

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF RAMSEY
ANOKA COUNTY
STATE OF MINNESOTA**

The City of Ramsey Economic Development Authority (EDA) conducted a regular meeting on Thursday, June 6, 2013, at the Ramsey Municipal Center, 7550 Sunwood Drive NW, Ramsey, Minnesota.

Members Present: Chairperson Jim Steffen
 Member Phillip Brunt
 Member Glen Hardin
 Member John LeTourneau
 Member Chris Riley
 Member Wayne Skaff

Members Absent: Member Kristine Williams

Also Present: Patrick Brama, Management Analyst
 Kurt Ulrich, City Administrator
 Mike Mulrooney, Consultant

1. CALL TO ORDER

Chairperson Steffen called the Economic Development Authority meeting to order at 7:34 a.m.

2. APPROVE AGENDA

Motion by Member LeTourneau, seconded by Member Skaff, to approve the agenda.

Motion carried. Voting Yes: Chairperson Steffen, Members LeTourneau, Skaff, Brunt, Hardin, and Riley. Voting No: None. Absent: Member Williams.

3. APPROVE MINUTES

3.01: Approve EDA Meeting Minutes Dated May 16, 2013

Motion by Member Skaff, seconded by Member LeTourneau, to approve the minutes dated May 16, 2013.

Motion carried. Voting Yes: Chairperson Steffen, Members Skaff, LeTourneau, Brunt, Hardin, and Riley. Voting No: None. Absent: Member Williams.

4. EDA BUSINESS

4.01: Introduce Economic Development Prospect Foxtrot

Management Analyst Brama explained that Patriot Converting is a 24-employee manufacturing/cardboard cutting company located in Anoka currently occupying 24,000 square feet and the company desires to expand to 77,000 square feet with 37 employees. He stated the company has selected the public works campus and this site would require infrastructure improvements and vacation of right-of-way as well as entering into an option agreement with the City. He advised that some engineering work and site surveying has been done and a business subsidy application has been submitted by the company's owners, Brian Stilwell and Mike Stilwell. He noted that the owners were not present at the EDA meeting today.

4.02: Economic Development Prospect Foxtrot: Business Subsidy Application

Management Analyst Brama provided historical background regarding the City's business subsidy practices and stated the City has guiding policies that must be met in order to provide a business subsidy, including a requirement that the project must meet the "but for" test and the project must be feasible, as well as a requirement that assistance can be no more than \$25,000 per qualified job and the business subsidy agreement must establish job and wage goals. He advised the City has been active in economic development and has participated in TIF land write-downs, noting that a large number of businesses in Ramsey were attracted to the City utilizing a TIF write-down. He stated that Patriot Converting is requesting a complete land write-down, valued at \$757,000 or \$2.00 per square foot. He pointed out that the earlier valuation of \$924,000 was a County valuation and staff used the recent Diamond Graphics purchase as a comparable sale; in addition, staff contacted the appraiser who provided the fair market valuation for Diamond Graphics and the appraiser felt this could be used as a comparable sale price. He stated that based on the City's policy, the City has the ability to provide \$25,000 times 37 employees or \$925,000 as a business subsidy for this project.

Mr. Mulrooney advised that Patriot Converting has a buyer interested in purchasing their existing building and the buyer is demanding that they be out of the building by December 31, 2013. He stated that the City's public works site is the only site that can work within their timeframe. He explained there are a number of parcels involved in this expansion and the project would require construction of a cul-de-sac with vacation of the roadway. He noted that some of the offsite project costs would not be financeable costs by a bank lender because utilities are not included in overall project costs from a financing perspective. He distributed information regarding sources and uses of funds and stated the value of the site has been determined to be \$758,000. He stated the prospect has estimated the cost to construct a building at \$4.2 million and has estimated equipment costs of \$600,000. He stated that professional fees, closing costs, contingency and interim interest are estimated at \$155,000 bringing the total project cost to \$5.7 million, noting this figure does not include the offsite costs of bringing in utilities. He advised the prospect has a history of using SBA 504 financing and plans to use this financing again. He pointed out that this project also anticipates the City's land write-down of \$191,469 and explained that staff completed a tax increment analysis and what the project would generate over the life of the tax increment district in present value terms. He stated staff also looked at different types of tax increment districts, including the establishment of a redevelopment district. He explained that a redevelopment district would provide 25 years in increment; however, there are special rules for qualifying the site as a redevelopment district and staff does not believe the site can meet the test of being a redevelopment district because a large portion of the property is currently vacant and does not have buildings on it in need of substantial rehabilitation. He stated staff and the City's

fiscal consultant have made a determination that this site would qualify as an economic development district.

Chairperson Steffen asked if it has been the City's past practice that any subsidy equals the present value of the increment.

Mr. Mulrooney replied that historically the City has been able to capture increment to pay for its costs; in this case, the City is talking about paying for the value of the site, not the costs of the site. He stated the costs are less than this in terms of acquisition of the site, but this site is an asset of the City so the City could sell the property and in theory collect the value of the site. He advised in this case, the prospect is requesting a full write-down of the land and one of their reasons is liquidity, adding they are a rapidly growing company, cash is at a premium, and to the extent that some of the project costs could be underwritten, that helps with their overall financing. He reviewed the sources and uses of funds information and stated that bank financing is shown as \$2.85 million and the SBA loan is \$2.35 million and a land write-down of \$191,469. He stated the Minnesota Investment Fund (MIF) through DEED has indicated they would participate in the project for \$300,000 in the form of a forgivable loan assuming the company achieves certain wage and job goals. He noted that under this structure, the Ramsey RLF, the land write-down, and the MIF loan are all viewed as equity in the transaction by primary lenders, with no cash going in by the prospect. He stated the project costs associated with extending the utilities and constructing a cul-de-sac are estimated at \$265,000, noting that the cul-de-sac would require an agreement with an existing property owner to take a small portion of their property for the cul-de-sac. He stated that moving costs are not eligible from an SBA standpoint or under the State program and under this scenario the owners themselves would pay their moving costs. He stated that DEED also indicated it would provide a grant to the City of \$100,000 to help offset the utility costs, leaving \$315,000 in cash equity being put into the project by the owners. He stated that based on his review of the company's financial statements, the owners have limited personal liquidity and limited liquidity on the part of the company, adding he felt it would be difficult for the prospect to make this happen under this financing structure.

Mr. Mulrooney then distributed another scenario and stated this scenario more accurately reflects the desire of the prospect and includes a full land write-down of \$758,000, noting that project costs remain the same. He stated if there were a full land write-down, the debt service from the standpoint of bank financing and SBA financing decreases. He advised that under this scenario, the company's debt service would be \$383,000 whereas the debt service under scenario #1 with a partial land write-down would be \$426,000, an annual savings of \$43,000, which is closer in line with what the company could support. He indicated this scenario still requires owner equity of \$315,000 or having that financing come from another source. He stated that staff also conducted an analysis of tax increment financing for the project and explained that the land cost that could be captured partially by tax increment financing is \$191,469 and it would take nine years to recover that cost. He stated that tax abatement is another option but tax abatement does not provide enough revenue to come close to handling the amount of project costs that TIF would handle. He indicated the City's RLF account has a current balance of \$274,000 and the EDA Fund has a current balance of \$450,000.

Member Skaff asked if all of the City's costs have been factored into the project, i.e., moving the existing public works facility.

Management Analyst Brama stated there would be a five-year lease in place for the City's salt shed with an option to renew. Moving costs have not yet been considered.

City Administrator Ulrich felt it would be important for the City to recover some of its infrastructure costs and the cost of moving the salt structure. He stated when this item was brought to the City Council, the project anticipated the move of the full public works campus and the City has purchased twenty acres for this move, adding the proposed agreement is ten years and then the City is out. He agreed this will be an important decision for the City to make and means a potential \$8 million new public works facility with debt service of \$500,000 per year.

Member Riley stated he did not want to discuss scenario #2 involving the full write-down and suggested that the EDA focus only on scenario #1.

Member LeTourneau asked if another funding source has been considered and asked whether Anoka County HRA dollars might be available.

Management Analyst Brama stated if the City Council passed a resolution to enable economic development powers through the County's HRA, then the City would be eligible for County HRA monies.

Chairperson Steffen stated it does not appear that this prospect's current revenue stream can support the required debt service and asked how confident staff is that the prospect can double their business to support that.

Mr. Mulrooney felt this deserves further underwriting analysis and agreed staff will have to dig deeper into the projections, adding that this would happen as part of the normal underwriting process.

Member LeTourneau requested further information about the benefits to the City for proceeding with this prospect.

Management Analyst Brama reviewed the project benefits, including 37 full time jobs averaging \$18.00 per hour within two years, noting that the prospect's goal is to have 50 employees. He stated the prospect has indicated it wants to expand an additional 48,000 square feet for a total of 125,000 square feet and their long-term goal is 200,000 square feet. He stated the property is currently tax exempt and if the City did tax increment financing, when the property comes back online the base value would be captured. He added if the prospect purchased the property under the option agreement, the City would receive the fair market value of the property.

Chairperson Steffen asked about the risk to City if it were to do a \$191,000 write-down.

Management Analyst Brama stated if the City entered into a business subsidy agreement and tax increment financing agreement and the property owner defaulted, the City is insulated from that risk. He added if the City provided a RLF and the property owner defaulted, the City would be at risk.

Member Skaff expressed concern about the financial viability of the company and where they will come up with the \$300,000. He suggested the City request this information from the prospect.

Member Riley stated the prospect's original proposal was that they had nothing in the project and that was unacceptable to him. He did not think the EDA had enough information at this time to make a recommendation, adding that scenario #1 is the only option he would consider.

Member Hardin stated from his cursory review of the financials, he did not feel comfortable with the company's ability to service the debt in either scenario. He added he was open to looking at some kind of City participation but was not in favor of a full land write-down. He asked if the SBA portion could be increased under scenario #2. He also asked if there is equity in the prospect's existing building.

Mr. Mulrooney stated the SBA 504 portion is limited to 40% of project costs under any scenario. He stated he did not know the agreed upon purchase price of the prospect's existing building and agreed to find out. He also agreed to find out the prospect's current liability on their building.

Member Brunt agreed with the concerns expressed regarding a full land write-down and agreed that further investigation is in order before moving forward with a recommendation.

Chairperson Steffen stated it appears the EDA is in agreement that scenario #2 should be taken off the table. He stated he would be okay with \$191,000 and the land write-down. He added he was leery of approving this with two sources of City funds. He stated he would like to see the prospect come back with the source of funds for the \$315,000 before going to the City Council.

It was the consensus of the EDA to state that it was conceptually willing to consider a land write-down of \$191,000. It was also the consensus of the EDA that it was not interested in a full land write-down on the property. It was also the consensus of the EDA to state that it was hesitant to provide a RLF for this prospect. It was also the consensus of the EDA that all of these items would require proof of owner equity and more detailed financial information.

The EDA discussed the prospect's timeline and whether this item should proceed to the City Council or whether to wait for further information from the prospect.

Member LeTourneau suggested it might be appropriate for staff to present the finalized application and responses to the EDA's questions to the EDA Chairperson and if the prospect has provided all the requested information and responded to all the questions, then it can move forward to the City Council as a recommendation from the EDA.

Chairperson Steffen stated he was amenable to Member LeTourneau's suggestion.

4.03: Selection of the 2013 Ramsey Business of the Year

Management Analyst Brama explained the EDA selects a Business of the Year that is presented at the annual business appreciation golf tournament, scheduled this year for Tuesday, August 20th. He indicated the 2012 Business of the Year was The Links at Northfork and the 2011

Business of the Year was Green Valley Greenhouse. He advised that in 2012, the EDA reviewed 15 businesses and narrowed the list down to four businesses; the EDA directed staff to focus on the three remaining businesses considered in 2012 when making its selection for 2013 Business of the Year. He stated the three businesses are Acapulco, Bolton & Menk, and Vision Ease Lens.

Member Skaff stated his preference for 2013 Business of the Year is Vision Ease Lens, adding the company is a national firm with a large number of employees and the company is quite involved in volunteerism.

Chairperson Steffen stated that all three businesses are worthy and his preference is Bolton & Menk. He stated Bolton & Menk was one of the first tenants in the COR and the company has also done a lot of volunteer work in the City.

Member Riley agreed that all three businesses are worthy and urged the EDA to make sure that no businesses were inadvertently excluded from consideration.

Member Hardin stated his preference for 2013 Ramsey Business of the Year is Vision Ease Lens.

Member LeTourneau agreed that all three businesses are worthy and stated he would defer to the preference of the remainder of the EDA members.

Member Brunt felt that Vision Ease Lens was a very worthy selection for 2013 Ramsey Business of the Year.

It was the consensus of the EDA to select Vision Ease Lens as 2013 Ramsey Business of the Year.

4.04: Planning Commission Update (Development Update)

Management Analyst Brama presented the Community Development Department written update.

Chairperson Steffen requested an update on the Super America and McDonald's projects.

City Administrator Ulrich reported that the most recent delay had to do with the filing of the plat. He stated that bids will be opened tomorrow and this item will go to the City Council next week for approval. He advised the McDonald's project is moving forward and groundbreaking is anticipated to take place this fall. He stated that Super America has indicated it needs corporate approval of the financing package that has caused some delay in the project.

4.05: Updates

City Administrator Ulrich provided City Council updates and stated that Anoka County EDA is back on the agenda and explained there was a discussion last October about joining with the EDA to authorize HRA monies to be used for economic development. He stated this was previously rejected by the City Council and is back on the agenda because the City has an opportunity to purchase the adult bookstore on Highway 10 and wants to use County dollars to complete the purchase. He advised that the City Council agreed to reduce its participation at the

Game Fair based on a staff recommendation to not staff a booth and instead provide signage and advertising for the event and help with police patrol. He reported that the City Council approved a park monument for The Draw along Ramsey Boulevard. He stated the HRA made a decision to reduce the COR 3 development to four lots on the north side of the park and to hold the rest until land prices increase. He advised the City will begin contracting with a new attorney and stated an RFP was done and the City Council selected two finalists that were interviewed last Tuesday with consensus reached to select Ratwik, Roszak & Maloney as the new City Attorney. He stated the Highway 10 project continues to have good momentum and Sen. Amy Klobuchar named it as her #1 priority. He indicated that a grant application for Federal money was submitted this week.

Member Skaff requested information about the open City Council seats. He also requested an update on the EDA manager position.

City Administrator Ulrich advised there have been two City Council filings so far and the deadline is June 7th. He stated the City is recruiting for the EDA manager position and the closing date for the posting is June 10th, adding three applications have been received so far.

5. MEMBER/STAFF INPUT

Management Analyst Brama stated an email will be sent to the EDA regarding the old municipal center project, adding that the City Council will be reviewing the case next Tuesday to determine whether to move forward with the Comprehensive Plan amendment. He indicated that staff found some discrepancy in the cost/benefit analysis previously presented to the EDA and explained that the analysis found that a data center is still more beneficial to the City than a residential user however the margins have decreased slightly. He stated that a save the date card has been sent via email for the annual business appreciation golf tournament and staff is finalizing the invitations and registration forms. He stated the business expo was a successful event with 50 vendors and staff received a lot of positive feedback.

6. ADJOURNMENT

The regular meeting of the Economic Development Authority adjourned at 9:13 a.m.

Respectfully submitted,

Kurtis G. Ulrich, City Administrator

ATTEST:

Patrick Brama, Management Analyst

Draft by Barbara Hughes
(*TimeSaver Off Site Secretarial, Inc.*)