

MEMORANDUM

TO: Sean Sullivan, Economic Development Manager
FROM: Jason Aarsvold, Ehlers
DATE: August 2, 2023
SUBJECT: Soderholm Expansion and Financial Assistance Request

The City of Ramsey (the “City”) received a request for financial assistance from SA Group for expansion of its facility located at 7150 143rd Ave NW. SA Group proposes a 46,214 square foot expansion of its existing building that will help triple its production capacity. The project is expected to add 33 additional employees by 2027 and will also include connection to the City water and sewer system.

Citing increasing material costs and higher than expected utility connections fees, SA Group is requesting up to \$100,000 in City tax abatement for the project. Based on current estimates, it would take an estimated 6.5 years to repay a \$100,000 tax abatement note at 0% interest. The number of years may change slightly pending final valuation assumptions from Anoka County. Tax abatement will help offset the costs of site improvements. In addition, SA group is requesting a loan from the EDA’s Revolving Loan Fund in the amount of \$150,000 for machinery and equipment.

The purpose of this memorandum is to evaluate whether SA Group’s request is necessary for financial feasibility. Since this facility will be owned by the company, this analysis treats the SA Group project as an independent income producing real estate venture that might be built by a third party (developer) and leased back to the business. In this scenario, we explored whether the project costs and end sources of funds (rent paid by the business) would meet typical market returns to attract private financing from a bank and developer equity.

If this project were to be delivered by a developer on a for-lease basis to SA Group, the developer may be expected to provide 20 percent equity to obtain debt financing for the remaining 80 percent of project costs. This is roughly the proposed financing structure by the business as well.

A developer building a project like this for lease back to a tenant would anticipate receiving a 10 percent Cash-on-Cash (“COC”) return. A COC rate of return is simply the annual net cashflow from the project (after expenses and debt service) divided by the initial equity investment. A 10 percent COC is standard for this type of project. The table on the following page compares the sources and uses for the project as proposed without any City assistance to a version that does include the requested assistance.

SOURCES	WITH ASSISTANCE		WITHOUT ASSISTANCE	
	Amount	Pct.	Amount	Pct.
Developer Financing - 1st Mortgage	5,760,000	77.32%	5,760,000	77.32%
Developer Financing - Tax Abatement	100,000	1.34%	0	0.00%
Revolving Loan - Ramsey	150,000	2.01%	0	0.00%
Developer Equity	1,440,000	19.33%	1,690,000	22.68%
TOTAL SOURCES	7,450,000	100.00%	7,450,000	100.00%

USES	WITH ASSISTANCE		WITHOUT ASSISTANCE	
	Amount	% of Cost	Amount	% of Cost
Acquisition Costs	1,895,000	25.44%	1,895,000	25.44%
Construction Costs / Site Work	5,175,000	69.46%	5,175,000	69.46%
Financing Costs Prof. Services	130,000	1.74%	130,000	1.74%
Site Improvements	100,000	1.34%	100,000	1.34%
Machinery and Equipment	150,000	2.01%	150,000	2.01%
TOTAL USES	7,450,000	100.00%	7,450,000	100.00%

Based on the total development costs and proposed financing for this project, we estimate a business (like SA Group) would need to pay a blended lease rate of approximately \$13.55 per square foot without any assistance for a developer to achieve an average 10 percent COC return for this project over 6.5 years (the anticipated term of tax abatement payments). We estimate that a blended market lease rate for Ramsey is in the \$7.50 to \$9.50 per square foot range.

This analysis indicates SA Group would need to pay a lease rate that is higher than the market rate to occupy the property, demonstrating assistance for the project may be warranted. If we assume a developer received the requested \$250,000 in assistance, SA Group would need to pay a lease rate of approximately \$13.40 per square foot for the developer to achieve an average 10 percent COC return for this project within 6.5 years. This is still above the assumed market lease rate. Therefore, if the City chooses to provide the requested assistance, we believe it will help facilitate the project and not unduly enrich the applicant.

Please contact me at 651-697-8512 if you have any questions or require further information.