

KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION (EDC)
JOINT OPERATIONS BOARD OF DIRECTORS (OB) MEETING

MINUTES

May 10, 2012
EDC Office, Willmar

Present: Jon Anderson, Robert Carlson, Ronald Erpelding, Duane Hultgren and Milan Schmiesing

Excused: Beverly Dougherty and Rick Nordin

Ex Officio: Jim Butterfield and Bruce Peterson

Staff: Steven Renquist, Executive Director and Jean Spaulding, Assistant Director

Media: Anne Polta, West Central Tribune

Secretarial: Nancy Birkeland, Legal & Administrative Assistants, Inc. (LAA)

President Ronald Erpelding called the meeting to order at approximately 11:00 a.m. and introduced and welcomed new board member Jon Anderson followed by self introductions.

AGENDA—

IT WAS MOVED BY Duane Hultgren, SECONDED BY Milan Schmiesing, to approve the agenda as presented and the following Consent Agenda:

CONSENT AGENDA—

Approved:

1. Minutes of April 12, 2012 board meeting
2. Financial reports as of April 30, 2012, subject to audit

Accepted: Committee Minutes

1. Agriculture and Renewable Energy Development 3/15/2012
2. Finance 4/10/2012
3. Marketing and Public Relations 3/26/2012
4. Leisure Travel 3/5/2012

MOTION CARRIED.

UNFINISHED BUSINESS—

Minnesota Angel Network contribution. Renquist provided background information on the Minnesota Angel Network (MNAN). Renquist reported he met with a MNAN representative and was informed Initiative Foundations and a half dozen communities have made a second contribution to MNAN. Renquist was made aware that MNAN has made progress and done a great many things and the BioBusiness Alliance of Minnesota is a strong supporter of MNAN. Renquist recommends the EDC contribute another \$25,000 and indicated he will do a better job of following MNAN's activities in the future.

IT WAS MOVED BY Milan Schmiesing, SECONDED BY Ron Erpelding to contribute \$25,000 to the Minnesota Angel Network. MOTION CARRIED.

Customer relationship management software. Jean Spaulding provided information on the three customer relationship management software programs reviewed: Salesforce, Executive Pulse and Synchronist and recommended purchasing Synchronist (see benefits and highlights attached). The program will be able to track staff contacts with businesses and provide reports. The software is a one-time fee of \$5,000 plus an annual licensing fee of \$700. The University of Minnesota Extension will provide the EDC with its list of 2,100 Kandiyohi County businesses.

IT WAS MOVED BY Robert Carlson, SECONDED BY Milan Schmiesing to purchase Synchronist customer relationship management software from Blane, Canada Ltd. at a one-time fee of \$5,000 plus an annual licensing fee of \$700. MOTION CARRIED.

The board directed staff to create a data privacy policy for the EDC.

NEW BUSINESS—

Lakeland Hotel. Renquist reported the Southwest Minnesota Housing Partnership, new owner and developer of the Lakeland Hotel building, will be doing a \$3.6 million renovation of the building that will include retail businesses on the street level and ten apartments on the upper level for low to moderate income tenants. Renquist informed the board he would like to speak in support of the project to the Willmar City Council (see Project Summary attached). EDC funds are not being requested and it would only include Renquist's time. Bruce Peterson stated the developer will receive housing tax credits and federal and state historic tax credits. City of Willmar staff believe this project is key to the proposed downtown plan. The developer will ask for a tax abatement from the city of Willmar and possibly Kandiyohi County. The board's consensus was to allow the Executive Director to speak in support of this project.

PROGRESS REPORTS

Willmar. Peterson reported the phase 1 land release of the former airport was published in the *Federal Register*; the city of Willmar anticipates release of the land by the end of May; phase 2 is being worked on; and no one has come forward to purchase the airport terminal for phase 3 of the project. It is anticipated the Willmar City Council will adopt the downtown plan; city of Willmar staff is suggesting adoption of a capital plan for downtown Willmar; plans were approved for development of a 23,000 square foot retail facility on the corner of 19th Avenue and First Street for a new Goodwill; Mid-Central Research and Outreach Center (MCROC) is holding a grand opening May 15; and the city is meeting with MinnWest Technology Campus (MWTC) to package financial information on rehabilitation of MCROC.

EDC/MWTC. Renquist reported he will make a presentation on the EDC and the local economy to the Lake Lillian city council on May 14 and offer the EDC's assistance, if needed. Renquist reported he toured the former Big Store yesterday with the New London mayor and a prospective grocer, who has four or five stores in small locations; the Willmar Design Center is working on its annual plan; the anhydrous ammonia project is moving forward and EDC staff will send a meeting request for two half day planning sessions with the first being a presentation by Cameron Macht and a facilitator to analyze Macht's data with the Business Retention and Expansion/Recruitment (BRE/R) Committee and the second being the boards' annual planning session.

Willmar Area Multicultural Business Center. Spaulding reported the Willmar Area Multicultural Business Center is looking for a permanent tenant to take over lease of the kitchen.

[Milan Schmiesing was excused.]

COMMITTEE REPORTS—

BRE/R. Duane Hultgren reported the main topic at the last committee meeting was the joint planning session with the boards.

Finance. Spaulding reported the committee has been challenged to look at what other states and financial institutions are doing with programs to keep ahead. The committee will partner with the Small Business Development Center to host a finance seminar this fall focused toward small business customers.

Marketing and Public Relations. Spaulding reported the committee is working on a newspaper tab for the *West Central Tribune* to educate the public on the EDC.

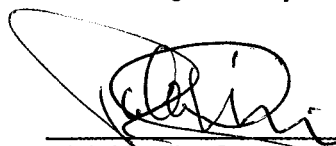
Leisure Travel. President Erpelding reported the committee has many activities planned.

[Bob Carlson was excused from the meeting.]

Other. President Erpelding announced the bonding bill passed by the state last night includes a major renovation of Ridgewater College. Renquist reported he attended a Minnesota Department of Transportation planning meeting last night on its 2012-2015 STIP Projects (see attached) and spoke in favor of completing the Highway 23 project as it is beneficial for the area's economic development and would be a good return on investment. Peterson spoke as to Willmar being a regional center and Kandiyohi County having the responsibility to provide employment, goods and services and individuals voicing their difficulty in reaching Willmar because of the two-lane stretches of Highway 23. Other local individuals and business representatives also commented in support of completing the project.

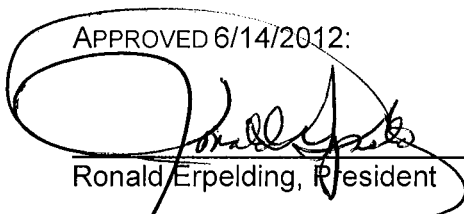
NEXT MEETING—The next regular board meeting at **11:00 a.m., Thursday, June 14, 2012**, at the EDC Office, Willmar.

ADJOURNMENT—There being no further business, the meeting was adjourned at approximately 12:24 p.m.



Rick Nordin, Secretary

APPROVED 6/14/2012:



6/14/2012

Ronald Erpelding, President

Why go it alone?

Synchronist was developed from the ground up for economic developers to do a job. Hundreds of economic developers contribute their best ideas resulting in continuous improvement unparalleled in any economic development software tool.

Synchronist Suite Value Driven Benefits and Highlights

| Benefit | Synchronist | Custom | CRM |
|---|-------------|------------|---------|
| Relationship management | ✓ | ✓ | ✓ |
| Contact history | ✓ | ✓ | ✓ |
| Service/Support Management, Reminders, Reporting | ✓ | ✓ | ✓ |
| BR E Basics — helps, saves, problems identified, relationships | ✓ | ✓ | Limited |
| Company knowledge base | ✓ | ✓ | Limited |
| BR E Tools – database software, automated reporting | ✓ | ✓ | Limited |
| Built in customization tools | ✓ | No | ✓ |
| Eliminate Barriers to Regional Collaboration | ✓ | ✓ | Limited |
| Interviewers Conversation Guide | ✓ | ✓ | Custom |
| Standardization across user skill | ✓ | ✓ | Limited |
| Objective Company Assessment – Value, Growth, Risk, Satisfaction, and Technology (Patented) | ✓ | Subjective | None |
| Forecast Economic Performance | ✓ | None | None |
| Predictive Information | ✓ | None | None |
| Portfolio Asset Mapping | ✓ | None | None |
| Key Performance Indicators (Canada, US, and regional) | ✓ | None | None |
| Historical Trend Data - 1998 to present | ✓ | None | None |
| User Based R&D Delivering New Tools & Features | ✓ | None | None |
| Online User Forum for sharing best practices | ✓ | None | None |
| Custom Coaching and Training | ✓ | ✓ | None |
| Monthly training webinars | ✓ | None | None |
| User Resource Center (BR E & Synchronist materials) | ✓ | None | None |
| Large geographically diverse installed base in Economic Development | ✓ | Limited | None |
| Large User Network | ✓ | None | None |
| Annual Users Forum | ✓ | None | None |

Bottom Line

- A custom program is highly adaptable, but offers only localized information with no analytical backbone or comparative context
- Customization and flexibility come at a price, after the initial set-up, every change requires custom programming that can be expensive
- A CRM solution with a 15% modification for BR|E is still a CRM/sales tool

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LAKELAND HOTEL

Project Summary – May 9, 2012

The Southwest Minnesota Housing Partnership (SWMHP) was contacted by the Willmar Design Center to assist in preserving the Lakeland Hotel located in downtown Willmar. The property is currently in foreclosure and held by Bremer Bank. In March 2012, SWMHP presented a purchase agreement to Bremer Bank who has accepted the offer. The SWMHP is currently conducting its due diligence review and if the final decision is made to proceed our plan would be to fully rehabilitate and operate the structure as a mixed use, commercial and residential property in downtown Willmar.

Constructed in 1927, the Lakeland is a community landmark and recently received historic designation status through the US Department of the Interior. The Lakeland's façade and structure has barely changed since construction, but the function of the property is now mixed-use, with four (4) commercial enterprises on the ground level and thirty (30) residential units on the second and third levels. The commercial space is 100% occupied although two of the tenants are planning to relocate within the near future. Existing rental units are small studios and efficiencies, some with shared bath and kitchen facilities which are unappealing to today's renters and whose rental income does not support the operations of the residential portion of the building. Current occupancy of the residential units is about 50%. The site has inadequate parking accommodations on site and currently rents parking space for tenant use. Parking for residential tenants is challenging and more work will need to be done with the City to determine a long-term solution.

The preservation activities would be maintaining 3 viable commercial spaces on the main floor (with priority to retain the existing restaurant spaces) and creating 10 apartments consisting of 5 units per floor of on the upper floors. The apartments consist of 1-one bedroom and 4-two bedroom units on each floor. The one-bedroom apartments would rent for \$548 per month and the two-bedroom apartments for \$658 per month. The residential units will be considered affordable with a rent structure based on 50% of the median income for Kandiyohi County. The units will be income restricted to persons with incomes at or below 60% of area median income at initially qualification. After that their incomes can rise indefinitely without having to relocate. The project will have no project based rental assistance.

Willmar is a strong market with continuing household and population growth in and around the downtown area as well as within the outer areas of the community. Residential rental demand should be good based on the location of several central business district employers. The Lakeland as a historic property would be unique in the Willmar market, so there are few

comparable developments on which to base occupancy expectations. However, case studies of similar projects in other similar sized Minnesota communities show strong occupancy. Previous market studies in the community document on-going demand for rental housing, especially in the business district. A new market analysis will be ordered and delivered in June.

The SWMHP has conducted a physical inspection of the property and has met with Engan Architects and representatives from the Willmar Design Center to determine rehabilitation needs and design and future use of the building. We are assuming asbestos and lead remediation and gutting the second and third floors. A phase one environmental analysis of the property has been ordered and will dictate remediation activity. All major systems will need to be replaced including the roof, windows and doors, elevator, HVAC, plumbing and electrical systems. We are currently considering a more rational design approach to the commercial uses on the 1st floor and multi-purpose meeting and residential services space for the below grade floor. We are also evaluating the single-story portion of the commercial roof area for patio and exterior garden space for residential tenant use. The original lobby area of the building offers some unique design elements that can be incorporated into the first floor community space. The building's structure is in good condition and the exterior envelope is in almost pristine condition. Meeting the US Department of Interior requirements should not impose significant cost burdens beyond what are contained within the estimate. Total development costs are estimated at \$3.6 million. The following is a summary of estimated development costs:

| | |
|-------------------------------|-------------|
| Acquisition | \$ 239,000 |
| Rehabilitation: | \$2,549,878 |
| Professional Fees/Soft Costs: | \$ 429,000 |
| Financing Costs: | \$ 286,650 |
| Reserves: | \$ 95,890 |

Estimated Total Development Cost: \$3,600,418

Financing will consist of primarily tax credit equity from a combination of federal low income housing tax credits and federal and state historic tax credits. No amortizing loan is assumed in the financing plan since the property will not support amortizing debt. The remaining sources of funding would consist of financing provided through the Willmar HRA, a Willmar Small Cities Development Program grant and owner equity through SWMHP.

Source of Funds

| | | | |
|---------------------|------------------|-------------|-----------------------------|
| Housing Tax Credits | Residential Only | \$1,714,400 | Private Capital (investors) |
|---------------------|------------------|-------------|-----------------------------|

| | | | |
|--|----------------|-----------|-----------------------------|
| Federal Historic Credits | Commercial/Res | \$554,000 | Private Capital (investors) |
| State Historic Credits | Commercial/Res | \$554,000 | Private Capital (investors) |
| Small Cities Program | Commercial/Res | \$162,500 | Federal Grant to City |
| Willmar HRA (Pilot) | Residential | \$400,000 | State Grant to HRA |
| SWMHP | Commercial/Res | \$215,518 | Unrestricted Assets (Cash) |
| Private Equity: \$3,037,918 (includes SWMHP) | | | |

Public Funding: \$562,500 (State & Federal)

Proposed Funding Source Definition:

Low Income Housing Tax Credits are authorized under Section 42 of the Internal Revenue Code and are allocated annually to each State based on population. Each State then allocates tax credits to eligible projects. At a minimum the property must be used to house persons with incomes at or below 60% of area median income. The awarded tax credits are purchased by investors who become part of the ownership interests for 15 years. The sales proceeds of the credits are treated as equity and become part of the capital used to develop the project. The investor uses the tax credits to off-set their corporate or personal income tax liability.

Historic Tax Credits are also authorized within the Federal and the State tax codes and are utilized to off-set the costs associated with the redevelopment of property that is placed on the National Register of Historic Places. The credits are based on a percentage of the rehabilitation and associated costs on both commercial and residential portions of a development. Combined State and Federal credits are based on 40% of allowable expense and are purchased by investors. The investor capital is treated like equity and would be acquired in this case by the housing tax credit investor.

Small Cities Development Program are Federal Funds under the Community Development Block Grant Program. The Lakeland Hotel has been written into the current request that has been submitted to the Minnesota Department of Trade and Economic Development. The funds would be provided to the project as a 0% deferred loan and can be utilized for both the residential and commercial parts of the project. Income restrictions apply under the residential portion of the funding but are at a higher standard than found under the low income housing tax credit program.

HRA Pilot are funds that were awarded to the Willmar and Kandiyohi County HRA under a pilot program funded through the Minnesota Housing Finance Agency. The HRA would award funds to the Lakeland Hotel as a 0% deferred loan.

SWMHP would utilize unrestricted net assets to fund its portion of the funding.

Operating Deficit

The property is unable to maintain sufficient revenues to operate in a positive manner after the first seven (7) years, see appendix 1, 15 year operating pro-forma & tax abatement impact. The operational deficit is a function of low commercial and residential prevailing rents within the central business district. Consequently, we are requesting tax abatement over a 15 year term in order to establish an operating reserve from year 1 through year 6 and then directly to off-set operating deficits over the term of the abatement. We conducted a financial analysis to test the long-term operational strength of the Lakeland Hotel. The revenue assumptions are based on income from 10 residential and 4 commercial units with the property. We are assuming a 10% vacancy loss. Our financing plan does not include any debt repayment because of the fragility of the project.

Basis pro-forma operating assumptions:

1. Income and expenses projected based on our current operating assumptions with a 2% annual adjustment for income and a 3% adjustment for expenses.
2. Reserves
 - a. Operating Reserve
 - i. Assumed funded initially at 6 months operating expenses and annual replacement reserve deposit – rounded up to \$50,000
 - ii. Funded annual with 50% of the prior year's cash flow
 - b. Expense Coverage Reserve
 - i. Assumes investor requirement of an expense coverage ratio (ECR) target of 1.10 throughout the 15 year investment period – $ECR = \text{net cash flow} / \text{gross expenses including replacement reserve deposit}$
 - ii. Projected amount to meet ECR to be deposited by owner at investment closing – this represents an increment to total front end capital requirement
3. Tax Abatement: Assumes both city and county abatement based on average per cent of local taxes over the last 3 years:
 - a. City portion at 27%
 - b. County portion at 52%
 - c. Assumes annual taxes starting at \$13,500
4. Cash Flow
 - a. Owner to deposit 50% of all net cash flow into the Operating Reserve
 - b. Remaining 50% paid out to owner

Analysis

Page 1 of the attached analysis is the operating projection for the project based on current assumptions. Based on the assumptions above the project begins to show negative cash flow in Year 6.

On Page 2 I have included an analysis of the operating reserve and ECR reserve funding requirements before the tax abatement (top of page) and after the tax abatement (lower part of page below the tax abatement calculation).

Without the abatement the operating reserve is drawn to fund shortfalls beginning in Year 6. The operating reserve is fully depleted in Year 14 and cash infusions would be required in Year 14 and Year 15 from the ECR Reserve. The ECR reserve would need to be funded at closing in the amount of \$242,326 to meet a typical investor's ECR requirement of 1.10. Projecting beyond Year 15 the numbers would show a fully depleted operating reserve and significant and growing annual deficits.

With the assumed abatement – which is estimated at the center of appendix 1, Page 2 – cash flow remains positive throughout the 15 year analysis period and permits the building of the operating reserve to \$118,005 by Year 15. Under this scenario the property continues a downward trend but would end an abatement period (to be determined) with significant reserves. At the end of Year 15 there is projected to be \$118,005 in operating reserves and \$45,773 in the ECR reserve which was not tapped – to carry the project through an additional period before cash deficits would again emerge.

Should ongoing reinvestment in the downtown support improving market conditions in the area the long term economic prospects for the property would improve due to incremental rental income and lower vacancy losses to support a more positive cash flow trend in later years.

The City share (27%) is insufficient to provide enough relief to sustain operations so we will be requesting tax abatement from Kandiyohi County (52%) as well. Even with the assistance the property will turn negative in year 23. Our operating assumption is that the economic climate will improve for the City and within the downtown allowing the property to gradually improve its revenues over the long-term. Without tax relief from the City of Willmar and Kandiyohi County this project is not feasible and will quickly be unable to support its operations.

Timelines

An application will be submitted for an allocation of low income housing tax credits in June 2012 provided we receive the requested support (tax abatement) from the City of Willmar and

Kandiyohi County. The rehabilitation plan will be developed and submitted to the Minnesota State Preservation Officer (SHPO) to secure the State and Federal Historic Credits. After SHPO approves the plan it will be submitted to the Parks Department at the US Department of Interior for formal federal approval. We are planning to complete this process by September of 2012. We plan on starting the rehabilitation by late summer of 2013.



MN 23 Interregional Corridor (Willmar - St. Cloud)

2012-2015 STIP Projects

Planned Highway Projects Other modes

- 2012-2015 STIP Projects
- Fixed Route Transit System
- Minnesota State Trails
- Trunk Highways
- Class 1 Railroads
- IRC
- Major Intermodal Terminals
- County Highways
- Major Airports

Roads

- Trunk Highways
- IRC
- County Highways



MN 23 Projects

| Investment Area | Project | Length (Miles) | Route | Fiscal Year | Cost |
|-----------------|---|----------------|-------------|-------------|-----------------|
| Mobility | Paynesville Bypass | 7.4 | MN 23 | 2012 | \$ 32.3 Million |
| Pavement | Mill and overlay <i>I-94 to Waite Park</i> | 2 | MN 23 | 2012 | \$ 553,000 |
| Pavement | Overlay and lengthen turn lanes <i>Kandiyohi CSAH 24 to Jct. MN 23</i> | 3.8 | MN 23/US 71 | 2013 | \$ 536,000 |
| Signing | Upgrade signing <i>Paynesville to Richmond</i> | 12 | MN 23 | 2013 | \$ 400,000 |

Total: \$ 33.8 Million

MN 23 Adjacent Projects

| Investment Area | Project | Length (Miles) | Route | Fiscal Year | Cost |
|-----------------|---|----------------|-------|-------------|----------------|
| Pavement | Mill and overlay plus ADA <i>New London</i> | 0.9 | MN 9 | 2012 | \$ 456,000 |
| Pavement | Mill and overlay and pave shoulders <i>Eden Valley to Richmond</i> | 10.2 | MN 22 | 2012 | \$ 3 Million |
| Pavement | Concrete reconstruction <i>W of US 71 to E of US 71</i> | 0.8 | US 12 | 2014 | \$ 2.6 Million |

Total \$ 6.1 Million



Disclaimer: Changes may be made periodically to the information on the map. If you find any errors or omissions, we encourage you to report them online at www.mndot.gov/cims

