

Meeting Date: 07/09/2015

Submitted For: Patrick Brama, Administrative Services

By: Patrick Brama, Administrative Services

Title:

Consider Multiple Actions Related to a Potential Life Fitness Expansion and Redevelopment Project

Purpose/Background:

PURPOSE

Consider multiple actions related to a potential Life Fitness expansion and redevelopment project. In summary, the proposed project includes: (1) construction of a new \$4M - 48,325 square foot expansion on the existing Life Fitness property in Ramsey; and (2) \$585,000 acquisition and clean-up of the Health Quest property to prepare Life Fitness for their future second expansion in Ramsey.

Life Fitness has asked the City to investigate all financial incentives available for this project (see attached cover letter). Specifically, Life Fitness is interested in tools that will help overcome costs associated with the purchase and clean up the Health Quest property (redevelopment costs).

STEP 1 (this case): begin process to establish a new TIF district, apply for State funds and begin underwriting project. The purpose of this case is not to "award" any financial incentives to Life Fitness. However, this case begins the State required public process to "allow" the City to award financial incentives to Life Fitness in the future.

STEP 2 (future case): review underwriting of project, consider authorization to establish a new TIF district, consider awarding TIF agreement/ business subsidy agreement (which will include a specific amount of TIF), and consider awarding DEED program incentives.

BACKGROUND (proposed project)

This project includes three individual parcels. The first two parcels, totaling 17.12 acres are currently owned by Life Fitness (Brunswick Corporation). These two contiguous parcels are home to a 280,000 square foot state-of-the-art Life Fitness manufacturing facility. Life Fitness currently employs about 300 full-time and nearly 100 part-time people at their Ramsey facility. This facility is responsible for manufacturing Life Fitness (<http://www.lifefitness.com/index.html>) and Hammer Strength (<http://www.lifefitness.com/commercial/hammerstrength.html>) brand exercise equipment. Life Fitness is owned by Brunswick Corporation (<http://www.brunswick.com/>), 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 (NYSE: BC).

In addition to their primary facility in Ramsey, Life Fitness leases approximately 60,000 square feet of warehouse space in Coon Rapids. In order to improve their operations process and more effectively manufacture their products, Life Fitness would like to consolidate their Minnesota operations in into one facility—their Ramsey facility. This will require an expansion on their existing site in Ramsey. Currently, Life Fitness has space for a 48,325 square foot expansion on their existing Ramsey site. This proposed expansion is referred to as *Expansion #1* and would increase the size of the existing Life Fitness building in Ramsey from 280,000 square feet to 328,500 total square feet.

Life Fitness has indicated *Expansion #1* 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 two years. Life Fitness would like to begin construction on *Expansion #1* August 26, 2015. *Expansion #1* is anticipated to be completed by spring 2016.

In addition to *Expansion #1*, outlined above, Life Fitness would like to prepare for a second expansion of their Ramsey facility (*Expansion #2*). Because their existing site does not have sufficient space available for *Expansion #2*, additional land is required. Life Fitness has targeted a 3.0 acre, bank-owned, parcel located directly south, and adjacent to their existing Ramsey facility for *Expansion #2*. This property is currently home to a 20,000 square foot vacant/ blighted former health club known as Health Quest. It is estimated, acquiring the Health Quest property for *Expansion #2*, will allow for construction of a 50,000-60,000 square foot future expansion of the primary Life Fitness facility.

Securing the Health Quest property does result in significant redevelopment costs for Life Fitness; including property acquisition \$450,000, demolition and site clean-up \$85,000, and capping of nearly 90 geo-thermal wells \$50,000.

In summary, the proposed project includes: (1) construction of a new \$4M - 48,500 square foot expansion on the existing Life Fitness property in Ramsey; and (2) \$585,000 acquisition and clean-up of the Health Quest property to prepare Life Fitness for their future second expansion in Ramsey.

BACKGROUND (Why are incentives being requested?)

This project removes a 20,000 square foot, blighted, bank-owned, building that has sat vacant, and available for purchase, since 2004 (Health Quest property). In order to develop the Health Quest property, significant redevelopment costs need to be overcome; including: acquisition of a property that carries an existing building (\$425,000), demolition and site clean-up (\$71,000), and capping of 90 geo-thermal wells (\$46,000). Based on discussion with the current Health Quest property owner, and prospects previously interested in the Health Quest property, redevelopment costs outlined above have created a barrier to private market to reuse this property.

BACKGROUND (Tax Increment Financing)

Because of the significant redevelopment costs identified above, Staff (along with our professional advisors) have identified a "*Renovation & Renewal TIF District*" as an applicable incentive. This tool would allow the City to capture 15 years of tax increment from the construction of *Expansion #1* and redirect said dollars to the redevelopment of the Health Quest Property. It is estimated about \$350,000 could be captured over 15 years (\$220,000 present value based on 5.5% interest).

For more information on TIF, please see the attached LMC TIF Information document (Section E, pages 15-19). Also attached is State Statute related to a *Renovation & Renewal District*. The purpose of this case is to begin the legal public process, as guided by State Statute, to establish a TIF District. The purpose of this case is not to "award" TIF to Life Fitness. However, this case begins the process to "allow" the City to award TIF to Life Fitness in the future. Attached is a timeline for the establishment of a TIF District.

BACKGROUND (DEED, Job Creation Fund (JCF))

The State of Minnesota, Department of Employment and Economic Development, has indicated this proposed project would qualify for JCF dollars. JCF awards are provided based on two performance measurements: (1) job creation and (2) capital investment. Based on conversations with DEED Staff, it is anticipated this project could receive \$200,000+ from the State. The first step in this process is to apply--attached is an application.

It should be noted, private businesses cannot directly apply for DEED incentives. DEED requires a local municipality to apply on behalf of the benefiting business.

For more information on the State JCF program, please visit this link:
<http://mn.gov/deed/business/financing-business/deed-programs/job-creation-fund.jsp>.

BACKGROUND (Why would Ramsey consider incentives?)

This project enhances the City of Ramsey's economic base by securing the operation of a Fortune 500 company's manufacturing facility within Ramsey, Minnesota for the foreseeable future. The Life Fitness facility currently generates significant property taxes (about \$150,000 annually) and significant jobs (greatest number of jobs in Ramsey, about 300 FT and about 100 PT. Life Fitness is nearly out of space to grow on their existing site in Ramsey.

By completing the currently proposed project, the City of Ramsey will see significant tax base and job growth into the foreseeable future (*Expansion #1* and *Expansion #2*). Additionally, the City would see the removal of a blighted and vacant building located on highly visible intersection. This effort accomplishes the Ramsey EDA's three major goals: job creation (26+ plus jobs over two years), tax base creation (\$73,873 total property taxes, *Expansion #1 only*), and improvement to the quality-of-life within our community (removal of a blighted building).

By not completing this project, it would be logical for Life Fitness to consider a new, long-term, location for their manufacturing facility. Additionally, the Health Quest property would likely remain in its current state for the foreseeable future

Notification:

NA

Observations/Alternatives:

Attached:

Concept Map

Business Subsidy/TIF Application (City of Ramsey)

TIF Timeline (Ehlers)

TIF Information (League of Minnesota Cities)

TIF Information (State Statute)

TIF Run (Ehlers)

Job Creation Fund Application (DEED)

Cover Letter (Life Fitness)

Business Subsidy Policy

Business Subsidy Test

Resolution Calling for Public Hearing to Modify Development District 1, and Creation of TIF District 15

Resolution Supporting an Application to MN DEED on Behalf of Life Fitness for the JCF Program

Business Subsidy Policy Review:

Staff reviewed the proposed Life Fitness project in the context of the City's adopted "*Business Subsidy Policy*."

Based on State Statute and the City's 2009 adopted Business Subsidy Policy, this project is considered a business subsidy. As a result, a public hearing and annual reporting are required by the State.

Funding Source:

EDA Professional Services Account

Life Fitness Application Fee (\$7,500 received)

Tax Increment Financing (future increment proceeds, pay-go)

State of Minnesota DEED (State allocation)

Recommendation:

STEP 1 (this case): begin process to establish a new TIF district, apply for State funds and begin underwriting project. The purpose of this case is not to "award" any financial incentives to Life Fitness. However, this case begins the State required public process to "allow" the City to award financial incentives to Life Fitness in the future.

STEP 2 (future case): review underwriting of project, consider authorization to establish a new TIF district, consider awarding TIF agreement/ business subsidy agreement (which will include a specific amount of TIF), and consider awarding DEED program incentives.

Action:

MOTION TO:

Recommend City Council adopt Resolution #15-07-171 to call for a public hearing on August 25, 2015 to modify development district 1, create TIF district 15, and award a business subsidy.

-and-

Recommend City Council adopt Resolution #15-07-172 declaring the City of Ramsey's support of applying to the State of Minnesota Department of Employment and Economic Development Job Creation Fund program.

-and-

Direct Staff to accept a business subsidy application from Life Fitness and begin underwriting.

-and-

Recommend the City Council execute attached LHB contract for State required TIF district analysis; subject to review and amendments by the City of Attorney.

Attachments

Resolution 15 07 172 Support of Business Applying to the Job Creation Fund

Resolution 15 07 171 Calling for a Public Hearing for Development District Modification and Creation of TIF District 15

Site Map

Project Budget

Life Fitness MEMO

TIF Application (preview draft)

TIF Information (State Statute)

TIF Information (League of MN Cities)

TIF Analysis Work Order

TIF RUN 07082015 Phase 1

TIF Schedule

Job Creation Fund Information (DEED)

Job Creation Fund Application (example)

Form Review

Inbox	Reviewed By	Date
Diana Lund	Diana Lund	07/06/2015 01:08 PM
Kurt Ulrich	Kathy Schmitz	07/06/2015 02:21 PM
Patrick Brama	Patrick Brama	07/06/2015 02:28 PM
Kurt Ulrich	Kurt Ulrich	07/06/2015 05:04 PM
Patrick Brama	Patrick Brama	07/08/2015 10:39 AM
Form Started By: Patrick Brama		Started On: 07/02/2015 08:24 AM
Final Approval Date: 07/08/2015		