

Memo

To: Patrick Brama
From: Mike Mulrooney, Development Consultant
CC:
Date: July 11, 2015
Re: Life Fitness Expansion

I have been requested to respond regarding the eligibility of the request from Life Fitness for financial assistance from the City of Ramsey to help the company accomplish a major business expansion.

There are two parts to the proposed business expansion. Phase I involves the construction of an addition to the company's existing building located on Sunwood Drive. The addition is expected to be 48,500 SF in size and will cost in excess of \$4,000,000. This proposed expansion would increase the size of the existing Life Fitness building in Ramsey from 280,000 square feet to 328,500 total square feet and maximize lot coverage. The project will result in the creation of 26 new full-time jobs paying a minimum \$16.85 per hour (with an additional \$7.08 of benefits per hour) over the course of the next two years. The Phase II project involves an additional 50,000 + square feet for manufacturing but can only happen with the acquisition of adjacent property that is currently the home of a vacant building formerly occupied by Health Quest. The building has been vacant since 2004 and is expected to remain in this condition until a suitor can be found who is willing to absorb significant acquisition and redevelopment costs.

The acquisition and redevelopment costs for this site include

1. Property acquisition estimated to be \$450,000;
2. Demolition and site clean-up \$85,000, and;
3. Capping of 90 geo-thermal wells \$50,000.

To offset these costs the company is requesting financial assistance in the form of *Tax Increment Financing*. It is anticipated that this financing would be performance based and would be distributed to the company using a "pay as you go" formula. Given the nature of the assistance and the profile of the project, the requested assistance is being considered a "business subsidy".

The Issue of Business Subsidy

By state law, cities may not grant business subsidies until the grantor has held a public hearing and adopted formal criteria for awarding business subsidies. The criteria must meet legal requirements set out by the Legislature. The City of Ramsey has previously adopted a "Business Subsidy Policy" that meets the requirements imposed by the State of Minnesota.

In Minnesota a "Business Subsidy" means *"a state or local government agency grant, contribution of personal property, real property, infrastructure, the principal amount of a loan at rates below those commercially available to the recipient, any reduction or deferral of any tax or any fee, any guarantee of any payment under any loan, lease, or other obligation, or any preferential use of government facilities given to a business"*.

Ramsey's Business Subsidy Policy contains mandatory criteria including:

1. *The "But For" Test.* There is a substantial likelihood that the project would not go forward without the business subsidy. Given the nature of redevelopment and associated costs Life Fitness has options including leasing or developing the manufacturing project elsewhere where the redevelopment costs would not be incurred. The subsidy insures that the expansion will happen at the identified location.
2. *Wage Policy* – If the project results in the creation of jobs, the wage for the jobs created must be at least equal to 70% of the most recent median wage for the Twin City Metro Region. The current median wage in this region is \$20.49 per hour. Given the current median wage, the minimum threshold to meet the City of Ramsey policy guidelines currently stands at \$14.34 per hour. Jobs projected for this project will pay \$16.85 per hour which meets the City's requirements.
3. *Economic Feasibility* – the recipient must demonstrate to the satisfaction of the City that it has adequate financing for the project and that the project will be completed in a timely fashion. Life Fitness is owned by Brunswick Corporation, a publicly traded company based out of Lake Forest, Illinois, with a market capitalization of \$4.88 billion and \$119M in world-wide sales for 2014. In my opinion, it is highly unlikely that the company cannot secure financing for the project. The project is also slated to begin construction by September of 2015.
4. *Compliance with the Business Subsidy Act* – The project as defined meets the requirements of the Business Subsidy Act.

It is important to note that the Business Subsidy Policy contains the following language: *"The City of Ramsey reserves the right to approve projects and business subsidies which may vary from the principles and criteria set forth in the Business Subsidy Policy"*.

Tax Increment Financing

To receive financial assistance in the form of a business subsidy through tax increment financing, the project must meet at least one of the “public purpose” requirements as defined in the City’s Business Subsidy Policy. Under Minnesota law, the public benefits of economic development, including an increase in tax base, tax revenues, employment, or general economic health, do not by themselves constitute a public purpose. A “public purpose” does however exist when a city or economic development authority undertakes a project that involves the mitigation of blighted property, remediates an environmentally contaminated area or pursues the reduction of abandoned property. In my professional opinion, the project as defined will involve the mitigation of blighted property as well as meeting other public purpose objectives established by the City’s policy and therefore meets the definition of a “public purpose” as defined by state statute. By meeting the “public purpose” test, the project is eligible to be considered for tax increment financing assistance.

I hope this analysis is helpful as the City and the Economic Development Authority evaluate the request from Life Fitness. This is an exciting project and should have a very positive impact on the City of Ramsey.