

## PROCEEDINGS OF THE ST. CLOUD ECONOMIC DEVELOPMENT AUTHORITY BOARD

A meeting of the St. Cloud Economic Development Authority Board was held on March 7, 2012, at 11:30 a.m. in City Hall Conference Room 1. Members present were Euerle, Gruenes, Lenzmeier, Libert and Siyad. Lawson was absent. Staff present were Cathy Mehelich, John Norman, Matt Staehling, and Tammy Campion.

**Consent Agenda:** Euerle moved to approve the consent agenda as follows:

Approval of February 1, 2012 EDA Board meeting minutes

Approval of March 1, 2012 EDA revenue/expenditure report

The motion was seconded by Lenzmeier and carried unanimously.

### **Construction Assistance Program Applications:**

Chairperson Gruenes expressed his excitement for the MN Jobs Bill created by the legislature in 2010 and extended into 2011 and the associated Construction Assistance Program. Cathy Mehelich, Economic Development Director, noted that three formal applications have been received. She stated that they were reviewed by staff to meet the minimum qualifications of the Construction Assistance Program Policy. The applications were scored using a review worksheet which measures the desirability of the project based on three primary objectives: job creation and retention, tax base generation, and leveraged investments. Each of the three applications meet minimum qualifications. Mehelich stated that the EDA Board has several options when considering the applications: 1) Approve of the application and term sheet; 2) Amend the term sheet prepared by staff and renegotiate terms; 3) Deny the application; or, 4) Postpone action. The Program requires construction to begin before July 1, 2012, and be completed by December 31, 2012. Mehelich pointed out that a bill has been proposed requesting extension of the Jobs Bill deadline. Chairperson Gruenes said it is his understanding that the surplus funds available in the TIF districts is approximately \$750,000 and asked Mehelich how many more applications she anticipates receiving. Mehelich responded that she

has received five or six pre-applications; one has been formalized and meets minimum qualifications for final application. Those pre-applications are for projects that are similar to the applications under consideration at this meeting. Euerle asked if projects reviewed today will not be able to receive official approval until the April meeting. Mehelich answered that preliminary approval today would prompt staff to work on the details of the development agreement. Euerle stated that some of these applicants may wish to start construction in April. Mehelich pointed out that most of the applicants are finalizing building construction plans. Euerle stated that there could be potential for three more meetings to consider applications but doesn't want that to have any bearing on the applications be considered today. Euerle asked for confirmation that the rating sheets are typical of what is being used in other communities. Mehelich responded that other communities do not use rating sheets under the Construction Assistance Program; however, the rating sheets are typical in other communities for Tax Increment Financing requests. Some revisions were made because the Construction Assistance Program is designed to also help small businesses. Euerle noted there is a wide range in the ratio of public investment to job opportunities in these three applications. Mehelich stated there are more quantitative rather than qualitative measures on the rating sheets for these proposals. She explained that the ratio is based off the total jobs, both retained and created.

J. F. KRUSE JEWELERS: Mehelich introduced the application from Kruse Group, LLC (J F Kruse Jewelers). The applicant is proposing construction of a new 4,200 sq. ft. building at Waite Ave. which would constitute tripling of their current retail store space. The request is for up to \$140,000 out of total construction costs of \$560,000. Jim Kruse introduced Melissa Kruse Kelly, General Manager, and Peter Maus, Vice-President. Jim Kruse gave his background in the jewelry business. He opened his current business in 2000 and now has 16 employees. They have outgrown their 1,700 sq. ft. building. Funding through the Construction Assistance Program is critical; without it, they will not be able to move to the new location. The store has nine full time and seven part time employees. The proposed new store would increase the number employees by a minimum of four additional full time and one additional part time. The wages will be higher than minimum wage.

Melissa Kruse Kelly stated that the proposed location of the new building would be in front of Shopko on Waite Ave. The asking price of the lot is \$250,000. Their general contractor, Cornerstone Construction, gave them a quote of \$605,000 for the project. The \$560,000 referred to by the Economic Development Director reflects only the construction cost and does not include the contractor's wages. The total project cost is estimated at \$855,000. They want the building to be safe and comfortable for staff. The plan is to re-use everything possible from their current building, such as desks, chairs, equipment, showcases, etc. The project may have to be downscaled, even with construction assistance program funding. Melissa Kruse Kelly stated that they are investing cash equity of \$75,000. They have been approved by their financial institution (Plaza Park Bank) for \$675,000. In spite of the recession, their business has managed to grow; and, the customer base has grown by 60% since 2009. She said they want to continue to provide benefits to their employees and remain active in the community through donations/charities. Chairperson Gruenes questioned whether their bank has done an appraisal of loan to value. Melissa answered that the appraisal has been ordered, and they are not expecting the cost of the project to exceed loan to value. The bank is looking at a 70% to 80% loan to value ratio. Gruenes stated that in today's market, it is not uncommon for the appraisal not to support construction costs. He asked if an SBA loan has been considered. Melissa responded that Plaza Park Bank is very willing to work with them on conventional financing or an SBA loan. Jim Kruse stated that they met with another banker yesterday who told them that an advantage with an SBA loan is that you can get a 20 year guaranteed rate. Plaza Park Bank worked with his company on a conventional loan and managed to get the normal 20% deposit waived which is a savings of approximately \$7,000 of administrative costs which would be required by the SBA. Jim Kruse said they are uncertain if they will choose the conventional loan or an SBA loan. Gruenes asked to what degree this is a cash flow problem and their ability to service the debt. Melissa explained that the rent payment for their existing building is almost the same as what they would be paying in the new building with a 20-year loan. Gruenes asked if there would be any problem in servicing the \$140,000 requested in assistance. Melissa answered that the ability to

amortize the \$140,000 over 20 years would make it very financially feasible. Jim Kruse pointed out that they were able to purchase the property for approximately 40% less than the sale price/sq. ft. of two similar locations. He stated that the appraisal will be higher than what they paid per sq. ft. in this market. Gruenes stated that one of the items he considered was the return on the City's investment to the taxpayers of the City. Libert noted that this application will be considered by the City Council. He informed the applicant that the silent majority of the Council will support this project, but some will criticize it as corporate welfare. He said he just wants the applicant to anticipate those types of comments. Lenzmeier said she supports the growth of small business and feels that new construction is very positive. Gruenes asked the time frame of the proposed project. Melissa stated that it is imperative that they be open for the Christmas season. They are hoping to break ground between mid-April and May 1 and would like to open right after Labor Day. Siyad commented that he also supports small business.

In reference to the applicant review worksheet, Mehelich stated that the application meets the main criteria of the Construction Assistance Program policy; the ratio of private investment to public investment is 5:1; four new jobs would be created in addition to the 10 retained jobs; the ratio of public investment to job opportunities results in \$14,000 of public investment per job; average wage of the jobs would be \$14/hr.; the applicant has been in business for 12 years and will triple the square footage of his business; the estimated market value would be \$144/sq. ft. with a 10 year payback in terms of tax return; the project would be owner occupied, and the project ranked an overall 37 points. Mehelich stated that an appraisal is pending which will affect the loan to value. Also, applicant stated that an SBA loan may still be considered which could change the amount of assistance needed. Therefore, Mehelich suggested that if the Board wishes to make a recommendation, that the Board could direct staff to renegotiate the terms based on additional information that may be forthcoming prior to the next meeting.

FRIESZ PROPERTIES LLC: Mehelich stated that the next application is from Friesz Properties, LLC (Jason Friesz) for redevelopment of the former and vacant Schwinn Bike building site

at 2506 1<sup>st</sup> St. So. They are proposing to construct a new building for a dentistry clinic which will be an expansion triple the size of the existing clinic at 84 33<sup>rd</sup> Ave. So. which has been in operation for the last eight years. The request is for up to \$107,500 for the cost of their minimum improvements out of an estimated total cost of \$430,000.

Jason Friesz, dentist, introduced Russ Karasch of Keystone Design Build. Friesz stated he has been in business since 2003, and growth has been slow and steady. His lease is coming due, and he has negotiated a nine month extension. He contacted a realtor and looked at properties for rent and for sale. The property is an ideal location for a dental office, and he has purchased the property. Friesz stated that only hard costs are included in the request for construction assistance. He noted that an SBA loan offers a great amount of flexibility, but the drawback is the large amount of fees that are associated with that type of loan. Also, there is a limit to the amount of equipment that can be included in an SBA loan. He has talked to Wells Fargo about financing. The new building would triple his space and double the number of operatories. He currently has three full time employees and would like to add at least two more full time positions at \$13-\$14/hr. as a starting wage. Relative to the project cost, Friesz stated that he still owes \$200,000 on the land. The cost of the building itself would be approximately \$540,000. His minimal estimate for equipment is \$230,000 to \$240,000. The total project cost estimate is \$970,000. There will be about a \$120,000 gap between the project cost and the bank loan and his equity. The hard cost for EDA purposes is \$430,000. Friesz is requesting Construction Assistance funding in the amount of \$107,500. The appraisal has been done, and he believes all appraisals come in low. He said the building would be \$540,000 and he has paid \$200,000 on the land; yet, the appraisal came in at \$575,000. Gruenes asked if the cost of demolition is included in the \$540,000 figure. Friesz answered that the \$540,000 includes \$17,000 in demolition costs. Gruenes asked about cash flow, and Friesz stated that should not present a problem. Libert acknowledged that dental equipment is a huge investment. He added that the timing of this project coincides with 25<sup>th</sup> Ave. improvements. Karasch stated that is the reason they waited until this time to go forward with project plans. Euerle asked if it is the applicant's

responsibility if demolition and site preparation indicate some environmental issues. Karasch said the building has already been tested for asbestos. Friesz said the only unknown would be if there is some kind of ground contamination.

Mehelich stated that the application meets the minimum qualifications of the Construction Assistance Program policy. The ratio of private to public financing is 5:1; the number of new full time jobs created would be two (three existing jobs would be retained); the ratio of public investment to job opportunities is \$21,500/job; the average wage level of jobs would be \$14/hr.; applicant has been in business for nine years; the City Assessor has estimated the market value at \$132/sq. ft. with an increase of \$10,000 in property taxes after completion of the project; the project will be 100% owner occupied, and scored 34 total points. Gruenes asked what the term of years would be if this property were redeveloped as a TIF district. Mehelich answered that the terms of years would be up to 25 but was unsure how it would cash out due to the project value. Also, TIF is much more cost intensive up front.

ARCTIC COLD STORAGE INC: Mehelich stated that the proposed project would be done in two phases. Phase I is the renovation of 8,000 sq. ft. to accommodate a new machine and technical process that eliminates bacteria and extends product shelf life for its clients' products. Phase II would be the construction of an 18,000 sq. ft. refrigerated warehouse expansion. The total cost of the project is estimated at \$3.6 million; the request for assistance is \$110,000.

Jeff Condon, Arctic Cold Storage, stated that his business started in 1990 with 12,000 sq. ft. Between 1990 and 2006, the business grew to 80,000 sq. ft. In 2006, a client expressed interest in making Arctic Cold Storage a central distribution center for them. They received funding through several sources for the project. Prior to the expansion, there were 18 employees; currently, they have 50 full time employees. He pointed out that other businesses in the immediate vicinity are benefitting from his business. The expansion would add another eight full time jobs. Arctic Cold Storage was approached by a client interested in putting in a high pressure process (HPP) that adds value to the client's product. The client is interested in locating the equipment in either St. Cloud or one of its

other locations in Minnesota or Wisconsin. Relative to the time frame, renovation of their building would need to begin in April in order to accommodate the HPP process. He has worked with AgStar who has ordered an appraisal. Condon said he has two SBA504 loans. He explained that the bank would provide 50% of the funding, the SBA would provide 35% of the funding, and he and his wife would have to provide the remaining 15%.

Mehelich stated that the application meets the minimum requirements of the Construction Assistance Program policy. The ratio of private to public investment is 33:1. Eight new jobs would be created in addition to the existing 50 full time jobs (the company has exceeded their JOBZ job requirements). The ratio of public investment to job opportunities is \$1,900 of public investment per job; the average job wage would be \$14/hr.; and applicant has been in the business for 26 years. The market value has been estimated at \$42/sq. ft. (not based on an appraisal). The property taxes before the project (not including JOBZ which goes until the end of 2015) is \$117,000; the property taxes after projection completion would be \$145,000 (not including JOBZ portion). The project would be 100% owner occupied. Condon noted that they will renovate the building so that it is large enough to hold a second HPP machine.

Euerle noted that although there was a significant spread among the three applications for public investment per job, he believes that criteria as well as the payback of the investment vs. the property taxes collected are good benchmarks when considering each of these applications. Regarding taxes collected vs. investment, Arctic Cold Storage had a 4 year payback, the Friesz request was 11 ½ years, and Kruse was a 10 year payback. He suggested benchmarking a 7 year payback. Euerle suggested that revisions to the term sheet could be made based on those benchmarks. He then stated that he does not believe there is a threat of losing any of the current jobs and would also benchmark the new jobs created. Gruenes stated it is important to know the cash flow for J. F. Kruse to determine the potential to service the debt. Mehelich commented that the term sheet could be revised to structure a portion of the requested funding to not be a forgivable loan. She clarified that if loan funds are paid back, those funds need to be distributed to the city, county and

school district. Gruenes said the Friesz proposal is a good redevelopment project for that location. He also would like to consider structuring of funding which would allow for recovery of a portion of the funds. Gruenes stated that he would support the Arctic Cold Storage as requested. Lenzmeier concurred with Gruenes' comments. She supports the Kruse request as it is a small business and it involves construction of a new, larger building. She also spoke in favor of the Friesz request as it would result in redevelopment of that site and coincides with 25<sup>th</sup> Ave. improvements. Regarding Arctic Cold Storage, it is a good company that exceeded the JOBZ job requirements and will bring in a significant piece of equipment that will assist a large local company. Libert said a dental clinic at the 25<sup>th</sup> Ave. and 1<sup>st</sup> St. So. site is appropriate because a destination business is needed at that location. He stated that the location and visibility for J. F. Kruse Jewelers is good and also supported the Arctic Cold Storage application. Siyad said he believes all three applications have merit and commented that he is particularly supportive of the redevelopment of the site for the Friesz dental clinic. Euerle stated that he would support the Term Sheet as is for Arctic Cold Storage. He suggested amendments could be made in the numbers and structuring of the Term Sheets for Kruse and Friesz. He added that if \$25,000 is the benchmark for public investment per job, then the Kruse project would be approximately \$97,500. Based on that same benchmark, the Friesz project would be about \$50,000; however, it could be raised to \$65,000 because of the payback in taxes. Therefore, he suggested that those two amendments could be made to the Term Sheets on these projects. Chairperson Gruenes suggested a special EDA meeting to further discuss these applications so that City Council action will not be delayed.

Libert moved to approve the "Resolution of the Economic Development Authority of the City of St. Cloud Granting Approval of a Term Sheet Between the EDA and Arctic Cold Storage, Inc. for Development of the Property Located at 4139 Roosevelt Road and Authorizing the Preparation of a Development Agreement." The motion was seconded by Euerle and carried unanimously.

Euerle moved to hold a special EDA meeting to further discuss the J. F. Kruse and Friesz applications. The motion was seconded by Lenzmeier and carried unanimously. (Euerle left the meeting.)

**Adoption of 2012-2014 Economic Development Strategic Plan:** Chairperson Gruenes stated that this item will be held over to the next meeting.

**Director's Report:** Mehelich stated that staff time in the past month has been devoted to the items that were on this agenda. She added that she is waiting for an announcement on a business recruitment for the St. Cloud area, hopefully in the city of St. Cloud.

**Adjournment:** The meeting was adjourned at 1:10 p.m.

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Vicki Perske, Secretary