

**HOUSING AND REDEVELOPMENT AUTHORITY
SPECIAL MEETING
CITY OF RAMSEY
ANOKA COUNTY
STATE OF MINNESOTA**

The Housing and Redevelopment Authority conducted a regular meeting on Tuesday, July 19, 2011, at the Ramsey Municipal Center, 7550 Sunwood Drive NW, Ramsey, Minnesota.

Members Present: Chairperson David Elvig
 Commissioner Randy Backous
 Commissioner Colin McGlone
 Commissioner Bob Ramsey
 Commissioner Jason Tossey
 Commissioner Jeffrey Wise

Members Absent: None – HRA Member Vacancy

Also Present: City Administrator Kurtis G. Ulrich
 Deputy City Administrator/HRA Director Heidi A. Nelson
 Public Works Director/Principal City Engineer Brian Olson
 Development Manager Darren Lazan
 Finance Director Diana Lund
 Stacie Kvilvang, Ehlers and Associates

CALL TO ORDER

Chairperson Elvig called the regular meeting of the Housing and Redevelopment Authority to order at 9:55 p.m.

CITIZEN INPUT

There was none.

APPROVAL OF AGENDA

Motion by Chairperson Elvig, seconded by Commissioner Ramsey, to approve the agenda as submitted.

Motion carried. Voting Yes: Chairperson Elvig, Commissioners Ramey, Backous, McGlone, Tossey and Wise. Voting No: None. Absent: None.

APPROVAL OF MINUTES

None.

HRA BUSINESS

Case #1: Consider Proposed Deal Structure The Residence at The COR Project (portions may be closed to the public)

Development Manager Lazan explained that he has four items that he would like to review.

The first item for discussion is the sale price of land in The COR to Flaherty and Collins, which will be a closed discussion.

Motion by Commissioner Ramsey to close the meeting at 10:00 p.m. seconded by Commissioner Backous

Motion carried. Voting Yes: Chairperson Elvig, Commissioners Ramsey, Backous McGlone, Tossey and Wise. Voting No: None.

Meeting re- opened at 10:25 p.m.

Motion by Commissioner Ramsey to open the meeting at 10:25 p.m. seconded by Commissioner Backous

Motion carried. Voting Yes: Chairperson Elvig, Commissioners Ramsey, Backous McGlone, Tossey and Wise. Voting No: None.

Stacie Kvilvang, Public Finance Consultant with Ehlers and Associates was present to walk through the sensitivity analysis.

Working off the first page, which is the assumption page, total development cost is \$29.8 million; PNC will provide a loan for 20 million that will be a 40-year loan, interest only in the first three years and then principal and interest thereafter. The interest rate is 6.5% with an annual debt service payment of \$1.4 million; that represents principal and interest. The City would bond a maximum of \$6 million. With interest paid, we would sell these initially as a temporary bond, with the theory that if the project performs as anticipated with the sensitivity that you've taken if the project did not perform out and your \$6 million is being repaid back. The remaining bond that we have to sell would be sold for a 23-year term at 6.27%. The rate is high because you are providing financing to a private entity.

This discussion is for the bonding that we would do.

Commissioner Tossey stated the terms of the note are at three years. Ms. Kvilvang set up the note to add three more, and if all else fails we can go to 23 years.

Ms. Kvilvang clarified it is set up at three and 23.

The next item Ms. Kvilvang discussed was the City loan of \$1.3 million. A future decision point is the option to increase the bond to 7.3 issuing temporary debt for 3 years. If it performs,

everything is paid back and it preserves that \$1.3 million in cash in TIF District One, which is flexible dollars, and if it doesn't perform after three years you can bring back that \$1.3 million to the table.

Commissioner Ramsey asked where we are taking the TIF district from and how can we take money from a certified TIF district.

Ms. Kvilvang responded because you have a plan that states how you can use tax increment funds as a specified use for a specific project.

Ms. Kvilvang continued with the developer equity is approximately \$2.5 million. One million dollars is put in at closing on the land for \$750,000, the other \$250,000 is used to pay for the architectural and engineering services. An additional \$1.5 million would come at closing for a total of \$2.5 million. The land purchase is the \$750,000 that is closing this fall.

Commissioner Tossey asked for the clarification on the 3 and 23-year terms on the bond.

Ms. Kvilvang responded you still have that option to go to another three year temporary.

Commissioner Ramsey asked to the point at the end of 36 months if they are not able to get permanent financing, there is no payroll and the other TIF doesn't kick in.

Ms. Kvilvang responded you are always going to tax increment for your bond to protect you first.

Chairperson Elvig stated that rather than paying it to them we are paying ourselves to cover the deficit that they are creating now for us.

Ms. Kvilvang reviewed that the agreement says they are responsible to pay 105% of the debt service on the bond.

Commissioner Ramsey asked if at the end of 36 months they are not able to take us out, is there enough TIF proceeds from the Flaherty project to service the debt on the bonds that we are going to issue.

Ms. Kvilvang responded we will be getting to that discussion.

Ms. Kvilvang started the discussion of development scenarios.

The land purchase price \$750,000, the average rent per square foot on the units is \$1.25, this is where the sensitivity analysis say what happens if they don't reach that point? What would happen where there would not be enough cash flow from the project or tax increment for that project that you would have to go to a third source. Essentially, what the analysis shows is if there is a 15% reduction in revenues, you are going to have to have another cash call from another source. What that equates in a rent per square foot is \$1.06. Is the reality in the market a \$1.06 per square foot? Do you worry about a 15% reduction in revenues?

The secondary question is at what point is there not enough cash flow or tax increment to pay PNC the first mortgage.

There was discussion that if they need a third source that it rather not be the City.

Ms. Kvilvang continued with when they cannot pay the first mortgage to PNC, that issues a concern. That would mean revenues would have to be 35% less than what they are anticipating. That would mean the average rent would have to be .88 per square foot. This is not a realistic or possible scenario.

Ms. Kvilvang reviewed that construction starts in 2012, first occupancy in 2013. Construction goes about 12-18 months, occupancy 18-24 months to full 93% occupied essentially. The COR apartments present value is at \$2.4 million at 24 years of tax increments. The clock starts clicking on your TIF District in 2012. You take 15% of increment, generating first to go to the City, HRA. The annual net to the project is \$220,000.

Ms. Kvilvang stated the HRA has the choice that if you don't take the first 15%, you can use all of 100% to debt service; the \$220,000 would increase to \$260,000. These are all future decisions that need to be made.

Ms. Kvilvang reviewed that the Allina and VA present value of tax increment is about \$1.9 million. That's a value of \$11.5 million property valuation for tax purposes. That's 25 years of TIF and taking the first 10% for administration. That would be about \$181,000 available for service debt. If you choose not to take 10%, that number would increase to around \$202,000.

Ms. Kvilvang reviewed the revenue as presented. The years that you care about is years 2016 and 2017. Operating revenues as presented and NOI in 2016 of about \$2.1 million, COR TIF, \$220,000 total income of available for debt service of 2.3 million; first mortgage of \$1.4 million TIF bond payments. The cash flow after fact is \$330,000, based on \$2.5 million of additional equity.

Chairperson Elvig stated what was just reviewed was at the \$1.25 per sq ft.

Ms. Kvilvang discussed the next is at \$1.06 per sq ft. This is 15% less than presented. Looking at 2016, the bottom line is \$1.8 million for debt service. That cash flow is a negative. The first year you would have to draw on the Allina or VA. Of that \$181,000 available, you would need \$142,000 of it.

Chairperson Elvig asked if we do a three and three opposed to 3 and 23, does that rate still jump up double to the 571.

Ms. Kvilvang responded no, it is going to be interest only. Then the discussion would be what do we capitalize and what revenues are coming in.

Elvig asked if it's three and three, what does the 571 come down to.

Ms. Kvilvang stated it's similar to where it is current, a couple hundred thousand.

The worst-case scenario, of 30%, total income in 2016 available for debt service of \$1.3 million, PNC loan payment is \$1.4 million. Even once you bring in the TIF from Allina and VA there still would not be enough to pay city bond portion.

Commissioner Ramsey stated even at that point we are still servicing the debt on our bond. If we went out with the TIF is there zero risk for six years.

Chairperson Elvig asked are we are still collecting \$266,000 from them.

Commissioner Ramsey asked are we still going to be able to pay our bond.

Mr. Lazan commented to the discussion that the \$1.06 scenario assumes they are expecting us to cover a short-term loan. They are still in at \$2 million plus operating, personal and corporate guarantees; they are going to look to fill that gap before they ever default.

Chairperson Elvig stated then what we are asking for is another \$2 million so they are in it for \$4 million. They are not going to walk away from \$4 million.

Commissioner McGlone commented that these scenarios don't contemplate any other developments happening or having any other TIF revenues.

Ms. Kvilvang felt they had enough income generated that it is going to cover your obligations.

HRA Executive Director Nelson asked if there is any concerns with regard to the bonding that is being proposed. As long as there is general consensus to proceed on that note, we would like to get back to Flaherty and Collins, stating what our offer is.

Councilmember Wise asked why they want to see substantial construction of the train station.

Mr. Lazan stated it has been their concern all along because this is part of this project.

Councilmember Tossey has questions on the bonding of the TIF District, and coming up with the money for the train station. He expressed concern about us restricting our bonding authority within the TIF District. Is this going to affect us?

Ms. Kvilvang stated based on this analysis, if we assume worst cast scenario of 15% less revenues, we will not be able to use that increment from the VA or Allina for anything else, setting that aside and waiting to year three to see if it's taken out so you have that protection. In the next 12 -24 months, other development may happen in The COR, and we would have the capacity to bond for more.

Councilmember Tossey asked what is the restriction on how much we can bond over the revenue that we know that is coming into the district.

HRA Executive Director Nelson responded that we have a capacity of about \$10-12 million today.

Chairperson Elvig stated one of the important factors to keep in mind is we need to build more equity in The COR to get that bonding level up. If this project can cash flow itself, we don't need to come back on it.

Chairperson Elvig also stated a key factor for him is getting them to constantly keep bringing more equity back to the table. He suggested keeping a tri-party agreement open.

Mr. Lazan reviewed the schedule as August 9 for the day to get substantial progress on the documents. From there, September 13 for the first of a series on the bonding components. September 15th is the target date to close on the land; picking up at the end of February, call for that sale in March and awarding the sale of bonds, April proceeds.

Ms. Kvilvang also wanted to mention that another item on the August 9 agenda is the technicality to issue those GO2 funds, that a housing program needs to be created, and a public hearing needs to be set.

Mr. Lazan would like to know how much information the presentation would entail.

Consensus was to show what the rationales are and focus on the amendments.

COMMITTEE REPORTS

None

EXECUTIVE DIRECTOR'S REPORT

None

COMMISSIONER INPUT

None

ADJOURNMENT

Motion by Chairperson Elvig, seconded by Commissioner Backous, to close the meeting of the Housing and Redevelopment Authority.

Motion carried.

The meeting of the Housing and Redevelopment Authority adjourned at 11:10 p.m.

Respectfully submitted,

Heidi A. Nelson
HRA Executive Director

ATTEST:

Jo Ann M. Thieling
City Clerk

Drafted by Mary Jo Warner
City of Ramsey, Public Works Secretary.