

**City of Sandstone**  
**EDA Meeting Minutes**  
**August 7, 2019**

**CALL TO ORDER:** 6:00 p.m.

**ROLL CALL:** Kester, Spartz, Franklin, Devlin, Anderson, LaBounty, Palmer

Members absent: None

Staff present: Executive Director George

Others present: None

**PLEDGE OF ALLEGIANCE**

The purpose of the meeting was to hold a work session on the Lundorff Drive / Business Park project. Executive Director George reviewed several items with EDA members, as follows:

**Project Expenses**

The Lundorff Drive / Business Park project expenses occurred throughout the years 2014 - 2019. The activity occurred in 10 different City funds throughout these 6 years. There were three different projects associated with these expenses – (1) Lundorff Drive, (2) Business Park Road Improvement (which was essentially additional engineering expenses that were not included in the Lundorff Drive project), and (3) Airport Rd/Old Military Rd Improvements.

George explained that when she first came to Sandstone 2 years ago, she was told that the special assessments for the developers in the Business Park were on hold, pending the final financial roll-up of the project expenses and grant proceeds. Because of staff changes – Sam Griffith to Jessica Seibert to Leah Jackson to George – things were very confusing. George decided to meticulously go through the expenses – track them all down to their individual invoices – to get an accurate accounting of the expenses. Which has now been done.

During her research, George found that many expenses were coded incorrectly – thus, resulting in 10 different funds being involved. For example, cash received for the sale of lots was coded in the Lundorff Drive project (421); however, it should be in the EDA fund (228). Expenses the EDA incurred due to the sale of the lots was coded in the Lundorff Drive project (421); however, these, too, should be in the EDA fund (228). Attorney’s fees for miscellaneous General Fund items were incorrectly coded to the project (421). Clearing & grubbing expenses for the project, along with some SEH fees, were coded to Capital Improvement (401), but they should have been coded to the project (421). Minnesota Energy (gas line project) was coded to the EDA fund (228), but should have been coded to (421). These are just some of the highlights. In total, 100 expenditures were incorrectly coded throughout these years.

Business Park Expenses – Coded Incorrectly  
*As of June 30, 2019*

<b>Fund</b>	<b>Current Total</b>	<b>Total Should Be</b>	<b>Difference</b>
421 – M&B Park	(770,406.33)	(840,651.83)	(70,245.50)
228 - EDA	41,074.07	58,064.06	16,989.99
406 – KC TIF	0	(3,491.70)	(3,491.70)

101 – General	(370,206.42)	(347,097.32)	23,109.10
411 – Gateway Abate	0	(591.32)	(591.32)
401 – Cap Imp	(114,229.43)	(80,000.00)	34,229.43
TOTAL	(1,213,768.11)	(1,213,768.11)	0

Based on this information, George recommends that various fund transfers be made in order to correct the situation, as follows:

Fund	Credit	Debit
421 – M&B Park		70,245.50
401 – Cap Imp	34,229.43	
228 – EDA	16,989.99	
101 – General	25,206.42	2,097.32
406 – KC TIF		3,491.70
411 – Gateway Abate		591.32
TOTAL	76,425.84	76,425.84

**Consensus of the EDA was to recommend the City Council approve these fund transfers. This item will be placed on the August 21<sup>st</sup> Council Meeting Agenda.**

### **Purchase Price and Special Assessments**

George explained that in 2016, the EDA had an appraisal done on the business park lots to satisfy the Federal EDA requirement that the projected final sale price of the land, including utilities and site improvements, meets the criteria of being a “fair and reasonable price” based on the raw land cost coupled with the cost of site improvements and infrastructure developments.

At that time, the appraiser came up with the following:

#### ESTIMATED FINAL MARKET VALUE

South 86 acres at \$.04/sf	\$149,850.00 (raw land)
Center 40 acres at \$.10/sf	174,200.00 (raw land)
Hospital/Clinic/SR housing site at \$.15/sf	457,400.00 (raw land)
+ Hosp/Clin/SR site at \$.60/sf (includes site improvements)	1,039,000.00
Unusable 14/15 acre strip of land at \$.02/sf	<u>12,100.00</u> (raw land)
Total raw land value:	1,832,550.00
Total Utility costs (estimated)	<u>3,850,000.00</u>
Total land & utility costs:	5,682,600.00
Less value of unusable wetlands	<u>(19,400.00)</u>
Net value of property:	5,663,000.00

Divided by the total acreage of 181	31,287 per acre
	\$.72 per sf

The actual fair and reasonable price that was determined is \$31,363 per acre.

Before the appraisal was done, the Hospital District was going to purchase their 23.86 acre parcel for \$727,365. This would have been \$30,484 per acre. After the appraisal was done, the Purchase Agreement was amended to a purchase price of \$748,321.18, which reflects the \$31,363 per acre price. They paid \$38,350 in cash, and agreed to assessments of up to \$709,971.18.

Essentia Health purchased 1.29 acres for the clinic. They paid \$7,650 in cash and agreed to a special assessment of up to \$145,000.00. This would reflect a total purchase price of \$152,650, or \$118,333 per acre.

In reviewing past correspondence, it appears that at the time the NPAHD and Essentia deals were made, the thought was that the City would issue bonds for the expenses that exceeded the grants received. Between the \$709,971.18 from NPAHD and the \$145,000.00 from Essentia, “and any additional development would reduce the clinic’s portion”. These funds would be used to make the bond payments.

The Golden Horizons / Midwest Properties deal was a purchase price of \$127,647, which is \$31,363 per buildable acre. The EDA received a flat \$35,000 up front as their “assessment” and the 25-year promissory note for \$92,647.

The above deals were all made when Sam Griffith was the City Administrator.

When Jessica Seibert became City Administrator, Members Co-Operative Credit Union purchased their parcel for \$77,152.98, which is \$31,363 per acre PLUS an assessment of \$34,000 (not counting the gas assessment). This assessment amount breaks down to \$13,821 per acre (it is unknown where this figure came from).

This is also when the Sandstone Development deals were made. They purchased 2 parcels for a total of \$227,381.75, which is \$31,363 per acre PLUS assessments of \$102,950 (not counting the gas assessment). These assessments were figured at \$14,200 per acre, which correlates to some spreadsheet working papers of Seibert’s that are based on the estimated cost of the infrastructure project.

George stated that these two deals (MCCU and Sandstone Development) deviate from the first 2 (NPAHD and Golden Horizons) – where the purchase price was \$31,363 per acre, and they were funded with cash, special assessments, and the one promissory note. The Essentia/Clinic deal was an outlier.

George asked for discussion on the following questions:

(1) Should the MCCU and Sandstone Development LLC deals be the same as NPAHD and Golden Horizons -- \$31,363 per acre, with no additional assessments (except the gas assessment)? If so, the \$34,000 assessment would not be implemented.

**Consensus of the EDA was that the MCCU and Sandstone Development deals should be the same as NPAHD and Golden Horizons - \$31,363 per acre with no additional assessments (except for the gas assessment). EDA Member LaBounty abstained from this discussion, as she is employed by MCCU. This item will be placed on the August 28<sup>th</sup> EDA meeting for action.**

(2) Should the Essentia/Clinic deal also be the same - \$31,363 per acre? If so, the total purchase price would be \$40,458.27. They paid \$7,650 in cash. The assessment amount would be \$32,808.27, instead of “up to \$145,000”.

**Consensus of the EDA was that the Essentia/Clinic deal should also be the same -- \$31,363 per acre; therefore, their assessment should be \$32,808.27. This item will be placed on the August 28<sup>th</sup> EDA meeting for action.**

**The EDA also agreed that the City should move forward with certifying the NPAHD assessment of \$709,971.18.**

(3) For the assessments, what interest rate should be charged? And for what term? The agreements state “... in installments over the number of months remaining for the term of the Special Assessment Bonds at the time such assessments, bearing interest at rate equal to the rate of interest on the Special Assessment Bonds. However, the decision regarding the interest rate to be applied is the absolute and sole discretion of the City Council, subject only to limitations imposed by law.”

George explained that when these agreements were drafted initially (and then copied, with some modifications, for every deal thereafter), the potential bonds were presented to be 15 years at 3.65% interest. Only the Sandstone Development agreement document sets the term at 25 years. The bond the City just issued through the Rural Water MIDI Loan program was for 15 years at 3% interest (for comparison/discussion purposes).

**Discussion on this item turned to whether or not the EDA should bond for the shortfall (discussed below under “Fund Balance”).**

(4) Going forward, should the purchase price be \$31,363 per acre / buildable acre; which can be funded via cash in total or cash with assessments?

**There was discussion about whether the \$31,363 figure is meant to be applied to “buildable acres” or if it is to be applied to the total acreage of each parcel. Golden Horizons paid \$31,363 per “buildable acre”. The Sandstone Development deals are also based on “buildable acres”. MCCU, NPAHD and Essentia were based on total acreage; however, all of the acres on these parcels are deemed buildable. George is trying to get clarification from the Federal EDA on this question.**

(5) Another option being pursued is leasing the lots. The Federal agreement does allow for lots to be sold or leased at “adequate consideration” or fair market value. Whether via sale or lease, payments can be extended out over a period of time. The question is, how long of a period of time? **George is trying to get clarification from the Federal EDA on this question.**

### **Project Expenses – Shortfall, Interfund Transfers & Loan**

George then reviewed the following information with the EDA:

#### Project Expenses

Lundorff Drive	\$4,548,416.88
BP Road Improvement	112,052.37
Airport/Old Military Road	<u>313,714.58</u>
TOTAL PROJECT EXPENSES	\$4,974,183.83

<u>Grants Received</u>	
DEED	\$ 200,000.00
LRIP	1,350,000.00
Federal EDA	<u>2,058,532.00</u>
TOTAL GRANTS RECEIVED	\$3,608,532.00

Project Expenses AFTER grants \$1,365,651.83

<u>Offset by Sale of lots-cash received:</u>	
NPAHD	38,350.00
MCCU	77,152.98
Essentia / Clinic	7,650.00

<u>Offset by Special Assessments received:</u>	
Golden Horizons	<u>35,000.00</u>

Total after sale/special assessments received: \$1,207,498.83

<u>Golden Horizons Promissory Note</u>	
Payable in 2041	\$ 92,647.00

<u>Special Assessments to Collect:</u>	
NPAHD	\$710,971.18
Essentia / Clinic (145,000.00)	32,808.27 (recommended)
MCCU (34,000.00)	-0- (recommended)
Sandstone Development (102,950)	<u>-0-</u> (recommended)

Total Outstanding Payables \$836,426.45

<u>Sandstone Development Sale</u>	
Purchase price	\$227,381.75
Gas assessment	<u>20,784.28</u>

Total Potential Receivables \$248,166.03

Shortfall

George stated that there are a couple of ways to look at the “shortfall”.

- After project expenses, grants, and cash received for the sale of lots (so far), there is a cash shortfall of \$1,207,498.83.
- With the promissory note and special assessments to collect (eventually), there is a shortfall of \$371,072.38.
- If the pending sale to Sandstone Development takes place, the shortfall would be reduced to \$122,690.63.

Interfund Transfers

In July, 2014, the City agreed to transfer \$250,000 of “General Fund” money towards the medical campus infrastructure project as a match to the \$200,000 DEED / State Bonding money. This was booked as a “budget amendment” with no mention of it being a loan or intended to be paid back.

In February, 2015, the City was looking for another \$1,250,000 in State Bonding money / LRIP. The City approved additional fund transfers for the Medical Campus project/Business Park site: \$100,000 from Fund 603, \$80,000 from fund 401, and \$95,000 from fund 101. Again, this was booked as a “budget amendment” with no mention of it being paid back.

Total of these interfund transfers:

General Fund (101)	\$345,000
Storm Sewer Fund (603)	100,000
Capital Improvement Fund (401)	<u>80,000</u>
Total transfers	\$525,000

**EDA members were undecided about paying these funds back. Discussion will continue at the August 28<sup>th</sup> EDA meeting. Some thought that the fund transfers were justified. Others thought that it would be best to pay them back and wipe the slate clean.**

Fund Balance

After the transfers related to the 10 funds the project expenses were spread over, fund 421 has a negative cash balance of (840,651.83).

If Fund 421 pays back the “budget amendment” transfers, the total negative balance would be (1,365,651.83).

The EDA could issue special assessment bonds, as originally discussed back in 2014/2015 to make Fund 421, 101, 603, and 401 “whole” again and close out Fund 421. Payments and terms could be structured with the known special assessments. George stated that it is costly to issue bonds due to issuance costs and interest over the long term.

Another option, George stated, is that the EDA could decide to use the proceeds from the Wild River property sale to offset these expenses. Proceeds are \$1,743,199.34. After paying the above-mentioned funds, the remaining proceeds would be \$377,547.51.

Any special assessments that come in would go into Fund 228 (EDA) and could be used for economic development purposes in the future.

**Discussion on this item involved (a) whether or not to pay back the interfund transfers (as discussed above); (b) whether or not to use the Wild River proceeds to balance Fund 421 and, possibly, pay back the interfund loans; (c) whether or not to issue a bond (to include the costs of issuance) that would be paid back by the NPAHD and Essentia special assessments. This item will be further discussed at the August 28<sup>th</sup> EDA meeting.**

## Interfund Loan

Additionally, from 2007 to 2017, the EDA borrowed money from the Community Economic Development Loan Fund (226) for the purchase of the Vork property in the total amount of \$168,839.00. These funds need to be paid back from the EDA.

The EDA could also pay back Fund 226 the \$168,839.00 that was borrowed for the Vork property from the Wild River proceeds, still leaving a positive balance from the proceeds of \$208,708.51.

**Consensus of the EDA was to pay Fund 226 back from the Wild River property sale proceeds. This item will be placed on the August 28<sup>th</sup> EDA meeting for action.**

## **ADJOURN**

**Motion Franklin, second Devlin to adjourn at 8:20 p.m. Motion carried 7-0.**

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Phillip Kester, Chair

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Kathy George, Executive Director