

**CITY COUNCIL WORK SESSION
CITY OF RAMSEY
ANOKA COUNTY
STATE OF MINNESOTA**

The Ramsey City Council conducted a City Council Work Session on Tuesday, November 13, 2012, at the Ramsey Municipal Center, 7550 Sunwood Drive NW, Ramsey, Minnesota.

Members Present: Mayor Bob Ramsey
Councilmember Randy Backous
Councilmember David Elvig
Councilmember Colin McGlone
Councilmember Sarah Strommen
Councilmember Jason Tossey
Councilmember Jeffrey Wise (arrived at 5:18 p.m.)

Also Present: City Administrator Kurtis Ulrich
Finance Director Diana Lund
Fire Chief Dean Kapler
Police Chief James Way
Human Resources Manager Colleen Lasher
City Clerk Jo Ann Thieling
Development Services Manager Timothy Gladhill
Management Analyst Patrick Brama
City Attorney William Goodrich
Development Manager Darren Lazan
Mike Mulrooney, ACG
Councilmember-Elect Mark Kuzma
Councilmember-Elect Chris Riley

1. CALL TO ORDER

Mayor Ramsey called the City Council Work Session to order at 5:08 p.m.

2. TOPICS FOR DISCUSSION

2.01: Consider Modification of TIF District 14

City Administrator Ulrich reviewed the staff report and advised it has been determined that tax-exempt portions can be removed from the District without a public hearing. He reviewed the encumbrances against Tax Increment Financing (TIF) District #14, which had been established for The COR and expanded to include properties on both sides of Highway 10 to allow maximum flexibility to capture revenue to pay for infrastructure improvements. He advised that

keeping TIF District #14 in place allows maximum flexibility for the City to pay off current and future obligations.

Councilmember McGlone clarified that TIF did not fund the loan to Flaherty & Collins but was used to back the loan. At this point, no TIF funds have been used.

City Administrator Ulrich agreed that TIF is a backing to that loan.

Councilmember Wise arrived at 5:18 p.m.

Councilmember Tossey stated he made the motion at the last meeting to remove all unencumbered properties from this TIF District because he believed that TIF plays favorites and is the impetus for government-pushed development, as shown when he tried to lower the HRA levy by one-half. Councilmember Tossey suggested TIF is the “feeding tube” for that monster and decertification of this TIF District, whenever it occurs, is the right thing to do. He felt Ramsey should compete against other municipalities with its tax rate and not through the use of TIF. Councilmember Tossey stated cities are not using TIF as the Legislature intended so he thinks TIF Districts have hurt the taxpayer.

City Administrator Ulrich stated TIF has a subsidy side and a public improvement side. He pointed out that in Ramsey all TIF, except for \$5 million, is towards the public side. The Council has the choice to use TIF for public improvements or private development and has limited private subsidies.

Finance Director Lund explained the City has a JPA with Anoka County to construct Armstrong Boulevard with funding backed by TIF District 14. That is the only funding mechanism for that project or else the City would have to pass a bond or increase the levy. That is an outstanding issue. Finance Director Lund listed the encumbrances related to TIF District 14.

Councilmember Strommen stated this is good discussion and she appreciates Councilmember Tossey bringing it up. She indicated she is supportive of having staff gather financial information but believed TIF use is nested within the central issue that the Council has to address in January, the role of the City in The COR, the nature of that role, and the tools the City uses. Councilmember Strommen felt now is the time to launch an information gathering process, but not to make a decision on TIF use.

Finance Director Lund answered questions of the Council related to funding for road projects and the AUAR JPA.

Councilmember Tossey asked whether any funding for the overpass scenario used TIF backing.

Finance Director Lund explained that when Anoka County did the JPA, Armstrong was part of the funding mechanism and that is why Anoka County placed a \$4 million bond for their share of the project cost.

Mayor Ramsey stated the Council needs to be aware it is \$68 million but TIF is an arbitrary number and it could be much higher depending on how fast development happens and how much increment is captured over 25 years. He noted it was stated there is \$8 million for incentive of private projects but the City has a spending plan it agreed to when it got the legislation for this District that can be modified without asking for Legislature approval. There is no law saying Ramsey cannot do that and that is a danger in this TIF District. Mayor Ramsey stated he is concerned about this TIF District since the citizens of Ramsey spoke very clearly in the last election when the people who ran said the City should not be involved in this development. He stated he wanted discussion on this issue to be at the Council level when it is on camera.

Councilmember Strommen stated she agreed this is a central issue that needs to be addressed but the Council does not need to rush to that conclusion and she hopes the intent is not to make a political statement that would be disingenuous to the residents.

Mayor Ramsey stated he and Councilmember McGlone had worked very hard to get this TIF District and this discussion needs to be brought up on camera.

Councilmember Tossey stated this is why he did not think TIF was a good idea; it is a “political football.” He objected to playing with people’s money and supported decertifying the TIF District so the School District and Anoka County can each get their taxes. He felt enough is enough.

2.02: Consider Lease Agreement with Independent Auto Service, Inc. for use of Cold Storage Area; and Consider Sublease Agreement with First Choice Towing (6745 Highway 10)

Management Analyst Brama reviewed the staff report and presented the terms of the proposed sublease agreement with First Choice Towing. He noted this item is on tonight’s Consent Agenda.

Councilmember Wise asked about the square foot cost of the lease with Denny Sharp.

Management Analyst Brama stated the previous lease was a higher per square foot charge for this property than the property to the east but that conflicts with economic reality because the other building is in better condition and has a higher economic value. So, staff flipped the rates to better reflect the market. Management Analyst Brama stated he had also worked with Anoka County on the tax per square foot difference and found one was taxed at a higher rate, again being different from the economic reality since one building is in better condition than the other. He indicated the lease is about \$1.90/sq. ft. on this property and is now at \$1.75/sq. ft. The rate for the other property was flipped with this one to better reflect the economic reality.

Councilmember Wise asked if staff sees any problems that could come up with a sublease on a City-owned property.

City Attorney Goodrich advised the lease provides that the tenant can sublease. The City has the right to review but if the uses are consistent with the main tenant and lawful commercial uses,

the City could not unreasonably withhold its approval. He explained that a concern may be related to traffic or pollution, or hazardous activities (fireworks/explosives), but it appears there are no issues with this tenant.

Councilmember McGlone stated the need for fairness had been raised earlier tonight and that is his concern with RALF properties that the City leases, at a cost to the City, and creates an unfairness in the market. He noted it is not fair for a business to operate in a building for tax value or less when the next building has a mortgage in addition to taxes. Councilmember McGlone felt this issue dovetails with the previous TIF conversation about fairness. He noted that when properties are acquired with RALF, it also comes with demolition money so maybe the City should demolish this portion of the building so it would not need to hire a person to manage the buildings.

Mayor Ramsey asked whether there are any special requirements or permits for this property to serve as a vehicle impound lot.

Development Services Manager Gladhill explained the Code would restrict salvage operation or outdoor storage of inoperable vehicles. However, if the vehicle is towed for inside storage, it is a permitted use. Eddy's Auto Body has restrictions on outside storage, as an example.

City Attorney Goodrich advised that the current lease with the landlord, the master lease, says no outside storage is allowed. He indicated that any subtenant could not do more than allowed in the master lease.

Councilmember Strommen asked City Attorney Goodrich if he had reviewed the sublease and found that it is consistent with the master lease terms.

City Attorney Goodrich answered in the affirmative.

Management Analyst Brama stated the sublease alludes to the current lease of the master tenant and says it must follow those terms.

City Attorney Goodrich stated the potential option for two years has rent capped at 3% annually for those two years so if the term is going out five years, the two years after that cannot be increased by more than 3%. He stated the City should always assure the leases cover taxes.

Councilmember Tossey asked whether taxes would be covered.

Management Analyst Brama answered in the affirmative.

Councilmember Tossey asked if there is a way out of the master lease in case the Highway 10 project moves forward.

City Attorney Goodrich advised the lease contains a one-year provision with notice no matter the term of the lease.

Councilmember Elvig noted a question had been previously asked about charging administrative fees for RALF properties back to the Metropolitan Council.

City Administrator Ulrich stated that discussion occurred during the strategic plan, to look at special legislation to broaden what can be done with RALF proceeds when the properties are leased.

City Attorney Goodrich noted this item is on tonight's Consent Agenda.

The Council agreed to next consider Case 2.04 since Mr. Mulrooney was not yet in attendance.

2.04: Consider Development of 15153 Nowthen Boulevard, Old City Hall Site

Development Services Manager Gladhill reviewed the staff report.

Councilmember Backous asked for more background information on data centers, ownership, and if such a use would be good for Ramsey's businesses. He stated for him it comes down to cost benefit, benefit to Ramsey's residents, and if it will generate tax revenue compared to having homes.

Management Analyst Brama explained it would be a private business that typically serves private businesses, but could also serve public entities, regionally and perhaps nationally. A data center would be a large-sized building with a lot of servers for storage, a higher energy user, and generate a lot of property tax. In addition, a data center would be low operating from a City cost perspective for public services, yet have a high value and tax generation. Aesthetically, data centers resemble buildings in an industrial park.

Councilmember Backous felt it would be a good use for this area that is surrounded by homes and may provide the least amount of pushback from residents because it would not generate a lot of traffic.

Mayor Ramsey stated a data center will be very noisy.

Councilmember Wise suggested presenting the benefits of tax generation and low traffic to the public at the start of the process prior to City and County and Connexus investment.

Mayor Ramsey stated data centers generate a lot of noise to cool a huge amount of heat.

Councilmember Elvig stated that issue came up at the EDA meeting. He noted this site was slated, at one time, for a potential middle school and he would like staff to look into that again to be sure it is not still an option. Councilmember Elvig agreed that data centers generate a tremendous amount of heat and expressed concern should the City partner with Connexus, become obligated, and then find out the sound is not mitigated as much as the City would like. He stated he has been involved with putting a sound barrier on a data center located near a residential area and it did not work. Councilmember Elvig explained that data centers use diesel

generators with exhaust pipes that are run every day. He raised the option of using this site for density housing since it is across from an elementary school.

Mayor Ramsey stated a data center would be a great thing for the City as long as the residents around it buy into that use. He noted it would provide a great tax base and there is fiber optics in that location to utilize.

Management Analyst Brama advised that one of the concerns with a data center is the setback, which will need to be greater and have more screening. Staff is also aware of the need to address the issue of sound. He asked if there is general support for this use.

Councilmember-Elect and EDA Chair Riley stated the EDA had discussed the data center use, looked into it, and found there had been a lot of sound issues with first generation data centers but since that time, there have been a lot of improvements. Mr. Riley indicated sound is still a real issue to resolve but improvements have been made with data centers to contain more inside and there is now a second-generation design.

Don Haller, Connexus Energy, addressed the question raised relating to partnerships by explaining there would be no contracts, just an energy company with the local City saying there is potential for a data center. Mr. Haller stated Connexus has analyzed the electrical grid and determined this is the only site in Anoka County that is conducive for a data center so Connexus approached the City. He explained that data centers have come a long way in technology and the Councilmembers could visit two of the largest ones located in Elk River and the Anoka industrial park to see what it would look like and how much sound it generates. Mr. Haller stated it has been refreshing to work with Ramsey on an opportunity for a data center and discuss mutual benefits for both the City and Connexus.

Mayor Ramsey asked what is the anticipated price per foot for this land given the constraints with data centers and surrounding uses.

Management Analyst Brama referenced the staff report section containing a breakdown of the per square foot value of a data center. He pointed out that in comparison to a normal business, it would have a higher than normal value.

Mayor Ramsey asked what a data center would be willing to pay for this land.

Mr. Mulrooney advised that due to the uniqueness of sites that can accommodate data centers, they are willing to pay a higher per foot price than typical businesses. He stated he has seen prices double in south metro (Eden Prairie) locations. However, it can depend on the size of the facility and how well capitalized the user is. Mr. Mulrooney stated if the site works, data centers are usually willing to pay top dollar for the property.

Councilmember Tossey mentioned advise that he received that the City often times gets bogged down by saying “no” a lot. He stated support for approaching the citizens to get their buy in and if that happens, he thinks a data center would be an asset for Ramsey.

Mayor Ramsey suggested holding a public hearing or neighborhood meeting in the old City Hall to give residents information on this use.

City Administrator Ulrich suggested an informal open house during which Connexus can present this use.

The consensus of the Council was to direct staff to continue to explore developing the old City Hall site as a data center site; hold an informal open house with area residents; and, invite Connexus and the School District.

2.03: Consider EDA Revolving Loan Fund (RLF) Application

Mr. Mulrooney presented the loan request of Koru Fitness to develop a new fitness center in the City. Koru Fitness will be owned equally by Nicole Kutches and Gary Nereson. He explained the financing plan, noting it would include an EDA revolving loan at 3.25% with a seven-year term for equipment purchases. Mr. Mulrooney stated there is not an operating history to determine sufficient cash flow to support the proposed debt but an extensive business plan has been submitted and the worth and credit ratings of the borrowers would be considered. It was noted the EDA had recommended approval of this loan request.

Councilmember Wise asked who is providing the personal guarantees.

Mr. Mulrooney advised that each partner would provide a personal guarantee of 50%.

Councilmember Wise stated personal guarantees are required but oftentimes LLCs are created to protect personal assets. He asked what would happen to recover funds should this business fail. He stated his concern is that this is a non-brand fitness center operating with used equipment that does not hold resale value, which he thinks is a bigger risk.

Mr. Mulrooney explained that in the event the business defaults, the collateral would be liquidated and the shortage would be pursued from the personal guarantees. He assured the Council that he has complete confidence in the business owner being able to perform on the personal guarantee based on his worth and businesses formerly owned and sold. Mr. Mulrooney stated the owner is a very strong guarantor and not the typical business start up.

Councilmember Tossey asked about the life of the fitness equipment.

Mr. Mulrooney stated it depends on which piece of equipment and there are also staging and flooring. He stated this is not the type of equipment you would see at a LifeTime Fitness and should have a 7-10 year term prior to needing replacement.

Councilmember Tossey noted the loan term is seven years and if the equipment life is more than five years, it is not as much of a problem.

Councilmember McGlone stated he had opposed this loan request during the EDA meeting. He stated he had asked about the failure rate for this type of business but not received an answer so

he did some internet research and found it is about 90%. In addition, this proposes a new concept in that realm which, to him, makes it more of a risk. Councilmember McGlone stated at the EDA meeting, Mr. Mulrooney had said this was a business owner who wanted to teach his daughter business, but that is not what the City does and if the balance sheet of the silent partner is so great, he should add another \$30,000. Councilmember McGlone stated he is in the liquidation business, had sold four fitness businesses this year, and knows this equipment is valueless and there is no ability to recoup costs from the flooring or equipment. Councilmember McGlone stated he did not find this to be a good risk, and the City should not use public money to teach someone's daughter how to run a business.

Councilmember Tossey asked what is the failure rate and City's loan position.

Mr. Mulrooney advised the City's loan would be a junior position. He clarified that he is not saying this is a "daddy teaching daughter" situation. Rather, the father is guiding his daughter on business matters in things he is experienced in and that is why he is included in this business. Mr. Mulrooney noted that partner is financially invested in this transaction, providing capital and personal guarantee that any financing will be paid, placing confidence in his daughter's ability.

Councilmember Backous stated since the EDA recommends approval, he assumes this request meets RLF requirements so he will support that recommendation.

Mayor Ramsey stated the Council got "crucified" for loaning to Flaherty & Collins, a multimillion-dollar business that created tax base with a new building constructed and providing a benefit for 50 years or more. He noted this is an existing structure that is already paying taxes and is taking \$87,000 in working capital. Mayor Ramsey felt, basically, the City would be loaning them a portion of operating capital. He stated his position that this is a bad deal and not something the City should do for this type of a business so he will oppose it.

Councilmember Backous felt there were a couple differences between the Flaherty & Collins consideration and this application. He agreed there was history of LLC and bankruptcies and that some personal guarantees do not mean a lot as mentioned by Councilmember Wise. However, in this case, the applicants have an excellent credit history and the application fits inside the RLF guidelines.

Councilmember Strommen stated she does not put this request in the same league as Flaherty & Collins because this is a request for \$34,500 and the owners are putting in \$34,000, so it is almost equal. This loan would result in incubating a business with the hope it will grow and move out of a leased space. Councilmember Strommen pointed out that this is the purpose of the EDA Revolving Loan Program and asked EDA Chair Riley if the EDA had discussed any other issues related to this application.

Councilmember-Elect and EDA Chair Riley stated the EDA found this request did meet the program criteria. In addition, it falls under the mission of the EDA because it promotes economic development and the purpose of this fund, to help local businesses. He felt that was the big distinction between the two loans being compared. Councilmember-Elect Riley stated

the EDA recommended approval and he hopes the City Council will heed what that citizen group advised.

Councilmember McGlone stated this is a business with an outlandish failure rate being backed with valueless equipment. He thinks it is a bad deal.

Management Analyst Brama stated if this request is not supported by the Council, it should be pulled from tonight's Consent Agenda.

City Administrator Ulrich noted the loan agreement has been changed from ten years to seven years.

Councilmember Tossey stated the policy of the EDA loan fund is for only a seven-year term; however, the paperwork said it is a ten-year term, which does not fit into the guidelines. He agreed this application is not to the degree of monetary value of Flaherty & Collins, but principally it is similar. Councilmember Tossey stated he is concerned whether or not due diligence was completed to assure this application meets EDA policy since the term had to be changed from ten years to seven years.

Mayor Ramsey stated the application is to loan \$34,500 for a business that has no value.

Councilmember Elvig felt Mr. Mulrooney has a lot of "horsepower" behind his research, knows the applicants, and the strength of their financials. In addition, Mr. Mulrooney is the President and CEO of a financial company that is highly successful in its analysis. Councilmember Elvig stated he found this application to be a reasonable deal.

Mayor Ramsey stated it was not his intent to discredit the person making the request, but he does not support this loan.

Councilmember Tossey asked why one partner is not footing more of the bill.

Mr. Mulrooney stated the partners want to preserve capital for working purposes rather than putting all into assets, which is fairly typical in these types of loan structures. He explained you have to look at this as an unsecured transaction since the City would be in a subordinate position. In order to obtain any dollars back in the event of liquidation, the first lien holder would have to be paid off. Mr. Mulrooney advised if there was not a guarantor behind the deal, he may think differently since this is a start up business with a higher failure rate. However, the principal is a very strong guarantor, has a vast amount of experience in business, and had sold his company to a larger firm a few years ago. This guarantor is someone who has the "horsepower" to see this through and assure all of the lenders will be repaid in event there is a default.

Councilmember Tossey asked whether the applicants were notified that the term of the loan had to be reduced to seven years.

Mr. Mulrooney answered in the affirmative.

Councilmember Wise asked about the impact of the loan term change.

Mr. Mulrooney stated the debt service went from \$4,045 to \$5,015, or just over \$100/month.

Councilmember McGlone stated he intends to pull this item from the Consent Agenda.

2.04: Consider Development of 15153 Nowthen Boulevard, Old City Hall Site

This item was considered prior to Case 2.03.

3. FUTURE TOPICS FOR DISCUSSION

3.01: Review Future Work Session Topics / Calendar

City Administrator Ulrich advised of upcoming agenda topics and that the Kiefer law suit would be considered on November 27, 2012. He indicated there is currently no Work Session scheduled for December 4, 2012, and the December 25, 2012, meeting has been canceled.

4. MAYOR / COUNCIL / STAFF INPUT

None

5. ADJOURNMENT

Motion by Councilmember Backous, seconded by Councilmember Wise, to adjourn the Work Session meeting.

The Work Session of the City Council was adjourned at 6:40 p.m.

Respectfully submitted,

Kurtis G. Ulrich
City Administrator

ATTEST:

Jo Ann M. Thieling
City Clerk

Drafted by Carla Wirth
TimeSaver Off Site Secretarial, Inc.