

MEMORANDUM

TO: Sean Sullivan, Economic Development Manager
 FROM: Jason Aarsvold, Ehlers
 DATE: August 5, 2025
 SUBJECT: Zero Zone Refrigeration Financial Assistance Request

The City of Ramsey (the “City”) received a request for financial assistance from Zero Zone Refrigeration for expansion of its facility located at 6151 140th Ave. NW. Zero Zone proposes a 55,000 square foot expansion of its existing building. The project is expected to add 55 additional employees with average wages of \$21 per hour.

Zero Zone is requesting up to \$500,000 in City tax increment financing for the project. Based on current estimates, the project is only expected to generate \$360,000 in present value (assuming 6% interest) over the full 9-year life of an economic development district. For this analysis, we are assuming the project receives only the \$360,000 projected from a new TIF district.

The purpose of this memorandum is to evaluate whether Zero Zone's request is necessary for financial feasibility. Since this facility will be owned by the company, this analysis treats the Zero Zone 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 Zero Zone, the developer may be expected to provide 25 percent equity to obtain debt financing for the remaining 75 percent of project costs. A developer building a project like this for lease back to a tenant would anticipate receiving at least a 7 percent yield on cost (“YOC”) return. A YOC rate of return is simply the project’s net operating income divided by the total development costs. The table below compares the sources and uses for the project as proposed without any City assistance to a version that does include the anticipated assistance.

SOURCES	WITH ASSISTANCE		WITHOUT ASSISTANCE	
	Amount	Pct.	Amount	Pct.
Developer Financing - 1st Mortgage	6,472,342	75.00%	6,472,342	75.00%
Developer Financing - TIF	360,000	4.17%	0	0.00%
Developer Equity	1,797,447	20.83%	2,157,447	25.00%
TOTAL SOURCES	8,629,790	100.00%	8,629,790	100.00%

USES	WITH ASSISTANCE		WITHOUT ASSISTANCE	
	Amount	% of Cost	Amount	% of Cost
Acquisition Costs	0	0.00%	0	0.00%
Construction Costs / Site Work	8,036,574	93.13%	8,036,574	93.13%
Financing Costs Prof. Services	310,924	3.60%	310,924	3.60%
Site Improvements	196,875	2.28%	196,875	2.28%
City Fees	85,417	0.99%	85,417	0.99%
TOTAL USES	8,629,790	100.00%	8,629,790	100.00%

Based on the total development costs and assumed financing for this project, we estimate a business (like Zero Zone) would need to pay a blended lease rate of approximately \$10.15 per square foot without any assistance for a developer to achieve an average 7 percent YOC return for this project over 9 years (the anticipated term of tax increment 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 Zero Zone 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 receives \$360,000 in TIF assistance, Zero Zone would need to pay a lease rate of approximately \$9.20 per square foot for the developer to achieve an average 7 percent YOC return for this project within 9 years. This is within the higher end of the assumed market lease rate. Therefore, if the City chooses to provide \$360,000 in TIF 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.