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Advance Consulting Group, Inc.
Development and Finance Specialists

Ramsey Business Park Phase I Research Report

Business Park Prospects

Background

The City of Ramsey is considering the development of a new business park. The site under consideration for the new business park is located north of U.S. Highway 10, west of Armstrong Blvd and south of Bunker Lake Blvd. The site is also bordered by main line railroad track owned and operated by the Burlington North Santa Fe Railroad. The goal of this research report is to identify potential prospects for the new business park and address concerns related to the impact of nearby rail.

The process required for developing a business park is much different from selling a single site. Business park development requires substantially more planning, capital and control. Timing is another important distinction. Strategic timing is critical to the success of a Business Park because it involves the subdividing of land, the installation of site improvements, the sale of sites and ultimately cash flow and profits.

The principal steps in the development of a business park include:

1. Preliminary analysis
2. Site selection and acquisition
3. Preparation of a development plan
4. Formulation of use restrictions and controls
5. Preparation of business park layout
6. Installation of site improvements
7. Construction

Preliminary Analysis

The development of a business park should not be undertaken unless considerable research and analysis of the market has been completed. Market analysis is essential to the success of the business park and it must be carefully and professionally completed before actual development activity begins. The decision on what industries to pursue rests on experience and knowledge of the assets and liabilities of the community as well as which businesses are actively looking for new sites for expansion.

Reasons to consider the development of a new Business Park include:

1. There is currently a lack of readily available sites for new business development in the community. Success with expanding the community's tax base and the creation of new jobs will be limited without the availability of sites that are ready and available for new development.
2. The national economy, and more specifically the economy in Minnesota, has substantially improved. According to the US Department of Labor, Minnesota had the fifth fastest growing economy in the nation in 2012. This was the state's best year for growth since 2004. Forbes Magazine named Minnesota the eighth best place to do business in 2013. Also in 2013, American City Business Journal's index of "top performing metropolitan economies" ranked the Twin Cities seventh in the country, jumping 48 spots from a year earlier.
3. Major transportation improvements are currently being planned or are underway in Ramsey that will have a very positive affect. Construction of a new bridge at Highway 10 and Armstrong Boulevard will improve traffic flow and provide better access for the community. Ramsey recently announced that funding has been secured for this improvement project. Construction will begin in 2015. In addition, the Minnesota Department of Transportation plans to make incremental safety improvements to U.S. Highway 10 in the near term making this corridor more acceptable to commuters, business and industry.
4. A community development trend that is unfolding is the growing expectation and even demand by millennial's for work-life balance. They are increasingly choosing to live closer to their work in an effort to achieve this balance and minimize their downtime in traffic. To be successful at attracting residents in the future, communities must not only have a variety of housing styles and types, they must also provide employment opportunities in close proximity to support the concept of work-life balance.
5. The City of Ramsey has a track record of successfully developing business parks. These parks include Business Park 95, Energy Park, Sunfish Lake Business Park, and Azurite Business Park. All of these business parks were sponsored by the City of Ramsey. As a result of these efforts Ramsey has had significant success with attracting new business and jobs to the community.

The Impact of Rail on the Proposed Site

The property under consideration for the new Ramsey Business Park is located adjacent to the Burlington Northern Santa Fe (BNSF) Railroad main line linking the Chicago and Twin City market to the West Coast. Historically, locating a business park near rail has had some distinct advantages for attracting business and industry.

The desirability of freight rail transportation is more often than not linked to the cost of oil. As oil prices increase freight tends to shift from truck to rail. The cost to move a ton of goods by rail is significantly different from truck transportation. With one gallon of diesel fuel it is possible to move one ton of freight 400 miles by rail compared to approximately 100 miles by truck. In addition each rail car holds approximately 4.35 truckloads of commodities creating greater efficiencies.

Oil production on the Bakken Range in North Dakota has also impacted rail traffic along the rail corridor in Ramsey. The application of hydraulic fracturing and horizontal drilling technologies have caused a boom in Bakken production since 2000. By the end of 2010, oil production rates had reached 458,000 barrels per day, thereby outstripping the pipeline capacity to ship oil out of the Bakken Range. By April, 2014 Bakken oil production in North Dakota and Montana exceeded 1 million barrels per day. Without the construction of additional pipeline capacity, rail has become the preferred method for transporting oil produced from this oil field. Much of this rail traffic moves on the rail line through Ramsey thereby limiting the railroads capacity to absorb additional traffic.

The BNSF line through Ramsey is also home to the Northstar Commuter Rail. In 2014 approximately 720,000 commuters used the rail for commuting to and from the City of Minneapolis. Currently 6 inbound and 6 outbound Northstar Commuter Trains use the line daily. The use of the line for commuter rail places further restrictions on the use of the line for additional train traffic.

Rail traffic on this corridor has now grown to the point where it has become an issue for communities located along the line. The problem has risen to the level of garnering attention from the State of Minnesota. Governor Dayton's 2015 budget includes a proposal to change how the state taxes railroads and includes a new fee dedicated to making safety improvements. These new revenue streams would raise \$100 million over the next two years to help the state, counties and cities address problems from increased traffic.

When all of these factors are taken into consideration, it is clear that locating a business park on rail today does not necessarily translate into rail access and therefore rail oriented business and industry. We believe that the Ramsey Business Park site will not be home to rail oriented industries for the following reasons:

1. Class One carriers like BNSF prefer running 110 car unit trains or longer over assembling a train to serve a limited number of industries in a business park. Efficiency is extremely important to this industry as railroads spend 12 to 15% of their annual revenues per year on upgrading infrastructure and new equipment including larger more powerful locomotives that are designed to move larger loads. This level of investment compares to about 5% in other capital intensive industries. The frequency of unit trains on the BNSF route through Ramsey will only increase as it is the main northerly route to the ports of Seattle and Vancouver from the Chicago market as well as the main route for transporting Bakken oil to refinery facilities in the south.
2. With upgraded crossings and grade separations currently planned or under construction there will be pressure to increase speed through communities on the route thereby elevating the need to limit access.
3. There will be pressure in the long term to increase unit trains to 150 cars. Many coal unit trains are now 123 cars. Because current infrastructure isn't capable of handling 150 car unit trains, industry experts don't believe this will happen for at least 5 years or longer but it is in the planning stages by the rail industry.
4. Except for locations near the Northtown Switching Yard in Fridley, it is highly unlikely that rail dependent industries who do not currently have rail access will be allowed access to rail in the north metro area as this would require the BNSF to brake track on a very high traffic, fast moving line that is already in high demand. This view is tied directly to the pressure for more speed and longer unit trains in the future.
5. Large industries that use freight today generally require large tracts of land and cannot afford high land prices. These rail oriented industries are also incompatible with high population areas due to likely user activities that include scrap metal to steel, fertilizer and anhydrous ammonia storage, chemical processing, storage and processing of agricultural commodities.

Potential Prospects for Business Park

If rail oriented prospects are unlikely to locate in the proposed business park, what types of businesses will find the location attractive? The first step in determining potential prospects for the Ramsey Business Park is to determine which industries could be most successful at this location. They are called *potential prospects* at this stage for that is what they are until there is confirmed interest. Anoka County has a high incidence of skilled and semi skilled technicians and a livability standard that makes the area attractive to companies who employ people with these skill sets. Companies searching for sites today rank access to a skilled workforce as one of their primary concerns. Sites and capital can be obtained in many places. Finding a labor force at a reasonable cost with the skills that the company needs can mean the difference between success and failure.

Businesses that match well with the Anoka County workforce can be identified by their NAICS code. All businesses in the United States are classified using the North American Industry Classification System (NAICS). This system is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. Industries that are compatible with the skills of the Anoka County workforce would likely include the following:

NAICS CODE	DESCRIPTION	ANOKA COUNTY ESTABLISHMENTS
332	Fabricated Metal Products	205
333	Machinery Manufacturing	84
339	Miscellaneous Manufacturing	63
323	Printing and related supplies	50
337	Furniture and related products	45
326	Plastics and rubber products	29
334	Computer and electronics	28
336	Transportation equipment	15
325	Chemical Manufacturing	15
321	Wood products manufacturing	14
322	Paper manufacturing	12
311	Food manufacturing	11

Prospect Limitations Imposed by Location

It is important to keep in mind that the array of prospects for a business park is more limited if the park is located immediately adjacent to a rail line. This is a direct result of vibration caused by moving freight and passenger trains. Vibration sensitive industries such as precision manufacturers may be concerned about quality control if the site on which they locate is subject to ground vibration. Low frequency vibrations caused by slow moving or heavily weighted trains are generally the most severe.

In many cases, vibration-sensitive facilities can be built near operating rail lines if proper design considerations are implemented. These considerations include field vibration measurements to determine levels of vibration at the surface and below grade as appropriate, allowance for building suppression effects, and internal building vibration mitigation.

In some circumstances, it is practical to modify the impacted building to reduce the vibration levels. Vibration isolation of buildings basically consists of supporting the building foundation on elastomer pads similar to bridge bearing pads. When vibration-sensitive equipment such as CNC machines will be affected by transit vibration, specific modifications to the building structure may be the most cost-effective method of controlling the impact. For example, the floor upon which the vibration sensitive equipment is located could be stiffened and isolated from the remainder of the building to reduce the vibration. Alternatively, the equipment could be isolated from the building at far less cost.

According to studies conducted by the US Department of Transportation, sites located within 100 yards of the centerline of a rail line tend to experience the most vibration. In general, sites that are 300 or more feet from the centerline often experience little or no impact and can be considered by vibration sensitive industries as a site location option. Further study of the Ramsey location as it relates to current vibration levels is encouraged.

It should be noted that there are numerous examples of industry located in close proximity to rail lines in the Ramsey industrial market. In some instances precision manufactures have located within 100 feet of the centerline and operated successfully using vibration mitigation techniques.

There are some industrial prospects who are not vibration sensitive who will not consider Business Parks located adjacent to rail. Distribution centers would fall into this classification. Distribution centers prefer locations near a major highway with no impediments to access. Under most circumstances a rail line would be considered an impediment even if at grade rail crossings provide access to the site. Recent action taken by the City of Ramsey, the State of Minnesota and the federal government to improve the intersection of Armstrong Boulevard and Highway 10 with a new overpass will allow distribution centers to consider the site for future facilities.

Conclusion

As the City of Ramsey knows, the cost of developing a business park can be significant and there are never any guarantees of a return on the investment. There are many factors to consider before investing in land and infrastructure to attract industrial and commercial development. However, there is an old saying in economic development: "You must have a site that is ready for development to be in the game".

Having a site that is ready to go or is "shovel ready" separates communities into winners and losers at the start of the site location process. When the community is prepared with a site that is ready to accept development, the odds improve significantly that the community will receive a visit from a potential prospect. In today's world, the competition is keen for economic development due to its impact on tax base, job creation and related income. Communities with sites that are prepared are the ones who will achieve success.

Future Business Park

Reference Map:

300' Railroad Affect Area

Area Unaffected by Train/Easy to Section Off

