the City may elect to, (i) take no action in which case the Letter of Credit will be released to the Developer and the provisions of Section 9.3 as they relate to the Phase II property shall be of no further force or effect but the Agreement to Pay Deficiencies and the Assessment Agreement shall remain in full force and effect, or (ii) the HRA may exercise all of its reversionary rights under Section 9.3 and draw upon the remaining amount of the Letter of Credit in which case Developer shall convey all of its interests in the Phase II Improvements and Property related thereto and the Agreement to Pay Deficiencies shall be modified by amendment to reduce Developer's obligation thereunder to an amount or amounts directly attributable to the Tax Increment to be derived from the Phase I Improvements.

ARTICLE V.

INSURANCE

Section 5.1 Insurance. It is contemplated by the parties that the construction of the Improvements will be financed in whole or part by proceeds of tax exempt bonds or obligations issued by the City. The insurance required to be carried pursuant to the financing documents executed by the City and the bond purchaser are deemed to satisfy this Agreement.

ARTICLE VI.

TAX INCREMENT

Section 6.1 Real Property Taxes.

(a) Assessment Agreement. On or before the date of closing the HRA and the Developer shall execute the Assessment Agreement and Certification of city assessor contained in Exhibit F of this Agreement. The HRA shall then present the Assessment Agreement

to the city assessor for his certification. The city assessor shall value the property and assign a market value to the property which shall not be less than the minimum market value contained in the Assessment Agreement. The market value so established may, in the discretion of the assessor exceed the value contained in the Assessment Agreement.

(b) Review of Taxes. Except as otherwise provided in this Agreement, the Developer shall pay all real property taxes and special assessments assessed against the property. The Developer agrees that prior to the Maturity Date: (1) it will not seek administrative review or judicial review of the applicability of any tax statute determined by any tax official to be applicable to the Development or the Developer or raise the applicability of any such tax statute as a defense in any proceedings including delinquent tax proceedings; (2) it will not seek administrative review or judicial review of the constitutionality of any such tax statute determined by any tax official to be applicable to the Development or the Developer or raise the unconstitutionality of such tax statute as a defense in any proceedings, including delinquent proceedings; (3) it will not request the city assessor of the City to reduce the assessed market value or assessed value of all or any portion of the Property; (4) it will not petition the board of equalization of the City or the board of equalization of the County to reduce the assessed market value or Assessed Value of all or any portion of the Property; (5) it will not petition the board of equalization of the State or commissioner of revenue of the State to reduce the assessed market value or assessed value of all or any portion of the Property; (6) it will not commence an action in a District Court of the State or the Tax Court of the State pursuant to Minn. Stat., Chapter 278, seeking a reduction in the assessed market value or assessed value of the Property; (7) it will not make an application to the commissioner of revenue of the State requesting an abatement of real property taxes pursuant to Minn. Stat., Chapter 270; and (8) it will not commence any other proceedings, whether administrative, legal or equitable, relating to the market value of the Property or the taxes to be paid thereon, with any administrative body within the City, the County, or the State or with any court of the State or the Federal Government. The Developer shall not, prior to the Maturity Date, apply for a deferral of property tax on the Property pursuant to the Act. Nothing contained herein shall be deemed to limit the right or opportunity of the Developer to challenge that part of any valuation or the Market Value which is in excess of the minimum value contained in the Assessment Agreement.

(c) Agreement to Pay Deficiencies. On the date of closing, the Developer and the HRA will execute the Agreement to Pay Deficiencies contained in Exhibit H.

(d) Adjustment of Assessment Agreement. In the event the Property is not delivered to Developer on July 1, 1985 and the

time for Closing is extended, the minimum market values for 1986 set forth in the Assessment Agreement shall be adjusted by the parties to reasonably reflect the delay in construction of the Improvements occasioned by the delay in delivery of the Property.

ARTICLE VII.

FINANCING

Section 7.1 Financing. On or before the Closing Date, the Developer shall submit to the HRA and the City evidence of a preliminary commitment for mortgage or other financing sufficient for construction of Phase I and Phase II of the Improvements. If the HRA and the City find that the feasibility of the financing is sufficiently assured and adequate in amount to provide for the construction of the Improvements then the HRA shall notify the Developer in writing of its approval.

If the HRA rejects the evidence of financial feasibility as inadequate, the Developer shall have five days from the date of such notification to submit evidence of financial feasibility satisfactory to the City and the HRA. If the Developer fails to submit such evidence, any party may terminate this Agreement whereupon all parties shall be released from any further obligation or liability hereunder.

Section 7.2 Limitation Upon Encumbrance of Property. Prior to the completion of the Development, as certified by the HRA, neither the Developer nor any successor in interest to the Property or any part thereof shall engage in any financing or any other transaction creating any mortgage or other encumbrance or lien upon the Property, whether by express agreement or operation of law, or suffer any encumbrance or lien to be made on or attached to the Property other than the liens or encumbrances attached for the purposes of obtaining funds to the extent necessary for making the Improvements and such additional funds, if any, in an amount not to exceed the costs of developing the Project without the prior written approval of the HRA. For the

purposes of such financing as may be made pursuant to the Agreement, the Property may, at the option of the Developer (or successor in interest), be divided into several parts consistent with the purposes of the Redevelopment Plan and the Agreement. The HRA shall not approve any Mortgage which does not contain terms that conform to the terms of Section 7.6 of this Agreement.

Section 7.3 Copy of Notice of Default to Lender. Whenever the HRA shall deliver any notice or demand to the Developer with respect to any breach or default by the Developer in its obligations or covenants under that Agreement, the HRA shall at the same time forward a copy of such notice or demand to each Holder of any Mortgage authorized by the Agreement at the last address of such Holder shown in the records of the HRA.

Section 7.4 Lender's Option to Cure Defaults. After any breach or default referred to in Section 9.1 hereof, each such Holder shall (insofar as the rights of the HRA are concerned) have the right, at its option, to cure or remedy such breach or default (or such breach or default to the extent that it relates to the part of the Property covered by its mortgage), and to add the cost thereof to the Mortgage debt and the lien of its Mortgage; provided that if the breach or default is with respect to construction of the Improvements, nothing contained in this Section 7.4 or any other section of this Agreement shall be deemed to permit or authorize such Holder, either before or after foreclosure or action in lieu thereof, to undertake or continue the construction of the Improvements or completion of the Development (beyond the extent necessary to conserve or protect Improvements or construction already made) without first having expressly assumed the obligation to the HRA and the City, by written agreement satisfactory to the HRA and the City, to complete, in the manner provided in this Agreement, the Development or the part thereof to which the lien or title of such Holder relates. Any such Holder who shall promptly complete the Development or applicable part thereof shall be entitled, upon written request made to the HRA, to a certification by the HRA and the City to such effect in the manner provided

in Section 4.4 of this Agreement, and any such certification shall, if so requested by such Holder, mean and provide that any remedies or rights with respect to recapture, reversion, or revesting of title to the Property that HRA or the City shall have or be entitled to because of failure of the Developer or any successor in interest to the Property, or any part thereof, to cure or remedy any default with respect to the construction of the Improvements on other parts or parcels of the Property, or because of any other default in or breach of the Agreement by the Developer or such successor, shall not apply to the part or parcel of the Property to which such certification relates.

Section 7.5 HRA's or City's Option to Cure Default. In the event that the Developer is in default under any financing authorized pursuant to this Article VII, the Holder, within ten days after it or any of its agents or employees become aware of any such default, shall notify the HRA and the City in writing of; (a) the fact of the default, (b) the elements of the default, and (c) the actions required to cure the default. If, within 30 days after receipt of said notice, the HRA commences the actions necessary to cure the default (and cures the default withing six months after receipt of said notice), then the Holder shall pursue none of its remedies under the financing based upon the said default of the Developer. In the event of a transfer of the title to the Property to the HRA, or a third party approved by the HRA and the City, whether or not required to cure a default, said transfer shall not constitute an event of default under the financing unless the security of the holder has, in fact, been impaired by said transfer. In the event of said transfer (which does not impair the security of the holder), the holder shall permit the transferee to assume all outstanding obligations (and receive all remaining disbursements) under the financing. The HRA will not approve any financing pursuant to this Article VII which does not contain terms which conform to the terms of this Article VII. The HRA and the City may not modify any of the terms or requirements of this Section 7.5 by agreement with the Holder of any financing without the approval or consent of the Developer.

Section 7.6 Subordination.

(a) In order to facilitate the obtaining of financing for the construction of the Improvements by the Developer, the HRA and the City agree to subordinate their rsepective rights of and revesting of title and other rights created by this Agreement to the Mortgage held by the financial institution providing such funds, provided that the Mortgage provides that if the Holder of the Mortgage shall foreclose on the Property, the Improvements thereon, or any portion thereof, or accept a deed to the Property in lieu of foreclosure, it shall consent to the Minimum Market Value set forth in the Assessment Agreement.

(b) In order to facilitate the obtaining of financing for the construction of the Improvements, the HRA agrees that it shall agree to any reasonable modification of this Article VII with respect to the rights of the City under any Mortgage secured by the Property or the Improvements thereon, or portion thereof, to accommodate the interest of the Holder of the Mortgage, provided, however, that the HRA determines, in its reasonable judgment, that any such modification(s) will adequately protect the legitimate interests and security of the City with respect to the Project. The HRA also agrees to consider such modifications(s) of this Article VII with respect to other Holders, and to agree to such modifications if the HRA deems such modification(s) necessary and reasonable.

ARTICLE VIII.

PROHIBITIONS AGAINST ASSIGNMENT AND TRANSFER

Section 8.1 Representation as to Redevelopment. The Developer represents and agrees that its undertakings pursuant to the Agreement, are for the purpose of development of the Property and not for speculation in landholding. The Developer further recognizes that, in view of

(a) the importance of the redevelopment of the Property to the general welfare of the City, and

(b) the substantial financing and other public aids that have been made available by the City and the HRA for the purpose of making the Development possible, and

(c) the fact that any significant change with respect to the identity of the Developer, the purchase of Developer's interest by any other party or parties is for practical purposes a transfer or disposition of the property then owned by the Developer,

that the qualifications and identity of the Developer are of particular concern to the City and the HRA. The Developer further recognizes that it is because of such qualifications and identity that the HRA and the City are entering into this Agreement, and, in so doing, are further willing to have relied on the representations and undertakings of the Developer for the faithful performance of all undertakings and covenants of Developer.

Section 8.2. Prohibition Against Transfer of Property and Assignment of Agreement. For the reasons set out in Section 8.1, the Developer represents and agrees that (except for associating with other individuals or entities including limited partners), prior to the completion of Improvements as certified by the HRA, and without the prior written approval of the HRA and the City:

(a) Except only by way of security for, and only for the purpose of obtaining financing necessary to enable the Developer or any successor in interest to the Property, or any part thereof, to perform its obligations with respect to the Development under this Agreement, and any other purpose authorized by this Agreement, the Developer (except as so authorized) has not made or created, and that it will not make or create, or suffer to be made or created, any total or partial sale, assignment, conveyance, or any trust or power, or transfer in any other mode or form of or with respect to this Agreement or the Property or any part thereof or any interest therein, or any contract or agreement to do any of the same, without the prior written approval of the HRA provided, however, that commitments for the pre-sale of dwelling units in the Improvements may be made by Developer without such prior approval.

(b) The HRA shall be entitled to require, except as otherwise provided in this Agreement, as conditions to any such approval that: (i) Any proposed transferee shall have the qualifications and financial responsibility, as determined by the HRA, necessary and adequate to fulfill the obligations undertaken in this Agreement by the Developer (or, in the event the transfer is of or relates to part of the Property, such obligations to the extent that they relate to such part). (ii) Any proposed transferee, by instrument in writing satisfactory to the HRA and in form recordable among the land records, shall for itself and its successors and assigns, and expressly for the benefit of the HRA and the City, have expressly assumed all of the obligations of the Developer under this Agreement and agreed to be subject (or, in the event the transfer is, of, or relates to part of the Property, such obligations, conditions, and restrictions to the extent

that they relate to such part): Provided, that the fact that any transferee of, or any other successor in interest whatsoever to, the Property or any part thereof, shall, for whatever reason, not have assumed such obligations or agreed to do so, shall not (unless and only to the extent otherwise specifically provided in the Agreement or agreed to in writing by the HRA) relieve or except such transferee or successor of or from such obligations, conditions, or restrictions, or deprive or limit the HRA or the City of or with respect to any rights or remedies or controls with respect to the Property or the construction of the Improvements; it being the intent of this Section, together with other provisions of this Agreement, that (to the fullest extent permitted by law and equity and excepting only in the manner and to the extent specifically provided otherwise in the Agreement) no transfer of, or change with respect to, ownership in the Property or any part thereof, or any interest therein, however consummated or occurring, whether voluntary or involuntary, shall operate, legally or practically, to deprive or limit the HRA or the City, of any rights or remedies or controls provided in or resulting from this Agreement with respect to the Property and the construction of the Improvements that the HRA or the City would have had, had there been no such transfer or change. (iii) There shall be submitted to the HRA for review all instruments and other legal documents involved in effecting transfers described herein; and if approved by the HRA, its approval shall be indicated to the Developer in writing.

In the absence of specific written agreement by the HRA and the City to the contrary, no such transfer or approval by the HRA thereof shall be deemed to relieve the Developer from any of its obligations with respect thereto.

Section 8.3 Approvals. Any approval required to be given by the HRA under this Article VIII may be denied only in the event that the HRA and the City reasonably determine that the ability of the Developer to perform its obligations under this Agreement will be materially impaired by the action for which approval is sought.

ARTICLE IX.

EVENTS OF DEFAULT

Section 9.1 Events of Default Defined. Subject to the provisions of Sections 3.12 and 4.7, the following shall be "Events of

Default" under this Agreement and the term "event of default" shall mean, whenever it is used in this Agreement (unless the context otherwise provides), any one or more of the following events (and the term "default" shall mean any event which would with the passage of time or giving of notice, or both, be an "event of default" hereunder):

(a) Failure by the Developer to pay when due the payments required to be paid or secured under any provision of this Agreement including the payment of property taxes and special assessments.

(b) Failure by the Developer to observe and substantially perform any covenant, condition, obligation or agreement on its part to be observed or performed hereunder, after written notice to the Developer as provided in this Agreement.

(c) If the Developer shall admit in writing its inability to pay its debts generally as they become due, or shall file a petition in bankruptcy, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of the whole or any substantial part of the Property.

(d) If the Developer shall file a petition under the federal bankruptcy laws.

(e) If the Developer, on a petition in bankruptcy filed against it, be adjudicated a bankrupt, or a court of competent jurisdiction shall enter an order of decree appointing, without the consent of the Developer, a receiver of the Developer or of the whole or substantially all of its property, or approve a petition filed against the Developer seeking reorganization or arrangement of the Developer under the federal bankruptcy laws, and such adjudication, order or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof.

(f) If the Developer or HRA has received notice of default under the Mortgage and has not entered into a work-out agreement with the Mortgagee and fails to cure any such default within 30 days after written demand by the HRA to do so.

Section 9.2 Remedies on Default. Whenever any event of default occurs, the HRA may, in addition to any other remedies or rights given the HRA under this Agreement but only after the Developer's failure to cure within 30 days of written notice of default, take any one or more of the following actions:

(a) suspend its performance under this Agreement until it receives assurances from the Developer, deemed adequate by the HRA,

that the Developer will cure its default and continue its performance under this Agreement;

(b) cancel and rescind this Agreement;

(c) withhold the Certificate of Completion; or

(d) take whatever action at law or in equity may appear necessary or desirable to the HRA or the City to collect any payments due under this Agreement, or to enforce performance and observance of any obligation, agreement, or covenant of the Developer under this Agreement;

provided that any exercise by the HRA or the City of its rights or remedies hereunder shall always be subject to and limited by, and shall not defeat, render invalid or limit in any way (a) the lien of any Mortgage authorized by this Agreement and (b) any rights or interests provided in this Agreement for the protection of the holders of a Mortgage; and provided further that should mortgagee succeed by foreclosure of the Mortgage or deed in lieu thereof to Developer's interest in the Property, it shall, notwithstanding the foregoing, be obligated to perform all of the following obligations of the Developer to the extent that the same have not theretofor been performed by the Developer: Sections 3.1 through 3.13; Sections 4.1 through 4.5; Section 6.1. A mortgagee shall have no obligations pursuant to this Agreement other than as specifically set forth in the foregoing sentence.

Section 9.3 Revesting Interest in HRA Upon Happening of Event Subsequent To Conveyance to Developer. In the event that subsequent to the closing date and prior to the issuance of a Certificate of Completion:

a) the Developer shall fail to begin construction of the Improvements in conformity with this Agreement, and such failure is not due to Unavoidable Delays and such failure to begin construction shall not be cured within two weeks after written notice from HRA to do so; or

(b) the Developer shall, after commencement of the construction of the Improvements, default in or violate its obligations with respect to the construction of the Improvements (including the nature and the date for the completion thereof), or shall abandon or substantially suspend construction work, such act or actions

is not due to Unavoidable Delays and any such default, violation, abandonment, or suspension shall not be cured, ended, or remedied within the time period provided for in this Agreement; or

(c) the Developer (or successor in interest) shall fail to pay real estate taxes or assessments on the Property or any part thereof when due, or shall place thereon any encumbrance or lien unauthorized by the Agreement, or shall suffer any levy or attachment to be made, or any materialmen's or mechanics' lien, or any other unauthorized encumbrance or lien to attach, and such taxes or assessments shall not have been paid, or the encumbrance or lien removed or discharged or provision satisfactory to the HRA made for such payment, removal, or discharge, within 30 days after written demand by the HRA so to do; provided, that if the Developer shall first notify the HRA of its intention to do so, it may in good faith contest any mechanics' or other lien filed or established and in such event the HRA shall permit such mechanics' or other lien to remain undischarged and unsatisfied during the period of such contest and any appeal, but only if the Developer provides the HRA with a bank letter of credit in the amount of the lien, in a form satisfactory to the HRA pursuant to which the bank will pay to the HRA the amount of any lien in the event that the lien is finally determined to be valid and during the course of such contest the Developer shall keep the HRA informed respecting the status of such defense and provided further, that nothing in this Section 9.3 (c) shall be deemed to limit the right of the Developer to appeal the amount of any real property tax and special assessment as provided in Section 6.1(b) of this Agreement; or

(d) there is, in violation of the Agreement, any transfer of the Property or any part thereof, and such violation shall not be cured within 60 days after written demand by the HRA to the Developer; or

(e) the Developer fails to comply with any of its covenants under this Agreement and fails to cure any such noncompliance or breach within 60 days after written demand to do so where such demand is required by this Agreement;

then the HRA shall have the right to re-enter and take possession of the Property and to terminate (and revest in the HRA) the interest of the Developer in the Property, subject to the provisions of Section 3.12.

Section 9.4 Resale of Reacquired Property; Disposition of Proceeds. Upon the revesting in the HRA as provided in Section 9.3, the HRA shall, pursuant to its responsibilities under law, use its best efforts to resell the Property or part thereof in such manner as

the HRA shall find feasible and consistent with the objectives of law and of the Redevelopment Plan. Upon such resale of the Property, the proceeds thereof may be retained without limitation by the HRA.

Section 9.5 No Remedy Exclusive. No remedy herein conferred upon or reserved to the HRA or the City is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the HRA, the City or the Developer to exercise any remedy reserved to it, it shall not be necessary to give notice, other than such notice as may be required in this Article IX.

Section 9.6 No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other concurrent, previous or subsequent breach hereunder.

ARTICLE X.
ADDITIONAL PROVISIONS

Section 10.1 Conflict of Interests; Representatives Not Individually Liable. No member, official, or employee of the HRA or the City shall have any personal interest, direct or indirect, in this Agreement, nor shall any such member, official, or employee participate in any decision relating to this Agreement which affects his personal interests or the interests of any corporation, partnership, or association in which he is, directly or indirectly, interested. No member, official, or employee of the HRA or the City shall be personally liable to the Developer, or any successor in interest, in the

event of any default or breach by the HRA or the City or for any amount which may become due to the Developer or successor or on any obligations under the terms of the Agreement.

Section 10.2 Non-Discrimination. The provisions of Minnesota Statutes, Section 181.59, which relate to civil rights and non-discrimination, and the affirmative action program of the City shall be considered a part of this Agreement and binding on the Developer as though fully set forth herein.

Section 10.3 Provisions Not Merged With Deed. None of the provisions of this Agreement are intended to be or shall be merged by reason of any deed transferring any interest in any part of the property and any such deed shall not be deemed to affect or impair the provisions of this Agreement.

Section 10.4 Notice of Status and Conformance. At such time as all of the provisions of this Agreement have been fully performed by the Developer, the HRA and the City, upon not less than ten days prior written notice by Developer, agree to execute, acknowledge and deliver, without charge to Developer or to any person designated by Developer, a statement in writing in recordable form certifying, the extent to which this Agreement has been fully performed and the obligations hereunder fully satisfied. Such certification shall not, however, be deemed a satisfaction of the Developer's obligations created under the Assessment Agreement.

Section 10.5 Notices and Demands. Except as otherwise expressly provided in this Agreement, a notice, demand or other communication under the Agreement by either party to the other shall be sufficiently given or delivered if it is sent by mail, postage prepaid, return receipt requested or delivered personally:

(a) As to the HRA:

Crystal Housing and Redevelopment Authority
4141 Douglas Drive No.
Crystal, Minnesota 55422
Attn: Executive Director

(b) As to the City:

City of Crystal
4141 Douglas Drive North
Crystal, Minnesota 55422
Attn: City Manager

(c) As to the Developer:

Crystal Apartments Limited Partnership
c/o Brutger Companies, Inc.
One Sunwood Drive, Box 399
St. Cloud, Minnesota 56302
Attn: President

or at such other address with respect to either such party as that party may, from time to time, designate in writing and forward to the other as provided in this Section.

Section 10.6 Counterparts. This Agreement may be simultaneously executed in any number of counterparts, all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the HRA and the City have caused this Agreement to be duly executed in their names and behalf and the Developer has caused this Agreement to be duly executed as of the day and year first above written.

HOUSING AND REDEVELOPMENT AUTHORITY
OF THE CITY OF CRYSTAL, MINNESOTA

By_____
Its Chairperson

By_____
Its Executive Director

CITY OF CRYSTAL, MINNESOTA

By_____
Its Mayor

By_____
Its City Manager

CRYSTAL APARTMENTS LIMITED PARTNERSHIP

By_____
Its General Partner

GUARANTY

In consideration of one dollar and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned guarantees the performance of Crystal Apartments Limited Partnership and its successors and assigns, of all its obligations contained in this Agreement, in the Assessment Agreement (Exhibit F) and in the Agreement to Pay Deficiencies (Exhibit H), but nothing herein is modified by the provisions of Section 4.7 of this Agreement.

BRUTGER COMPANIES, INC.

By_____
Its President

Exhibit E

CERTIFICATE OF COMPLETION

The undersigned hereby certifies that CHP LIMITED PARTNERSHIP, a Minnesota partnership, has fully and completely complied with its obligations under Article IV of that document entitled "Contract for Private Development," dated _____, 1985, between the HOUSING AND REDEVELOPMENT AUTHORITY IN AND FOR THE CITY OF CRYSTAL (HRA), the CITY OF CRYSTAL (City) and CRYSTAL APARTMENTS LIMITED PARTNERSHIP (Developer) with respect to construction of (PhaseI) (Phase II) Improvements in accordance with the approved construction plans and is released and forever discharged from its obligations to construct such Phase under such above-referenced Article.

DATED: _____

HOUSING AND REDEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF CRYSTAL,
MINNESOTA

By_____
Its Chairperson

By_____
Its Executive Director

Exhibit F

ASSESSMENT AGREEMENT
AND
CERTIFICATION OF ASSESSOR

THIS AGREEMENT, made and entered into this ___ day of _____, 1985, by and between THE HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF CRYSTAL, MINNESOTA, a Minnesota public body corporate and politic (HRA) and CRYSTAL APARTMENTS LIMITED PARTNERSHIP, a Minnesota limited partnership (Developer):

WITNESSETH:

WHEREAS, parties have entered into a Contract for Private Development (Redevelopment Contract), dated April ___, 1985, regarding the redevelopment of certain real property (Project) located in the Bass Lake Road-Becker Park Redevelopment Project Area in the City of Crystal (City); and

WHEREAS, it is contemplated that pursuant to the Redevelopment Contract the Developer will construct a residential housing development described as the Improvements in the Redevelopment Contract to be completed in phases; and

WHEREAS, the HRA, the City and the Developer desire to establish minimum market values for said Property and the Improvements to be constructed thereon during the time of the private development, pursuant to Minnesota Statutes Section 273.76, Subdivision 8; and

WHEREAS, the HRA, the City and the City Assessor have reviewed the preliminary plans and specifications for the Improvements to be erected.

NOW, THEREFORE, the parties do hereby agree as follows:

1. The minimum market value established for the Property and Improvements is fixed as follows:

Date	Minimum Market Value
January 2, 1986	$1,719,422
January 2, 1987	5,273,070
January 2, 1988	5,555,220
January 2, 1989	5,781,567
January 2, 1990 and each January 2 thereafter	5,800,000

2. Nothing in this Agreement shall limit the discretion of the City Assessor or any other public official or body having the duty to determine the market value of the Property for ad valorem tax purposes to assign to the Property and the Improvements to be built thereon a market value in excess of the minimum market value specified in this Agreement.

3. Neither the preambles nor the provisions of this Agreement are intended nor shall they be construed as modifying the terms of the Redevelopment Contract.

4. This Agreement shall remain in effect and inure to the benefit and be binding upon the successors and assigns of the parties until (i) February 1, 2008 or, (ii) the last date on which the tax increment will no longer be remitted to the HRA pursuant to Minnesota Statutes, Section 273.75, Subdivision 1, (iii) or until the date when the tax increment paid to the HRA from the Property or from the Developer (beginning with taxes payable in 1987) equals the total sum of $_____ or (iv) until the TIF Bonds have been defeased or paid by early redemption, whichever shall occur first. Developer may

prepay the remaining amount due under this Agreement at any time in an amount which, together with interest at the net effective rate on the TIF Bonds (9.618%) for the remaining term of this Agreement hereunder will defease the Developer's obligation hereunder.

5. As provided in Minnesota Statutes, Section 273.76, Subdivision 8, nothing contained herein shall be deemed to limit the right of the Developer to challenge that part of any valuation on the market value which is in excess of the minimum market value contained in this Agreement.

HOUSING AND REDEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF CRYSTAL,
MINNESOTA

By_____
Its Chairperson

By_____
Its Executive Director

CRYSTAL APARTMENTS LIMITED PARTNERSHIP

By_____
Its General Partner

STATE OF MINNESOTA)
) SS.
COUNTY OF HENNEPIN)

The foregoing instrument was acknowledged before me this ____ day of _____, 1985, by _____ and _____, the Chairperson and Executive Director of the Housing and Redevelopment Authority in and for the City of Crystal, Minnesota.

_____
Notary Public

STATE OF MINNESOTA)
) SS.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1985, by _____, a general partner of Crystal Apartments Limited Partnership, a Minnesota limited partnership.

_____
Notary Public

CERTIFICATION BY ASSESSOR

The undersigned, having reviewed the plans and specifications for the improvements to be constructed and the market value assigned to the land upon which the Improvements are to be constructed, and being of the opinion that the minimum market value contained in the foregoing Agreement appears reasonable, hereby certifies as follows: The undersigned Assessor, being legally responsible for the assessment of the above described property, hereby certifies that the market value assigned to such land and improvements upon completion of the improvements to be constructed thereon shall not be less than _____ until termination of this Agreement.

_____
Assessor
City of Crystal

STATE OF MINNESOTA)
) SS.
COUNTY OF HENNEPIN)

The foregoing instrument was acknowledged before me this ___ day of _____, 1985, by Roger Olson, the Assessor of the City of Crystal, Minnesota.

_____
Notary Public

Exhibit G

IRREVOCABLE LETTER
OF CREDIT

_____, 1985

HOUSING AND REDEVELOPMENT AUTHORITY
OF THE CITY OF CRYSTAL
4141 DOUGLAS DRIVE NORTH
CRYSTAL, MINNESOTA 55422

ATTN: JOHN T. IRVING

RE: OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO.
AMOUNT: $**U.S. FUNDS

GENTLEMEN:

WE HEREBY AUTHORIZE YOU TO VALUE ON OURSELVES AT SIGHT FOR ANY SUM OR SUMS NOT EXCEEDING A TOTAL OF:

FOR ACCOUNT OF: CRYSTAL APARTMENTS LIMITED PARTNERSHIP

FOR 100% VALUE OF BENEFICIARY'S SIGNED STATEMENT (SIGNATURE VERIFIED BY FINANCIAL INSTITUTION) AS FOLLOWS: "CRYSTAL APARTMENTS LIMITED PARTNERSHIP HAS DEFAULTED ON THAT CERTAIN 'CONTRACT FOR PRIVATE DEVELOPMENT,' DATED _____, 1985 BY AND BETWEEN THE HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF CRYSTAL, THE CITY OF CRYSTAL AND CRYSTAL APARTMENTS LIMITED PARTNERSHIP AS PER ARTICLE IV, SECTION 4.5 THEREOF."

THE DRAFTS DRAWN UNDER THIS CREDIT ARE TO BE ENDORSED HEREON AND MUST BEAR THE CLAUSE "DRAWN UNDER (BANK NAME), CREDIT NO. , DATED _____, 1985."

WE HEREBY AGREE WITH DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT THAT THE SAME SHALL BE DULY HONORED UPON PRESENTATION AT THE (BANK NAME).

_____
AUTHORIZED SIGNATURE

Exhibit H

AGREEMENT TO PAY DEFICIENCIES

THIS AGREEMENT, made as of the ___ day of April, 1985, by and between THE HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF CRYSTAL, MINNESOTA, a Minnesota public body corporate and politic (HRA), the CITY OF CRYSTAL, a Minnesota Municipal Corporation (CITY) and CRYSTAL APARTMENTS LIMITED PARTNERSHIP, a Minnesota limited partnership (DEVELOPER).

WITNESSETH:

WHEREAS, the Developer has on April ___, 1985, entered into an agreement entitled Contract for Private Development (Agreement) with the HRA and the City for the purpose of causing the redevelopment by the Developer of certain real property described in the Agreement and situate in the City (Real Property); and

WHEREAS, the Authority has established a "redevelopment tax increment financing district" pursuant to Minnesota Statutes, Section 273.71, et. seq., which includes the Real Property; and

WHEREAS, the Agreement requires the HRA and the City to acquire portions of the Real Property and to sell the Real Property to the Developer and the Developer to perform certain covenants and promises and to construct certain improvements thereon (which improvements and Real Property are hereinafter referred to as the "Property") all as more fully described in the Agreement; and

WHEREAS, in order to provide the HRA with the funds necessary to acquire portions of the Real Property and prepare the Real Property for redevelopment by Developer, the City has issued its general obligation tax increment general obligation bonds in the aggregate amount of $5,865,000 to accomplish its purposes (the "Bonds"), which Bonds will finally mature on February 1, 2008, (the "Maturity Date"); and

WHEREAS, the HRA and the City are unwilling to undertake said transactions unless the Developer guarantees its performance of certain covenants and promises as more fully described in the Agreement and as further set out below:

NOW, THEREFORE, in consideration of the premises and of One Dollar ($1.00) and other good and valuable consideration in hand paid by the HRA and the City to the Developer for the purpose of inducing the Authority to carry out the aforementioned transaction, the Developer agrees as follows:

1. If the tax increment generated from the Property, payable with the real estate taxes due in any calendar year commencing in 1987 and ending on the earlier of (i) Maturity Date or (ii) when the Bonds are otherwise defeased or paid in accordance with their terms, is less than the amount contained in Attachment A, the HRA shall notify Developer of the difference between the tax increment generated from the Property and such amount (Deficiency) and shall make written demand of Developer for the payment thereof. Developer shall, within 30 days after receipt of written notice of demand from the HRA, pay to the HRA the Deficiency.

2. The foregoing obligation of the Developer to pay any Deficiency is subject to the limitations contained in Section 3.7 of the Agreement.

3. The annual amounts of tax increment and total amount of tax increment listed in this Agreement and Attachment A are the tax increment amounts attributable to the increases in assessed valuation of the Improvements to be constructed by Developer in accordance with the Agreement.

4. This Agreement to Pay Deficiencies shall be and remain the obligation of the Developer until (i) February 1, 2008 or, (ii) the last date on which the tax increment will no longer be remitted to the HRA pursuant to Minnesota Statutes, Section 273.75, Subdivision 1, or (iii) until the date when the tax increment paid (beginning with the tax increment payable in 1987) equals the total sum of $_____, or (iv) the date on which the TIF Bonds are defeased or paid by early redemption, whichever shall occur first.

HOUSING AND REDEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF CRYSTAL,
MINNESOTA

By_____
Its Chairperson

By_____
Its Executive Director

CITY OF CRYSTAL

By_____
Its Mayor

By_____
Its City Manager

CRYSTAL APARTMENTS LIMITED PARTNERSHIP

By_____
Its

ATTACHMENT A

TAX INCREMENT LEVELS FOR THE YEARS
COVERED BY AGREEMENT TO PAY DEFICIENCIES

(The number of years and the tax increment payable in each will be inserted prior to closing.)

Year	Tax Increment Payable
1987	$ 62,395
1988	191,350
1989	201,588
1990	209,802
1991	210,472
1992	(remainder of column
1993	will be assessed
1994	value of $1,922,000
1995	increased 2% per
1996	year x 106.73 mills)
1997	
1998	
1999	
2000	
2001	
2002	
2003	
2004	
2005	
2006	
Total	$

ARK: 1/25/85 568K

REGULATORY AGREEMENT

By and Among

_____
(Name of Issuer of Minnesota Multi-City Rental Housing Bonds)

_____
(Name of City in which Development is located (and/or name of Housing and Redevelopment Authority in and for the City in which Development is located))

and

MIDLAND FINANCIAL SAVINGS AND LOAN ASSOCIATION

and

_____
(Name of Developer)

and

_____
(Name of Trustee)

Dated as of _____ 1, 1985

This instrument drafted by:
Briggs and Morgan
Professional Association
St. Paul, Minnesota

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THIS REGULATORY AGREEMENT is made and entered into as of _____ 1, 1985, by and among _____ _____ (the "Issuer"), a body corporate and politic under the laws of the State of Minnesota, _____, Minnesota (the "City"), duly organized under the laws of the State of Minnesota as a municipal corporation or housing and redevelopment authority, _____ (the "Trustee"), a duly organized, existing and authorized _____ corporation having its principal offices in _____, _____, Midland Financial Savings and Loan Association, Des Moines, Iowa, an Iowa savings and loan association (the "Lender") and _____, a Minnesota _____ (the "Developer").

PREAMBLE

WHEREAS, the Issuer has heretofore been designated by [list Cities or housing and redevelopment authorities] (collectively, the "Cities") pursuant to a Joint Powers Agreement dated as of _____ 1, 1985 by and between the Issuer and the Cities to adopt and implement a rental housing development revenue bond pool program (the "Program") under which the Issuer will make a loan to a financial institution to enable the financial institution to make mortgage loans to provide financing for multifamily rental residential developments the Cities, including the City executing this Agreement, to be occupied partially by persons of low income within the meaning of Section 103(b)(12)(C) of the Internal Revenue Code of 1954, as amended (the "Code"), and to be acquired and constructed, and occupied in conformance with the requirements of Minnesota Statutes, Chapter 462C (the "Housing Act"), and in conformance with the provisions of Section 103(b)(4)(A) of the Code and the regulations promulgated thereunder, all for the public purpose of assisting persons of low and moderate income within the City to obtain decent, safe and sanitary housing at rentals they can afford; and

WHEREAS, the Issuer has issued, sold and delivered its Variable Rate Monthly Demand Bonds, Series 1985-_ (Minnesota Multi-City Rental Housing Program) (the "Bonds") in the aggregate principal amount of $_____ pursuant to an Indenture of Trust dated as of _____ 1, 1985, by and between the Issuer and the Trustee (the "Indenture") to obtain moneys to carry out the Program, to establish certain reserves

for the benefit of the holders of the Bonds, and to pay the costs of issuing the Bonds, all under and in accordance with the Constitution and laws of the State of Minnesota; and

WHEREAS, in order to implement the Program, the Issuer and the Lender, simultaneously with the execution and delivery of the Indenture, entered into a Lender Loan Agreement (hereinafter defined) pursuant to which the Issuer agreed to make, and the Lender agreed to accept, a loan in the principal amount of $_____ to enable the Lender to make mortgage loans (the "Developer Loans") to provide financing for qualifying multifamily rental residential developments, including the Development (hereinafter defined) described in Exhibit B attached hereto, which Development is located on the land described in Exhibit A hereto; and

WHEREAS, the Indenture and the Lender Loan Agreement require, as a condition of making the Developer Loan, the execution and delivery of this Regulatory Agreement; and

WHEREAS, in order to satisfy such requirement, the Issuer, the City, the Lender, the Trustee and the Developer have determined to enter into this Regulatory Agreement to set forth certain terms and conditions relating to the construction and/or acquisition and rehabilitation and operation of the Development;

NOW THEREFORE, in consideration of the mutual covenants and undertakings set forth herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Issuer, the City, the Lender, the Trustee and the Developer do hereby contract and agree as follows:

AGREEMENT

Section 1. Definitions and Interpretation. Unless otherwise expressly provided herein or unless the context clearly requires otherwise, the following terms shall have the respective meanings set forth below for all purposes of this Regulatory Agreement:

"Act" shall mean the pertinent provisions of Minnesota Statutes, Chapters 462, 462A, 462C and 475, as amended.

"Adjusted Family Income" shall mean the adjusted gross income of a person or family, determined in accordance with Exhibit G to the Declaration and in any event in a manner consistent with determinations of the income of lower-income families under Section 8 of the United States Housing Act of 1937 and the regulations promulgated thereunder as in effect on the date hereof.

"Affiliated Party" of a person shall mean a person whose relationship to such other person is such that (i) the relationship between such persons would result in a disallowance of losses under Section 267 or 707(b) of the Code or (ii) such persons are members of the same controlled group of corporations (as defined in Section 1563(a) of the Code, except that "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears therein).

"Bond Counsel" means an attorney at law or a firm of attorneys, acceptable to the Issuer and the Trustee, experienced in matters pertaining to the tax-exempt financing of rental housing and duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

"Bonds" shall mean the Issuer's $_____ Variable Rate Monthly Demand Bonds, Series 1985-_ (Minnesota Multi-City Rental Housing Program).

"Certification Year" means, with respect to any Lower-Income Tenant or Qualifying Tenant, the twelve-month period which begins on the earlier of (i) the first date on which such Tenant first occupies a residential unit in the Development on a rental basis subsequent to the first date upon which such residential unit shall be available for rental subsequent to any acquisition, construction or rehabilitation

financed in whole or in part from proceeds of the Developer Note; or (ii) the date on which such Tenant signs a lease with respect to a residential unit in the Development.

"City" shall mean the City of _____, Minnesota in which the Development is located, or the housing and redevelopment authority in and for the City or in and for the County in which the City is located that is designated to act on behalf of the City in administering the Program with respect to the Development in the City.

"Code" shall mean the Internal Revenue Code of 1954, as amended and any final, temporary or proposed regulations promulgated thereunder.

"Commitment Fee" means the commitment or origination fee payable by the Developer to Lender in connection with Lender's commitment to make the Developer Loan as more fully provided in the Developer Loan Agreement.

"Completion Certificate" shall mean the certificate of completion of the Development required by Section 2 of this Regulatory Agreement to be delivered to the Issuer, the City and the Trustee by the Lender and the Developer.

"Completion Date" shall mean the date of substantial completion or rehabilitation of the Development as set forth in the Completion Certificate.

"Declaration" shall mean the Declaration of Restrictive Covenants of even date herewith executed by the Developer as "Declarant" and constituting a covenant and restriction with regard to the Development.

"Delivery Date" shall mean the date of delivery of the Bonds to the initial purchaser or purchasers thereof.

"Designated Development Area" means a "targeted area" as defined in Minnesota Statutes, Section 462C.02, Subdivision 9, as amended.

"Developer" shall mean _____, a Minnesota _____, and its successors and assigns.

"Developer Loan" shall mean the loan to be made by the Lender to the Developer pursuant to the Developer Loan Agreement to provide financing for the Development.

"Developer Loan Agreement" shall mean the Developer Loan Agreement of even date herewith between the Lender and the Developer providing, among other things, for the Developer Loan.

"Developer Loan Documents" means this Regulatory Agreement, the Developer Loan Agreement, the Declaration, Mortgage, Developer Note and related instruments.

"Development" shall mean the multifamily residential rental project to be acquired and constructed by the Developer to be located on the Land described in Exhibit A attached hereto and as detailed in Exhibit B attached hereto which shall be owned and operated as a multi-family rental housing development under the Housing Act and as a residential rental project within the meaning of Treasury Regulation Section 1.103-8(b)(4) issued under Section 103(b)(4)(A) of the Code.

"Development Costs" shall have the meaning assigned to it in the Indenture and the Developer Loan Agreement.

"Housing Act" means Minnesota Statutes, Chapter 462C, as amended.

"HUD" means the United States Department of Housing and Urban Development, or only successor to its functions.

"Indenture" shall mean that certain Indenture of Trust dated as of _____ 1, 1985, by and between the Issuer and the Trustee, pursuant to which the Bonds are issued and secured.

"Independent Appraiser" means an appraiser certified as a Member of the Appraiser's Institute ("MAI") and qualified to appraise multifamily residential rental property under the laws of Minnesota and who is not a full-time employee of the Issuer, the City, the Lender or the Developer, and who shall be reasonably satisfactory to the Trustee.

"Issuer" shall mean _____, a body corporate and politic under the laws of the State of Minnesota.

"Lender" shall mean Midland Financial Savings and Loan Association, Des Moines, Iowa, an Iowa savings and loan association.

"Lender Loan" shall mean the loan to the Lender by the Issuer in the principal amount of $_____ provided for in the Lender Loan Agreement.

"Lender Loan Agreement" shall mean the agreement of even date herewith between the Issuer and the Lender and accepted by the Trustee, providing for, among other things, the Lender Loan.

"Lower-Income Tenants" shall mean and include individuals or families with Adjusted Family Income calculated in the manner prescribed in Treasury Regulations Section 1.167(k) - 3(b)(3) as it shall be in effect on the Delivery Date, which does not exceed eighty percent (80%) of the median gross income for the statistical area which includes the City, determined in a manner consistent with determinations of median gross income made under the leased housing program established under Section 8 of the United States Housing Act of 1937, as amended as of the Delivery Date. In no event, however, will the occupants of a unit be considered to be of low or moderate income if all the occupants are students, no one of which is entitled to file a joint return.

"MAI Appraisal" shall mean a written real estate appraisal by an appraiser who is a certified Member of the Appraiser's Institute ("MAI").

"Moderate Income Tenants" shall mean persons or families with Adjusted Family Income (calculated as set forth in the Declaration) which does not exceed the greater of (i) 110% of the median family income estimated by HUD for the area which includes the City or (ii) 100% of the income limits established by the Minnesota Housing Finance Agency (or any successor thereto) for its owner-occupied housing programs with mortgage loan interest rates substantially equivalent to the interest rate borne by the Developer Loan.

"Mortgage" shall mean that certain Mortgage, Security Agreement and Fixture Financing Statement dated as of _____ 1, 1985, granting a mortgage on and security interest in the land, buildings and equipment comprising the Development, made from the Developer to the Lender, and securing the repayment of the Developer Loan.

"Program" shall mean the Issuer's Minnesota Multi-City Rental Housing Development Revenue Bond Pool Program, as set forth in the Indenture, the Lender Loan Agreement, this Agreement and the Declaration.

"Qualified Project Costs" shall mean any amount paid for the following costs, but only to the extent that (i) such costs were not paid or incurred by the Developer prior to _____ __, 198_, the date of the first official action by the City approving the financing program for the Development, (ii) such costs are chargeable to the Development's capital account or would be so chargeable either with a proper election by the owner or but for proper election by the owner to deduct such costs, within the meaning of Treasury Regulation Section 1.103-8(a)(1), and if charged to the Development's capital account are deducted only through an allowance for depreciation, and (iii) such costs are made exclusively with respect to residential units or functionally related and subordinate facilities thereto:

(a) the costs of architectural and engineering services related to the Development, including without limitation, the costs of preparation of studies, surveys, reports, tests, plans and specifications;

(b) the costs of legal, accounting, marketing and other special services related to the Development;

(c) fees and charges incurred in connection with applications to federal, state and local governmental agencies for any requisite approach approvals or permits regarding the acquisition and construction of the Development;

(d) costs incurred in connection with the acquisition of the site for the Development, including any necessary rights-of-way, easements or other interests in real or personal property;

(e) costs incurred in connection with the acquisition, construction, improvement, rehabilitation or extension of the buildings, structures and facilities comprising the Development;

(f) costs incurred in connection with the acquisition and installation of any machines, equipment, appliances, fixtures, appurtenances or personal property of any kind or nature (including equipment for cooking, heating and refrigeration), which are to comprise a part of the Development;

(g) interest on the Developer Note accruing prior to and upon the Completion Date;

(h) amounts paid to the Lender as commitment fees, origination fees or disbursement fees; and

(i) other costs and expenses relating to the Development which are incurred for the purpose of providing multifamily residential rental property and functionally related and subordinate thereto, all of which costs are hereby deemed appropriate by the Issuer to effectuate the purposes of the Housing Act.

"Qualified Project Period" means a period beginning on the later of (a) the first day on which at least 10 percent of the residential units in the Development are first occupied or (b) the Delivery Date, and ending on the later of the date (x) which is 10 years after the date on which at least 50 percent of the residential units in the Development are first occupied; (y) which is a Qualified Number of Days after the date on which any of the residential units in the Development is first occupied; or (z) on which any assistance provided with respect to the Development Under Section 8 of the United States Housing Act of 1937 terminates. "Qualified Number of Days" means 50 percent of the total number of days comprising the longest term of any Bond, or in the case of a refunding of the Bonds, 50 percent of the sum of the period the Bonds were outstanding plus the longest term of any refunding obligation.

"Regulatory Agreement" shall mean this Regulatory Agreement by and among the Issuer, the City, the Developer, the Lender and the Trustee, pertaining to the Development.

"Trustee" shall mean _____, in _____, _____, and its successors in trust under the Indenture.

Unless the context clearly requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Regulatory Agreement and all the terms and provisions hereof shall be construed to effectuate the purposes set forth herein and to sustain the validity hereof.

The terms and phrases used in the recitals of this Regulatory Agreement have been included for convenience of reference only and the meaning, construction and interpretation of all such terms and phrases for purposes of this Regulatory Agreement shall be determined by references to this Section. The titles and headings of the sections of this Regulatory Agreement have been inserted for convenience or reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Regulatory Agreement or any provision hereof or in ascertaining intent, if any question of intent shall arise.

Section 2. Acquisition, Construction and Completion of the Development.

The Developer hereby represents, covenants and agrees as follows:

(a) the Developer has incurred or will incur within six months from the date hereof a substantial binding obligation to commence construction and acquisition of the Development, pursuant to which the Developer is obligated to expend at least the lesser of $100,000 or two and one-half percent (2 1/2%) of the portion of the total cost of such construction and acquisition expected to be financed with proceeds of the Bonds;

(b) the Developer reasonably expects that the total cost of acquisition and construction of the Development, the portion of such cost to be financed from proceeds of the Developer Note, and the use and application of such funds, will be in approximately the amounts set forth in Exhibit B attached hereto under the heading "Anticipated Total Development Cost";

(c) the Developer has commenced the construction and acquisition of the Development or will commence the same within thirty (30) days after the date hereof, and will proceed with due diligence to (i) complete the Development and (ii) draw down the amount to be disbursed under the Developer Loan; and

(d) the Developer reasonably expects to complete the construction or rehabilitation or acquisition and rehabilitation of the Development and to expend the full amount of the proceeds of the Developer Loan not later than _____ 1, 198_; and

(e) there are no buildings or structures which are proximate to the Development other than (i) those buildings or structures which comprise the Development or (ii) buildings or structures being constructed by the Developer for sale to owners and not included within the real property described in Exhibit A.

(f) the Development (i) has not been acquired with Bond proceeds from an Affiliated Party, and (ii) will not be retransferred to the entity from which it was acquired, or to an Affiliated Party of such entity prior to or on the fifth anniversary of the execution of the Developer Loan Documents; and

(g) the average reasonably expected economic life of the facilities to be financed with the proceeds of the Bonds, as of the first date upon which any residential unit of the Project shall be available for rental to any member of the general public subsequent to any acquisition, construction or rehabilitation financed in whole or in part from proceeds of the Developer Note, calculated in conformance with the provisions of Section 103(b)(14) of the Code, will not be less than __ years.

The Developer hereby further represents, covenants and agrees as follows:

(a) the financing by the Issuer and Lender shall induce the Developer to construct, acquire and install the Project. The Developer did not enter into any binding agreements to undertake the Project or any portion thereof prior to _____ __, 198_ (other than an option contract or executory contract with respect to the purchase of real estate,

pursuant to which neither title nor the benefits and burdens of ownership had passed to the Developer prior to _____ __, 198_), the date of the first official action by the City approving the Program;

(b) that substantially all (i.e. not less than 90%) of the proceeds of the Developer Loan shall be applied to pay or reimburse Qualified Project Costs and no more than 10% of the proceeds of the Developer Loan have been applied to pay or reimburse other than Qualified Project Costs;

(c) that the Developer shall submit to the Lender prior to or upon the date of each disbursement under the Developer Loan, a statement certifying that substantially all of the amount of such disbursement, together with the aggregate amount of all prior advances, will be applied, or has been applied to pay or reimburse costs or expenses consisting of Qualified Project Costs; and

(d) that, upon the completion of the Development, the Developer shall submit to the Issuer and the Trustee, a Completion Certificate containing the following: (i) the Developer's statement that the Development has been substantially completed and is ready and available for occupancy as of a specified date (which shall be the Completion Date); (ii) the Developer's statement, confirmed by the Lender, of the aggregate amount disbursed under the Developer Loan Agreement prior to and upon the Completion Date; and (iii) the Developer's certification that substantially all (i.e. 90%) of the proceeds of the Developer Loan have been applied to pay or reimburse Qualified Project Costs and that less than 10% of the proceeds of the Developer Loan have been applied to pay or reimburse costs or expenses other than Development Costs; and

(e) that, upon any prepayment of the Developer Note, the Developer will submit to the Trustee a written notice of such prepayment, stating the amount and date of such prepayment and the amount remaining unpaid on the Developer Note.

Section 3. Federal Requirements; Residential Rental Property.

For the purpose of compliance with Section 103(b)(4)(A) of the Code, the Developer represents, warrants and agrees that:

(a) At no time will either the Developer or any Affiliated Party occupy a unit in the Development other than units occupied or to be occupied by agents, employees or representatives of the Developer and reasonably required for the proper maintenance or management of the Development;

(b) The Development shall consist of a building or structure or proximate buildings or structures, (i) each containing one or more similarly constructed residential units which are to be used on other than a transient basis and any facilities which are functionally related and subordinate to such units within the meaning of Section 103(b)(4)(A) of the Code, (ii) each unit in the Development is to be rented or available for rental on a continuous basis to members of the general public in accordance with the requirements of Section 103(b)(4)(A); and (ii) substantially all (not less than 90 percent) of the Development will consist of residential rental housing facilities and facilities functionally related and subordinate thereto;

(c) The Development consists of a single "project," and for this purpose, proximate buildings or structures are part of the same project only if owned for federal income tax purposes by the same person and if the buildings are financed pursuant to a common plan. Buildings or structures are proximate

if they are all located on a single parcel of land or several parcels of land which are contiguous except for the interposition of a road, street, stream or similar property;

(d) The Development shall not include any facility to be used as a hotel, motel, dormitory, fraternity or sorority house, rooming house, hospital, nursing home, sanitarium, rest home, or trailer park or court;

(e) The Development does not include any building or structure which contains fewer than five units, one of which is occupied by an owner of the units;

(f) Each dwelling unit in the Development shall consist of separate and complete facilities for living, sleeping, eating, cooking and sanitation for a single person or family.

Section 4. Operation of the Residential Rental Project. The Issuer, the City and the Developer hereby declare their understanding and intent that the Development is to be owned, managed and operated, for so long as the Bonds remain outstanding and unpaid under the Indenture but in any event for the Qualified Project Period, as a "residential rental project" as such phrase is utilized in Section 103(b)(4)(A) of the Code. To that end, the Developer hereby represents, covenants and agrees that the Development shall be operated as required by the Declaration, and accordingly, the Developer shall lease units in the Development only as permitted by the Declaration and shall file and (if required) record all instruments or certificates at the times and in the places required by the Declaration. In addition:

(a) Once each unit in the Development is available for occupancy, such unit will be rented or available for rental to the general public on a continuous basis for the longer of the Qualified Project Period or while the Bonds remain outstanding provided that:

(i) the Developer will rent units to Lower-Income Tenants such that at all times during the Qualified Project Period, at least 20 percent of the completed residential units in the Development (or 15% of the completed residential units in the Development if and

for so long as the Development is, or becomes, a "targeted area project" as defined in Treasury Regulation §1.103-8(b)(5)(iii) under Section 103(b)(4)(A) of the Code) will be occupied (within the meaning of Treasury Regulation Section §1.103-8(b)(5)(ii) under Section 103(b)(4)(A) of the Code) by Lower-Income Tenants, all as required and more fully set forth herein and in the Declaration;

(ii) the Developer will comply with all federal, state and local laws, regulation, rules and ordinances prohibiting discrimination in the rental of residential property.

(b) none of the residential units in the Development shall at any time be utilized on a transient basis; and neither the Development nor any portion thereof shall ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, nursing home, sanitarium, rest home or trailer park or court.

Section 5. Multifamily Housing Development; Compliance With Certain State Statutory Requirements.

(1) The Issuer, the City and the Developer hereby declare their understanding, intent and agreement that the Development is to be owned, managed and operated as a "multifamily housing development," as such term is defined in Minnesota Statutes, Section 462C.02, Subdivision 5, and that the Development shall be operated in all respects in conformance with the requirements and provisions of the Housing Act, for so long as any of the Bonds remain outstanding and unpaid under the Indenture. Therefore, Developer represents, covenants and agrees as follows:

(a) The Development upon completion shall comply with all applicable building code requirements of the City;

(b) at all times at least twenty percent (20%) of the completed residential units in the Development shall be occupied or held for occupancy by Lower-Income Tenants; and, if, as indicated in Exhibit B hereto, the Development is not located in a "targeted area" as that term is defined in Section 462C.02 Subd. 9,

at all times at least seventy-five percent (75%) of the completed residential units in the Development shall be occupied or held for occupancy by Moderate Income Tenants (which includes Lower Income Tenants);

(c) that no residential unit in the Development shall, as of the date of completion of the Development have an appraised value in excess of four times 110% of the median family income then most recently published by HUD for the area which includes the City;

(d) to manage and operate the Project as a multi-family rental housing development within the meaning of the Housing Act; and

(e) to observe and perform all of the obligations of the "Declarant" under the Declaration.

Section 6. Compliance with Certain Municipal Requirements. The Issuer, the City and the Developer hereby recognize that the City (or housing and redevelopment authority designated by the City and acting in and for the City or in and for the County in which the City is located) may have certain municipal or other local prerequisites, requirements, fees and provisions, either in municipal ordinance, City or housing and redevelopment authority policies, or otherwise, applicable to the ownership, management and operation of multi-family housing developments located in the City or in the County in which the City is located, all or set forth in Exhibit C hereto. The Issuer, the City and the Developer hereby declare their understanding, intent and agreement that the Development shall be owned, managed and operated in all respects in conformance with such municipal requirements set forth in Exhibit C for so long as any of the Bonds remain outstanding and unpaid under the Indenture, or for such longer time as may be necessary to preserve the tax exempt status of the Bonds. Therefore, Developer represents, covenants and agrees as follows:

(a) to observe and perform all obligations of the Developer, if any, as set forth in Exhibit C hereto;

(b) that the acquisition, construction and/or rehabilitation of the Development, and the Developer upon completion, and the operation thereof, shall comply with all municipal requirements of the City (and/or housing and redevelopment authority designated by the City) as set forth in Exhibit C and elsewhere herein.

Section 7. Tax Exempt Status of Bonds.

(1) The Issuer hereby represents, covenants and agrees as follows:

(a) that the Issuer will not knowingly take, fail to take, or permit any action that would adversely affect the exclusion from federal income taxation of the interest on the Bonds and, if it should take, fail to take, or permit any such action, the Issuer shall take all lawful actions that it can take to rescind or perform such actions promptly upon having knowledge thereof; and

(b) that the Issuer will take such action or actions, including consenting to an amendment of the Developer Loan Documents, as may be necessary in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, regulations, policies, procedures or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 103(b)(4)(A) of the Code.

(2) The City hereby represents, covenants and agrees as follows:

(a) that the City will not knowingly take, fail to take, or permit any action that would adversely affect the exclusion from federal income taxation of the interest on the Bonds and, if it should take, fail to take, or permit any such action, the City shall take all lawful actions that it can take to rescind or perform such actions promptly upon having knowledge thereof; and

(b) that the City will take such action or actions, including consenting to an amendment of the Developer Loan Documents, as may be necessary in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, regulations, policies, procedures or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 103(b)(4)(A) of the Code.

(3) The Developer hereby covenants, represents and agrees as follows:

(a) that the Developer will not knowingly take, fail to take, or permit any action that would adversely affect the exclusion from federal income taxation of the interest on the Bonds and, if it should take, fail to take, or permit any such action, the Developer shall take all lawful actions that it can take to rescind or perform such action promptly upon having knowledge thereof; and

(b) that the Developer will take such action or actions, including amendment of the Developer Loan Documents, as may be necessary, in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, regulations, policies, procedures or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 103(b)(4)(A) of the Code, and will promptly provide to the Issuer, the City, the Trustee and to designated Bond Counsel any and all information necessary, in the opinion of Bond Counsel, to comply with any reporting requirements pertaining to obligations issued under Section 103(b)(4)(A) of the Code, and to promptly notify the Issuer, the City, the Trustee and designated Bond Counsel should any information so provided become in any way inaccurate or incomplete, and promptly supply the additional information necessary to render the information supplied accurate and complete in all respects.

Section 8. Indemnification of Issuer, City and Trustee. The Developer shall indemnify and hold harmless the Issuer, the City and the Trustee and their officers, directors, employees and agents, from and against (A) any and all claims arising from any cause whatsoever in connection with the Developer Loan Documents or the Development; (B) any and all claims arising from any act or ommission of the Developer or any of its agents, servants, employees, or licensees in connection with the Developer Loan Documents or the Developer; (C) any false or untrue statement or alleged false or untrue statement of a material fact contained in the Preliminary Official Statement or Official Statement or other offering

material relating to the sale of the Bonds or arising out of or based on any omission or alleged ommission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and (D) all costs, counsel fees, expenses, and liabilities incurred in connection with any such claim or proceeding brought with respect to any thereof. If any action or proceeding is brought against the Issuer, City or the Trustee, as the case may be, or any of their respective officers, directors, officials or employees with respect to which indemnity may be sought hereunder, the Developer, upon written notice from the indemnified party, shall assume the investigation and defense thereof, including the employment of counsel acceptable to the Issuer, the City or the Trustee, as the case may be, and the payment of all expenses. The indemnified party shall have the right to employ separate counsel in any such action or proceeding and to participation and defense thereof, but, unless such separate counsel is employed with the approval and consent of the Developer, the Developer shall not be required to pay the fees and expenses of such separate counsel.

Section 9. Consideration. The Issuer and the City have determined to adopt and implement the Program and the Issuer has determined to issue the Bonds to obtain moneys to carry out the Program for the purpose, among others, of inducing the Developer to acquire, construct and operate the Development to provide additional decent, safe and sanitary rental housing for persons of low and moderate income in the City. In consideration of the adoption and implementation of the Program by the City and the Issuer and the issuance of the Bonds by the Issuer, the Developer has entered into this Regulatory Agreement and the Declaration.

Section 10. Reliance. The Issuer, the City and the Developer hereby recognize and agree that the representations and covenants set forth herein may be relied upon by all persons interested in the legality and validity of the Bonds and in the exemption from federal income taxation of the interest on the Bonds. In performing their duties and obligations hereunder, the Issuer, the City and the Trustee may rely upon statements and certificates of the Developer, Lower-Income Tenants or Moderate Income Tenants believed to be genuine and to have been executed by the proper person or persons, and upon audits of the books and records of the Developer pertaining to occupancy of the Development. In addition, the Issuer, the City and the Trustee may consult with

counsel, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Issuer or the City or the Trustee hereunder in good faith and in conformity with the opinion of such counsel.

Section 11. Development in the City of _____. The Developer hereby represents and warrants that the Development will be located entirely within the territorial limits of the City.

Section 12. Sale or Transfer of Development. The Developer hereby covenants and agrees not to sell, transfer or otherwise dispose of the Development without obtaining the prior written consents of the Issuer and the City, which consents shall be conditioned solely upon receipt of evidence satisfactory to the Issuer and the City that the purchaser or transferee of the Development has assumed in writing and in full the Developer's duties and obligations under this Regulatory Agreement and the Declaration and upon an opinion of Bond Counsel to the affect that such sale, transfer, or disposition will not adversely affect the exclusion from federal income taxation of the interest on the Bonds. It is hereby expressly stipulated and agreed that any sale, transfer or other disposition of the Development in violation of this Section shall be null, void and without effect, shall cause a reversion of title to the Developer in accordance with the Declaration and shall be ineffective to relieve the Developer of its obligations under this Regulatory Agreement. Nothing in this Section 12 shall be construed to limit the right of the Developer to sell limited partnership interests in itself.

Section 13. Involuntary Loss or Substantial Destruction. Upon evidence satisfactory to the Issuer and the City that compliance with the provisions hereof is no longer possible due to an involuntary loss or the substantial destruction of the Development as a result of unforeseen events (e.g., fire, seizure, requisition, foreclosure, condemnation, transfer of title by deed in lieu of foreclosure, or a change in a federal law or action by a federal agency after the Delivery Date which shall prevent the Issuer from enforcing the provisions hereof) even though compensated by insurance, the Development shall not be subject to the terms and provisions of this Regulatory Agreement provided that (i) the Bonds are immediately retired, or (ii) an opinion from Bond Counsel is received stating that noncompliance with the provisions hereof

as a result of such involuntary loss or substantial destruction resulting from an unforeseen event will not adversely affect the exclusion from federal income taxation of the interest on the Bonds or (iii) the Lender or another person acceptable to the Issuer unconditionally assumes in writing the obligations of the Developer hereunder and under the Declaration and (iv) a corresponding termination or amendment of the Declaration is effectuated as provided therein. This Section 13 shall not be deemed to restrict or prohibit Developer from using the proceeds of any insurance received as a result of casualty loss to restore and repair the Development as required or permitted by the Developer Loan Documents, from insurance proceeds or otherwise, and in such case this Regulatory Agreement shall remain in full force and effect. Provided further, however, that subsequent to an event of involuntary loss as a result of foreclosure, transfer of title in lieu of foreclosure or any similar event, if at any time the Developer or an Affiliated Party shall acquire an ownership interest (for federal income tax purposes) in the Development subsequent to such event, the Development will immediately become subject to the provisions of this Regulatory Agreement and the terms and provisions hereof and of the Declaration shall remain in force and effect as though the provisions hereof had never ceased to apply to the Development.

Section 14. Term. The terms and provisions of this Regulatory Agreement shall become effective upon its execution and delivery. Except as otherwise provided in this Section and as otherwise provided in Section 4 hereof, this Regulatory Agreement shall remain in full force and effect for as long as any Bonds are outstanding and unpaid under the Indenture or for the Qualified Project Period, whichever is longer. It is expressly agreed and understood that the provisions hereof are intended to survive the expiration or payment of the Lender Loan and the Developer Loan.

Notwithstanding any other provisions of this Regulatory Agreement, this entire Agreement, or any of the provisions or Sections hereof, may be terminated upon agreement by the Issuer, the City, the Lender, the Trustee and the Developer if there shall have been received an opinion of Bond Counsel that such termination will not adversely affect the exclusion from federal income taxation of the interest on the Bonds.

Section 15. Events of Default; Enforcement. Upon discovery by or notification to the Issuer or the City or the Lender of any default in the performance or observance of any covenant, agreement or obligation of the Developer set forth in

this Regulatory Agreement or the Declaration, the Issuer or City or Lender shall promptly notify the Developer in writing of the existence and nature of such default. If the Developer defaults in the performance or observance of any covenant, agreement or obligation of the Developer set forth in this Regulatory Agreement or the Declaration, and if such default remains uncured for a period of thirty (30) days after notice thereof shall have been given by the Issuer or City or Lender to the Developer, with a copy of such notice to the others (or for a longer period after such notice if such default is curable but requires acts to be done or conditions to be remedies which, by their nature, cannot be done or remedied within such 30-day period, and if the Developer commences same within such 30-day period and thereafter diligently and continuously prosecutes the same to completion), then the Issuer, City, Trustee or Lender may, and in the case of a default affecting the taxability of interest on the Bonds, shall, declare that the Developer is in default hereunder and under the Declaration and may, in addition to remedies available under the Indenture and Lender Loan Agreement, take any one or more of the following steps, at its option:

(a) by mandamus or other suit, action or proceeding at law or in equity, require the Developer to perform its obligations and covenants hereunder and under the Declaration, or enjoin any acts or things which may be unlawful or in violation of the rights of the Issuer, Lender or the Trustee hereunder or under the Declaration;

(b) have access to and inspect, examine and make copies of all of the books and records of the Developer pertaining to the Development;

(c) take whatever other action at law or in equity may appear necessary or desirable to enforce the obligations, covenants and agreements of the Developer hereunder or under the Declaration; or

(d) the Lender may declare a default under the Mortgage, and the Lender shall thereafter accelerate the indebtedness evidenced by the Developer Loan, and proceed with foreclosure under the Mortgage.

The Trustee or Lender shall have the right, in accordance with this Section and the provisions of the Indenture, without the consent or approval of the Issuer or the City, to exercise any or all of the Issuer's or City's rights or remedies hereunder or under the Declaration, and the Issuer and City hereby irrevocably appoint the Trustee and Lender attorneys-in-fact for the purpose of enforcement of this Agreement. No delay in enforcing the provisions hereof as to any breach or violation shall impair, damage or waive the right of any party entitled to enforce the same or to obtain relief against or recover for the continuation or repetition of such breach or violation or any similar breach or violation thereof at any later time or times. The Developer agrees to pay, indemnify and hold the Issuer, City, Trustee and Lender harmless from any and all costs, expenses and fees, including all reasonable attorneys' fees which may be incurred by the Issuer, City, Trustee and Lender in enforcing or attempting to enforce this Regulatory Agreement or the Declaration following any violation of the same on the part of the Developer, whether the same shall be enforced by suit or otherwise, and the reasonable fees and expenses of Bond Counsel in connection with any opinion to be rendered hereunder.

Notwithstanding anything else to the contrary herein, the Trustee, Lender, City and the Issuer shall have the right to enforce this Agreement and require curing of defaults in such period as may be necessary to assure compliance with Section 103(b)(4)(A) of the Code, including but not limited to the right of the Issuer to enforce this Agreement in the event that any of the terms and provisions of Sections 3 and 4 are violated whether or not the City takes action to enforce those provisions or requires curing of any defaults related to those provisions.

The City shall have the responsibility to enforce its municipal requirements, if any, set forth in Exhibit C hereto, and shall have the right, without the covenant of the Issuer, the Trustee or the Lender, to enforce such municipal requirements and to exercise any or all of the rights and remedies hereunder for the purpose of enforcement of such municipal requirements.

Section 16. Governing Law. This Regulatory Agreement shall be governed by the laws of the State of Minnesota.

Section 17. Amendments. This Regulatory Agreement shall be amended only by a written instrument executed by the parties hereto, and only upon receipt of an opinion of Bond

Counsel that such amendment or revision will not adversely affect the exclusion from federal and Minnesota income taxation of the interest on the Bonds or the validity of the Bonds under state law. The form of this Regulatory Agreement shall be amended, and Developer hereby agrees to so amend this Regulatory Agreement, upon the enactment of any amendment to Section 103(b)(4)(A) of the Code or the regulations promulgated thereunder, or upon the promulgation of any amendment to the regulations under Section 103(b)(4)(A) of the Code, or upon any amendment to the Housing Act, applicable to the Bonds, whether before or after execution by the Developer, in such manner as, in the opinion of Bond Counsel, shall be necessary in order to maintain the tax-exempt status of the Bonds. The agreement of the Issuer, the City, the Lender and the Trustee to any amendment to this Regulatory Agreement shall be given only in accordance with the provisions of Article __ of the Indenture.

Section 18. Notice. Any notice required to be given hereunder shall be given by registered or certified mail at the addresses specified below or at such other addresses as may be specified in writing by the parties hereto:

Issuer: _____

_____

_____

_____

City: _____

_____

_____

_____

Trustee: _____

_____

_____

_____

Developer: _____

_____

_____

_____

Lender: Midland Financial Savings and
Loan Association
606 Walnut Street
Des Moines, Iowa 50307
Attn: Real Estate Department

Section 19. Severability. If any provision of this Regulatory Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions shall not in any way be affected or impaired.

Section 20. Multiple Counterparts. This Regulatory Agreement may be simultaneously executed in multiple counterparts, all of which shall constitute one and the same instrument and each of which shall be deemed to be an original.

IN WITNESS WHEREOF, the Issuer, the City, the Lender, the Trustee and the Developer have caused this Agreement to be signed, sealed and attested on their behalf by duly authorized representatives, all as of the date first written hereinabove.

[ISSUER]

By_____
Its_____

(SEAL)

Approved as to Form

_____
Its_____

[CITY]

By_____
Its_____

(SEAL)

Approved as to Form

_____
Its_____

[TRUSTEE]

By_____
Its_____

ATTEST:

_____
Its_____

(SEAL)

[DEVELOPER]

By _____
Its _____

MIDLAND FINANCIAL SAVINGS
AND LOAN ASSOCIATION

By_____
Its_____

By_____
Its_____

EXHIBIT A

(Legal description of land site on which Development is located)

EXHIBIT B

Description of Development

General description of construction and/or acquisition and rehabilitation of Development: _____
_____
_____.

Description of Targeted Area (as defined in Code and in Charter 462C), if any, in which Development is located: _____
_____
_____.

Describe whether Development is designed and intended to be used primarily by elderly or physically handicapped persons:
_____.

Describe any facilities contained in Development that are functionally related and subordinate to the residential rental unit: _____
_____
_____.

Describe commercial or other non-rental housing facilities to be included in Development buildings/or complex: _____
_____
_____.

Anticipated total development cost: $_____

Floor plans, unit type and projected initial monthly rents:

Number of Units	Unit Type	1985 Average Initial Rent Per Month

Unit Type Code

A - 1 bedroom, ____ square feet
B - 1 bedroom, ____ square feet
C - 2 bedrooms, ____ square feet
D - 2 bedrooms, ____ square feet
E - 2 bedrooms, ____ square feet

Schedule of development costs anticipated to be financed with proceeds of the Developer Note:*

Category of Cost	Amount
Land	$_____
Construction	_____
Fixtures	_____
Equipment and other Personal Property installed in Development	_____
Interest during construction	_____
Insurance during construction	_____
Real estate taxes during construction	_____
Initial mortgage insurance premium, if any	_____
Title and guaranty expenses	_____
Architect's fees	_____
Construction financing commitment fee	_____
Permanent financing commitment fee	_____
Legal and Accounting fees	_____
Inspection fees	_____
TOTAL	$_____

* Amounts shown are approximate and represent good faith estimates of the Developer.

EXHIBIT C

MUNICIPAL REQUIREMENTS

(Description of certain City or housing and redevelopment authority prerequisites or requirements applicable to rental housing Development located in that particular City or under the jurisdiction of the housing and redevelopment authority designated to act by the City in and for the City. Such listing of requirements will include applicable City and/or housing and redevelopment fees, requirements pertaining to low and moderate income set-aside percentages which exceed federal and/or state requirements, other rental operation requirements that may not be covered by, or differ from, state or federal statutory requirements, and any other terms, provisions or features that are unique to the City, or the housing and redevelopment authority in and for the City or in and for the County in which the City is located, which are applicable to the Development and which are not set forth in the recitation of state and federal rental housing requirements set forth in the Regulatory Agreement or the Declaration.

RHM: 12/20/84; ARK: 1/30/85; 3/27/85
501CC

JOINT POWERS AGREEMENT
FOR THE METROPOLITAN AREA
MULTI-CITY RENTAL HOUSING PROGRAM

THIS AGREEMENT is entered into as of the 1st day of April, 1985, by and between:

the Housing and Redevelopment Authority of the City of Saint Paul, a public body corporate and politic;

the Dakota County Housing and Redevelopment Authority, a public body corporate and politic acting for and on behalf of the City of West Saint Paul;

the City of Eagan, a municipal corporation;

the City of Bloomington, a municipal corporation;

the City of Maplewood, a municipal corporataion;

the City of New Hope, a municipal corporation; and

the City of Coon Rapids, a municipal corporation;

(collectively, the "Cities", or individually, a "City"). Each of the municipalities or housing and redevelopment authorities named above is duly organized under the laws of the State of Minnesota as a municipal corporation or housing and redevelopment authority and has full power and authority to enter into this Agreement pursuant to Minnesota Statutes, Section 471.59 and Chapter 462C.

1. Statement of Purpose and Powers to be Exercised. There is a need in each of the Cities to preserve the quality of life through the maintenance, provision and preservation of adequate housing stock, to encourage new housing construction, and to provide in a timely fashion affordable housing to persons of low and moderate income. In order to promote the public health, welfare and prosperity, the Cities will undertake a joint program of providing below market interest rate mortgage loans to the owners of rental housing projects upon terms and conditions not otherwise generally available to such persons in the private market (the "Program") through the issuance of the Bonds (as defined below) by the Issuer (as defined below).

The powers to be exercised jointly under this Agreement are those identical powers conferred upon each City (and, if appropriate, their designated housing and redevelopment authorities) in Minnesota Statutes, Chapter 462C (the "Act"), and in particular the powers to undertake programs to implement individual components of the housing plan developed by and for each City pursuant to the Act, and to issue revenue bonds to finance such programs.

2. Method of Achieving Purpose; Manner of Exercising Power. Each City has previously adopted resolutions evidencing its intent to undertake the Program and, if necessary, has by ordinance designated its housing and redevelopment authority,

or the agency which exercises the powers of a housing and redevelopment authority, to exercise its powers under the Act. Pursuant to the approval and consent of the Cities provided by their respective resolutions and evidenced by their execution of this Agreement below, the Cities shall exercise such powers jointly by adopting, approving and executing such common or concurrent resolutions, documents, and agreements as shall be necessary or convenient to authorize the Issuer (as defined below), acting on its own behalf and on behalf of all the Cities, to issue and sell revenue bonds to finance the Program and to adopt or execute such resolutions, documents and agreements as shall be necessary or convenient to properly manage, administer and operate the Program utilizing the proceeds of the Bonds and such other funds as may be made available for use in conjunction with the Program.

The Program will be structured so that the proceeds of the Bonds are loaned to the Lender (as defined below) to enable the Lender to make mortgage loans with respect to each of the Developments (as defined below). Certain matters with respect to each Development will be governed by a Regulatory Agreement to be entered into between the developer of each Development, the City in which the Development is located, the Issuer (as defined below) of the Bonds, the Bond trustee and the Lender

(as defined below). The Program shall be otherwise managed, administered and operated in the manner provided herein and in the Program Documents (as defined below). Each City may act singularly, without any consent by or action of the others, pursuant to the applicable Regulatory Agreement with respect to the Development (defined below) located in such City to the extent provided in the applicable Regulatory Agreement.

3. Definitions. In this Agreement, unless a different meaning clearly appears from the context, the following terms shall have the following respective meanings:

Act: Minnesota Statutes, Chapter 462C and Section 471.59.

Board: The Joint Powers Board created herein;

Bonds: The $_____ Variable Rate Demand Bonds (Minnesota Multi-City Joint Rental Housing Program) issued by the Housing and Redevelopment Authority of the City of Saint Paul to finance the Program described herein.

Cities: The following: the Housing and Redevelopment Authority of the City of Saint Paul acting for and on behalf of the City of Saint Paul; the Dakota County Housing and Redevelopment Authority acting for and on behalf of the City of West Saint Paul; the City of Eagan; the City of Bloomington; the City of Maplewood; the City of New Hope; and the City of Coon Rapids.

Program: The housing finance program pursuant to the Act, approved by the respective governing bodies of the Cities and pursuant to which the proceeds of the Bonds shall be used to finance the construction of multi-family rental housing and the resulting portfolio of mortgage loans shall be managed and administered.

Developer: The corporation, partnership, association, joint venture or other entity which undertakes, owns and operates a Development.

Developments: The residential rental projects, at least one of which is located in each of the Cities, to be financed through the Program.

Issuer: the Housing and Redevelopment Authority of the City of Saint Paul, being the "City" designated and empowered herein to issue the Bonds on its own behalf, and on behalf of all of the Cities, for the purpose of financing the Program.

Lender: Midland Financial Savings and Loan Association, an Iowa savings and loan association located in Des Moines, Iowa.

Program Documents: the Indenture of Trust, Lender Loan Agreement, Developer Loan Agreements, Regulatory Agreements, Declarations of Restrictive Covenants and related agreements and instruments and other agreements entered into in connection with the Program and the Bonds.

4. Creation of Joint Powers Board; Powers and Duties. There is hereby created a Joint Powers Board representative of the Cities, consisting of one member from each City and having the power and duty to consult with, advise and make recommendations to the Issuer, and, with respect to the Developments, to assist in the implementation and administration of the Program.

5. Members. The Board shall consist of one member from each City. Each member shall be appointed by the Mayor or Chairman of the City for which such member serves. Members of the Board may be either elected officers or commissioners of the city for which they serve or individuals employed by such City on a full-time basis. Members shall hold office for a term of four years or until their successors are appointed and qualified. Vacancies shall be filled in the manner provided above for appointment. A member may be removed at any time with or without cause by the Mayor or Chairman who nominated him or her. Members shall receive no compensation.

6. Meetings. Meetings of the Board shall be held at such times and at such places and with such notice as the Board shall from time to time detemerine. A quorum shall consist of four members. A majority shall consist of four members.

Matters concerning the agenda of a meeting, minutes of a meeting, and rules of order or procedure shall be as determined by the Board.

7. Officers. The Chairman of the Board shall be the member thereof appointed by the Issuer. The members of the Board shall elect from among their other members a Vice-Chairman and such other officers as the Board shall deem appropriate.

8. Source and Contribution of Funds; Allocation of Funds. The source of funds for the Program shall be the proceeds of the Bonds and such other properties and revenues as shall be loaned or contributed to or derived from the Program.

The "lendable proceeds" of the Bonds (the amount initially deposited in the Loan Fund created by the Indenture, plus any commitment or other fees paid by Developers whether on the date or initial issuance of the Bonds or thereafter) shall be allocated among the Developments as may be provided by the Program Documents.

9. Budget and Disbursements. The Program shall not require an annual budget. Moneys and funds shall be held, applied, disbursed, and accounted for in such manner as may be provided in the Program Documents. Prior to the termination of this Agreement, to the extent that any surplus funds are

returned or distributed to the Cities, they shall be returned to each in proportion to its contribution. The proportion of contribution shall be determined in accordance with the initial principal amount of the proceeds of the Bonds applied by the Lender to make mortgage loans with respect to Developments in each City.

10. Liability for Debts and Obligations. The Board shall not do any act or thing the effect of which is to create a charge on, or lien against, the property or revenues of the Cities, other than the revenues of the Program, and then only to the extent required by or not inconsistent with the Indenture of Trust entered into by the Issuer and the Trustee in connection with the issuance of the Bonds.

The Bonds shall be special, limited obligations of the Issuer payable solely from proceeds, revenues and other amounts pledged thereto all as more fully described in the Indenture of Trust relating thereto. The Bonds and the interest thereon shall neither constitute nor give rise to an indebtedness, pecuniary liability, general or moral obligation or a pledge of the full faith or credit or taxing power of the Issuer, the Cities, the State of Minnesota or any political subdivision of the above, within the meaning of any Constitutional or statutory provisions.

11. Term of Agreement; Termination. Unless otherwise provided by concurrent action of the Cities, this Agreement shall terminate upon the retirement or defeasance of the last outstanding Bonds, and this Agreement may not be terminated in advance of such retirement or defeasance. If the Bonds are not issued, this Agreement shall terminate on July 1, 1985.

12. Distribution of Assets upon Termination. Upon termination of this Agreement, any property acquired as the result of this Agreement and any surplus moneys shall be returned to the Cities in proportion to the contribution of each of them, or as provided in Section 9, hereof.

13. Representations; Indemnity. Each City hereby represents to each of the other Cities and to the Issuer that it will undertake any and all actions necessary or desirable to assure the validity and enforceability of the Bonds, and to assure and preserve the tax-exempt status of the Bonds, or as may be required to enforce the requirements of federal or Minnesota law applicable to the Development located within such City; provided that neither any of the Cities nor the Board may direct or compel the Issuer to take any action or cause or compel the Issuer to fail to take any action that in the reasonable judgment of the Issuer would impair the validity or enforceability of the Bonds or adversely affect or impair the tax exempt status of the Bonds.

Each City further agrees to indemnify and hold each other City, including the Issuer, harmless from any and all losses, damages, costs and expenses (including reasonable attorney's fees) incurred or suffered by such other City, including the Issuer, with respect to the Bonds, the Developments and the Program, subject however, to the further limitations set forth in this paragraph. The indemnity obligation of each City with respect to matters arising from particular Developments shall be limited in that each City shall be obligated hereunder to the Issuer and the other Cities only to the extent that losses, damages, costs or expenses are caused by the Development or Developments located within the jurisdiction of the indemnitor. With respect to matters not directly attributable to a particular Development, each City shall be obligated to indemnify the other Cities or the Issuer only in proportion to the indemnitor's contribution as provided in Section 9 hereof.

14. Amendments. This Agreement may be amended by the Cities at any time. No amendment may impair the rights of the holders of the Bonds, unless they have consented to such amendment in the manner provided for amendment of the Indenture.

IN WITNESS WHEREOF, each of the Cities, including the Issuer, has caused this Agreement to be executed on its behalf by its duly authorized officers and the seal of said City or the Issuer to be hereunto affixed and duly attested, all as of the day and year first above written.

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA, as Issuer

(SEAL)

By_____
Chairman

By_____
Executive Director

Approved as to form:

By_____
Secretary

_____
Assistant City Attorney

By_____
Director, Department of Finance and Management Services

DAKOTA COUNTY HOUSING AND REDEVELOPMENT AUTHORITY FOR AND ON BEHALF OF THE CITY OF WEST SAINT PAUL

(SEAL)

By_____
Its_____

By_____
Its_____

CITY OF EAGAN

(SEAL)

By_____
Its_____

By_____
Its_____

CITY OF BLOOMINGTON

(SEAL)

By_____
Its_____

By_____
Its_____

CITY OF MAPLEWOOD

(SEAL)

By_____
Its_____

By_____
Its_____

CITY OF NEW HOPE

(SEAL)

By_____
Its_____

By_____
Its_____

CITY OF COON RAPIDS

(SEAL)

By_____
Its_____

By_____
Its_____

ACKNOWLEDGMENT AND ACCEPTANCE

[ACKNOWLEDGEMENT AND ACCEPTANCE FOR EACH CITY WHICH IS ACTING BY AND THROUGH ITS HOUSING AND REDEVELOPMENT AUTHORITY]

CITY OF SAINT PAUL

By_____
Its_____

By_____
Its_____

CITY OF WEST SAINT PAUL

By_____
Its_____