ECONOMIC DEVELOPMENT AUTHORITY
Tuesday, September 28, 2010

Pursuant to due call and notice thereof, President Menk called the meeting of the Brainerd Economic Development Authority to order at 8:00 A.M.

Present were Commissioners Ed Menk, Terry Johnson, Chris Hastings, Kim Ellingson, Wayne Erickson, and Council Liaisons Kelly Bevans and Lucy Nesheim.

Also present were City Administrator Vogt, Finance Director Goble, City Planner Ostgarden, Chamber Director Lisa Paxton, Mainstreet Coordinator Amanda Larson, Council Member Cumberland, Sheila Haverkamp representing BLADC, and Kevin Close representing Close~Converse.

#2 Approval/Amendment of Agenda – Approved.

President Menk asked if there were any changes or requests concerning the current agenda and as there were none the agenda was approved as presented.

#3 Approval of Minutes – February 22, 2010 – Approved.

President Menk asked if there were any changes or requests concerning the February 22, 2010 EDA minutes and as there were none the minutes were approved as presented.

#4 Approval of Financial Reports – Approved.

President Menk asked if there were any changes or requests concerning the financial reports and as there were none the financial reports were approved as presented.

#5 Industrial Park Marketing – Informational.

City Administrator Vogt stated that three proposals were received from local real estate firms to represent the City in the sale of Industrial Park property. The EDA was informed that the Council accepted the proposal from Close~Converse which was included in the EDA Packet. He introduced Kevin Close of Close~Converse.

The Chair recognized Mr. Kevin Close, who thanked the City for the opportunity to represent the Industrial Park properties. He stated that Close~Converse plans to be very prepared with representation of each lot so that when there is interest there will be no delays. Mr. Close noted the marketing plan and information included in his proposal as attached to the packet. He stated that prices are also very important in a situation such as this and that their goal is to move some of their current inventory in order to get people interested in building in the Industrial Park.

Discussion was held on lots available and pricing, including the possibility of lowering the price of certain lots as an incentive to encourage sales. Mr. Close stated that he plans to review all of the lots that are available and come back to the City in the near future with his recommendation regarding this possibility along with other marketing recommendations that he might have.

#5 Brainerd Lakes Area Development Corporation (BLADC):

Meadowview Manor Financing Request – Recommend Authorization to Council of $50,000 in Revolving Loan Funds with Proposed Terms– Approved.

A letter and numerous other documents were included in the Packet from Kevin Walker, Housing Development Director for the Northcountry Cooperative Foundation (NCF) of Minneapolis, which summarized an opportunity for the City of Brainerd to play a supportive role in helping the community residents of Meadowview Manor of Brainerd (Meadowview Cooperative since January 2009) attain resident ownership of their manufactured housing community:

The Project:

Under the terms of the purchase agreement, Meadowview Cooperative wishes to buy its 36-acre manufactured home community, the single-family home on that land, and the several onsite storage facilities and playground. Members have a very strong interest in taking control of their community to stabilize their lot rents and secure their place in the City of Brainerd for the long term.

Proposal to the City of Brainerd:

$100,000 principal amount, contingent cash flow, 17- or 15-year note, bearing a 3% simple interest rate with interest payments guaranteed by third-party pledged collateral and principal secured by a third mortgage:

1) *Under the loan agreement, the City of Brainerd would be entitled to payments in proportion to the City's participation level in addressing the $200,00 project gap;*
2) *To secure principal, a recorded third mortgage position on the manufactured home community, set to graduate to second position upon second mortgage lender's exit from the project, anticipated in years 10-12;*
3) *To ensure and guarantee interest payment on the City's loan, NCF would pledge:*
    - i. *A pledge of 50% of the first year's Cooperative cash flow (on which there currently is no lender claim) – expected to be about $9,400;*
    - ii. *A pledge of all NCF Servicing Fees, received quarterly, up to the maximum required to guarantee all interest payments due ($45,000) under the terms of the proposed loan, year by year.*

**The City of Brainerd would release any further claims on pledged but unspent collateral in (3) above after it graduates to second position on the manufactured housing community.*

The Chair recognized Ms. Sheila Haverkamp of BLADC, who discussed the Meadowview Manor Financing Request. She stated that the project comes in at about $2.7 million and that NCF is looking to fill a $100,000 gap at the local level which started as a request for $50,000 from the Crow Wing County HRA (CWCHRA) and $50,000 from the City of Brainerd. She stated that CWCHRA has committed to provide $50,000 to the project with the caveat that lot rent would be increased by 3% per year until such time that their debt is retired, and because of that caveat to increase lot rent, Meadowview Cooperative is requesting the full $100,000 from the City.

The Chair recognized Ms. Stephanie Karp, Cooperative Housing Specialist of NCF, who stated that her corporation works with residents in manufactured home communities in order to acquire ownership of their community and, in turn, provide resident security by way of stabilizing lot rents and making improvements on their own. She discussed "ROC (Resident Owned Communities) USA" and other supporting organizations, and went over details of the Meadowview Manor proposal as well as the Meadowview Cooperative. She stated that the co-op was presented with the CWCHRA's proposal and struggles with the 3% increase in lot rent because it would result in an increase of $170 per year by the end of the term of the loan.

Commissioner Johnson asked for the definition of a "co-op."

Ms. Karp stated that a co-op is a membership owned and operated corporation created for the benefit of the members and that this particular co-op is designed to offer a vote to each household within the co-op and that becoming a member requires a one-time $200 contribution. She stated that the community members who choose not to become part of the co-op will rent from the co-op and that if they sell their property the new residents would be required to become members. She stated that the homes are owned by the residents and the co-op is purchasing the land.

President Menk asked if there are quality standards for housing and upkeep of those houses.

Ms. Karp stated that the houses brought in to the Park cannot be over 10 years old and that the external appearance of the property must be kept up.

Commissioner Hastings asked if this was initiated by the owner or the residents.

Ms. Karp stated that NCF spoke to the current park owner, who expressed an interest. Because of this, NCF discussed the proposition with the residents who also were interested and therefore the deal began to take shape starting in 2009.

Rental income and financing of homes were discussed.

Commissioner Ellingson asked how an individual would finance a home if they were interested in joining the community and therefore the co-op. She asked for the amount of the appraisal, the details of the decrease in rental income from 2008 to 2009, and information on the single-family home that is to be included in the purchase.

Ms. Karp stated that NCF has connections with community lenders in order to offer better rates and terms to purchase homes. She stated that the current appraised value is $1.94 million and that there is a potential for expansion which could result in a $2.17 million value with additional housing sites added. She stated that the decrease in rental rates is common in any manufactured home community due to residents coming and going, and that regarding the house, the plan is to eventually sell it to pay off some of their mortgage. She added that her company stays with the co-op throughout the life of their loan for guidance.

Commissioner Johnson stated that the appraisal is currently at $1.94 million with proposed value of $2.17 million; however, the request is for financing of $2.7 million. He asked for an explanation of the difference.

Ms. Karp went over the costs, which includes the $184,000 in reserves for the co-op, the $114,000 payment to NCF, the “soft costs” and $90,000 “due diligence costs” involved in closing, and the payment to the owner of $1.9 million as well as the payment of his bond financing “defeasance” costs of $340,000. She stated that the defeasance cost originally started out more reasonable but had increased because of the economy.

Commissioner Johnson stated that he has concerns with essentially paying the owner $2.25 million, asking if it is fair to pick up the defeasance costs because of the economy going bad. Equity and reserves were discussed, as well as the interest rate, which is guaranteed for 15 years at 3%.

Commissioner Ellingson asked how the CWCHRA decided on the 3% annual lot rent increase.

Ms. Haverkamp stated that it is based on the interest rate and that the CWCHRA wanted to motivate the tenants to pay their loan back and generate cash flow rather than eventually reduce lot rents which would reduce cash flow.

Rental projections, lot rent increases and expenses to the co-op were discussed.

Ms Haverkamp stated that the questions being brought up are the ones that have been of concern all along; however, the owner simply will not move forward if the terms are not accepted as presented. She discussed the benefits of this project benefiting up to 100 families.

City Administrator Vogt stated that the proposal to the City and CWCHRA had started at over $200,000 and had been reduced before staff agreed to the consideration in front of the EDA today.

President Menk asked if the money is available in the Revolving Loan Fund.

City Administrator Vogt stated that the Housing Revolving Fund has not fluctuated much in many years. The fund has a current balance of about $129,000. He added that the recommendation needs to be thought of as more of a more of a policy recommendation which will help a great deal of families rather than something that the City may realize a viable return on their investment.

President Menk asked if there had been consideration of a 30-year amortization schedule with a 15-year payoff.

Ms. Karp stated that the first mortgage lender has stipulations in place for any subordinate financing and he has been clear that he would not feel comfortable with guaranteed payments, which is why the proposal is presented as is.

Commissioner Johnson asked Ms. Karp what kind of organization NCF is.

Ms. Karp stated that they are a 501c3 non-profit organization.

Commissioner Johnson stated that although he sees the project as a good community investment and sees very motivated lenders, he feels the seller is unmotivated, which concerns him. He stated that the decision for this project is whether a loan fund is turned into a grant because of the risks involved on a financial basis.

MOVED AND SECONDED BY COMMISSIONERS JOHNSON AND ELLINGSON, DULY CARRIED, TO RECOMMEND APPROVAL TO THE COUNCIL OF $50,000 IN HOUSING REVOLVING LOAN FUNDS AT AN INTEREST RATE OF 3% FINANCED OVER 15 YEARS WITH INTEREST ONLY PAYMENTS FOR THE MEADOWVIEW COOPERATIVE.

Downtown Brainerd SCDP Grant Update – Held Over.

BLADC Mid Year 2010 Report – Held Over.

#6 Brainerd Main Street Update – Informational – Held Over.

The Chair recognized Ms. Lisa Paxton, CEO of the Chamber, and Ms. Amanda Larson, Mainstreet Coordinator, who distributed information on the Main Street Program and discussed what the program has accomplished and plans for expansion out to encompass the entire City in the future. They stated this plan will encompass all of Brainerd's "main streets."

The Chair recognized Pastor Andy Smith, First Lutheran Church, who stated that visible improvement is one of the best ways to showcase work that has been done to brighten a community's future and show that community's support.

City Administrator Vogt passed out financial information which showed both staff and Council EDA budget proposals for costs involved. He stated that a decision regarding a budget recommendation for the Main Street program is not necessary today as final budget decisions are not necessary until mid-December. It was suggested that a meeting be held in the near future to discuss this item and finish other agenda items that will not be completed today.

#7 2011 Budget – Held Over.

#8 Adjourn.

The Chair adjourned the meeting at 9:26 P.M.

Kim Ellingson, Secretary