

**MEETING OF THE
DULUTH ECONOMIC DEVELOPMENT AUTHORITY**
Wednesday, March 2, 2011 - 5:00 p.m.
Room 303, City Hall

MINUTES

Call To Order: The March 2, 2011, meeting of DEDA was called to order by President Heino at 5:08 p.m.

Present: Jeff Anderson, Nancy Aronson Norr, Tony Cuneo, Todd Fedora, John Heino

Absent Excused: Don Monaco, Christine Townsend

Others Present: Bob Asleson, Lisa Bauman, Lou Campbell, Joan Christensen, Don Douglas, Alex Giuliani, Keith Hamre, Brian W. Hanson, Adele Hartwick, Will Hoeg, Ken Johnson, Scott Keenan, Rob Link, Bronwyn Lipinski, Mark McShane, Jerry Peterson, Rod Raymond, Candace Reynolds, Kevin Scharnberg, Heidi Timm-Bijold, Paul Walsh

Heino asked for a motion to change the order of the agenda. Vote: Unanimous (5-0)

APPROVAL OF MINUTES: January 26, 2011. Accept as written. Vote: Unanimous (5-0)

Fedora asked if there is a due-on-sale clause in any loans between Cirrus and DEDA, due to recent sale of Cirrus. Asleson said that he did not find a due-on-sale clause in any documents for three sets of transactions between Cirrus and DEDA. There are provisions in the development agreements that require approval for assignments, but we do not know yet the nature of the transaction between Cirrus and its buyer. Hanson added that staff has been aware that Cirrus was talking with possible investors, so they have taken a look at DEDA's financial situation with Cirrus, and are monitoring new developments.

DISCUSSION

1. BID 2011

Hanson talked about the creation of the BID 2011 program and thanked the team that worked with him on this project; Heidi Timm-Bijold, Keith Hamre and Adele Hartwick. Tonight they bring a preview of 5 proposals. Development agreements for each will follow in the next few months for DEDA approval, then they will go to the City Council for approval. Hanson gave a brief overview of each project being considered; 1) Amberwing. 2) Duluth Minerals. 3) Hawks Boots. 4) Moline Manufacturing. 5) Old City Hall LLC.

Rod Raymond thanked the Commissioners for this opportunity to be included in the BID project, and stressed that it is the historical tax credit that is critical. The restaurant will be

a tenant of the building and would be funding the opportunity to bring historic renovation to the area. What they would like to see in this location is a bakery, brew pub, entertainment venue, and art space.

Hanson said staff will be bringing development agreements for the five projects to the DEDA Commissioners in March, April or possibly May. This includes \$11.3 million in investment, proposing up to \$1.4 million support from existing non-committed Tax Increment Finance (TIF) funds, an 8:1 ratio, which exceeds the program goal. These projects include 106 permanent jobs; 33 new and 73 retained jobs. Construction jobs will include an estimated 200 FTEs over a six month period. If a project was not recommended, it does not mean it was a bad project, but that it is just not recommended at this time, and may be able to be helped in a different way in the future.

RESOLUTIONS FOR APPROVAL

NEW BUSINESS

1. **RESOLUTION 11D-10: RESOLUTION AUTHORIZING A PROFESSIONAL SERVICES AGREEMENT WITH LHB, INC. FOR LAND SURVEYING AND RELATED SERVICES PERTAINING TO THE ATLAS CEMENT PLANT SITE IN AN AMOUNT NOT TO EXCEED \$25,000**

Staff: Hanson explained that survey work is needed across the Atlas Park site.

Discussion:

Vote to Approve Resolution 11D-10: Passed Unanimously (5-0)

2. **RESOLUTION 11D-11: RESOLUTION AUTHORIZING A PROFESSIONAL SERVICES AGREEMENT WITH SJA ARCHITECTS RELATED TO REROOFING AND PARAPET REPAIR OF THE HISTORIC ORPHEUM THEATRE IN AN AMOUNT NOT TO EXCEED \$60,000**

Staff: Hanson shared the SJAWRL recommendation that DEDA reroof the theatre before any interior renovations begin.

Discussion: Fedora asked where the \$738,000 is coming from for the construction cost of the project. Hanson said that some possible sources include tax credits, storefront loan program, TIF district 22, TIF district 4, fundraising efforts, and grants. Roof work was noted by Northland Consulting Engineers during structural review performed as part of the due diligence process. Norr addressed the sense of urgency with respect to roof repair, and asked if there is anything unique about retaining historic integrity of the roof. Hanson replied that the parapets are unique and this cost has already been taken into account.

Jay Fosle said the NorShor roof has been leaking for a long time and asks if this is the way to spend the tax payer's dollars. He said the purchase of the Theatre was to help the skywalk

progress, but wants to know what a new roof on the NorShor will do to help get a skywalk to the casino. Fosle asked the Commissioners to turn down this proposal.

Fedora asked where things stand with the skywalk. Hanson said design review meetings are planned for March 3rd and March 23rd, and SJA and LHB are in contact with each other. The skywalk route could go through the Theatre so the roof would need to be done for that, and they did work with LHB to compare costs about different skywalk routes. Heino asked that the Board acknowledge that we are where we are in regard to the NorShor, so the question should be in regard to where we go from here. Norr asked if it is possible to apply for historic credits in a phased approach. Hanson replied that it is possible, but there are time limits to complete the project. Norr asked if we have to repay the TIF districts if they are used as funding sources. Hanson replied that that decision is at the Board's discretion. Heino stated that he has concerns about the money and the increasing costs. The problem is we have the building, but no exit strategy, and we need to think about an exit strategy and what amount we do not want to exceed. Whatever strategy we have, we need to avoid further damage, so a repaired roof is needed. Cuneo asked if we will have an estimate of expected costs this month. Hanson replied that we will have a design, vision, schematics, drawings and estimate of probable costs by the end of the month. Fedora said that some people in Canal Park were worried that their TIF funds were going to be taken away from them and used on the NorShor, and he wants to know if those people know their money is being used for this. Hanson said he has talked to Canal Park businesses and they see the value in restoring the NorShor. No one has contacted Hanson and expressed displeasure.

Vote to Approve Resolution 11D-11: Passed (4-1) Fedora

3. RESOLUTION 11D-12: RESOLUTION ADOPTING AMENDED BYLAWS OF THE DULUTH ECONOMIC DEVELOPMENT AUTHORITY

Staff:

Discussion:

Vote to Approve Resolution 11D-12: Passed Unanimously (5-0)

4. RESOLUTION 11D-13: RESOLUTION APPROVING AN AGREEMENT WITH ETOR PROPERTIES LIMITED LIABILITY COMPANY TO LEASE PROPERTY IN THE NORTHWEST IRON LOT FOR PUBLIC PARKING PURPOSES

Staff: McShane explained that the terms and conditions in this new agreement are somewhat restructured from past agreements. It has been structured on a mid year term basis, but will now shift to calendar year. We were paying a set fee/lease amount for ETOR's ownership that increased annually with their ownership at 64% and ours 36%. Now we will share the net proceeds 60% / 40% to account for resources used to administer the agreement and managing the lot. Another change is a structured reserve to share in the costs instead of coming out of DEDA's portion. The payment schedule will include 80% of projected net income paid in September and the balance the following January. One

expense item change is the addition of real estate tax expense. Fedora asked when the lot is staffed. Hanson replied from May 15th – October 15th. Fedora wanted to know if we should look at increasing the rate. McShane said that we have added contract parking in last couple years to supplement the income. Hanson said he has worked with the Canal Park Business group to balance rates, and make it more effective.

Discussion:

Vote to Approve Resolution 11D-13: Passed Unanimously (5-0)

5. RESOLUTION 11D-14: RESOLUTION AUTHORIZING A LICENSE AGREEMENT WITH GRANDMA'S MARATHON, INC FOR THE USE OF DEDA'S PARKING LOTS FOR YEARS 2011, 2012, AND 2013

Staff: Hanson explained that DEDA has an ongoing commitment to work with Grandma's Marathon to use the parking lots. Staff realized that there is no out clause in this contract like there is in the ETOR contract, so an amendment needs to be added that will be activated only if ETOR's contract is terminated.

Discussion: Cuneo motioned to amend the license agreement to allow DEDA to terminate the License Agreement in the event of the termination of the Canal Park Parking Agreement between DEDA and ETOR Properties Limited Liability Company for the Northwest Iron Lot. Anderson seconded. Amendment passed (5-0).

Vote to Approve Resolution 11D-14 as amended: Passed Unanimously (5-0)

6. RESOLUTION 11D-15: RESOLUTION AUTHORIZING AN AGREEMENT WITH SECRET SERVICE ENTERTAINMENT LLC FOR PROPERTY MANAGEMENT SERVICES IN BAYFRONT

Staff: Hanson explained that Secret Service has done a good job in the past and staff is satisfied with their performance. The City has a Bayfront Task Force looking at overall Bayfront management, including parking. What that task force brings forward could impact how DEDA handles parking. It does not make sense to go out to bid with this contract with so many possible changes in the near future. There were some minor changes cleaning up the language in the contract for items no longer applicable, but the only substantial change is in the termination period going from 120 days to 60 days, in case there is a change in the operator at Bayfront. Anderson asked if this contract will coincide with Secret Service's management agreement with the City for Bayfront. Hanson said that it will.

Lou Campbell has looked at the parking fees taken in by Secret Service in 2008, \$44,000, 2009 \$48,000, and 2010 \$76,000. Campbell said for the past 16 years he has been the parking manager of the Bayfront Blues Festival and has met with many promoters who are not happy that Secret Service is making 50% of parking fees from their events. He also said he would like to see the contract up for bid because he could do the contract for 25% instead of 50%. He thinks that DEDA should put the contract up to bid to save the City money.

Discussion: Norr asked if Secret Service provides their management costs when they provide their income statement. Hanson replied that we have not asked for it but could. Fedora asked if DEDA is getting 50% of gross income and Secret Service is paying for costs of managing the parking booth out of their percentage. Hanson responded yes, costs come out of Secret Service's 50% of the income.

Vote to Approve Resolution 11D-15: Passed Unanimously (4-1) Cuneo abstains.

7. RESOLUTION 11D-16: RESOLUTION AUTHORIZING A FIRST AMENDMENT TO THE DEVELOPMENT AGREEMENT WITH DULUTH VETERANS HOUSING LLC RELATING TO THE DULUTH VETERANS' PLACE

Staff:

Discussion:

Vote to Approve Resolution 11D-16: Passed Unanimously (5-0)

8. RESOLUTION 11D-17: RESOLUTION AUTHORIZING A FIRST AMENDMENT TO THE INTERIM LOAN AGREEMENT AND NOTE WITH CLYDE INDUSTRIAL PARK, INC., MODIFYING THE TERM, INTEREST RATE AND SECURITY THEREOF

Staff: Hanson explained that the Clyde project has resulted in over 90 new jobs and is a key component to the revitalization of the Lincoln Park neighborhood. The slow economy has prevented the hotel project from getting started, but a new hotel design will allow for investment in the project, which will allow the DEDA loan to be paid. Staff is recommending, per Mr. Giuliani's request, a 90 day extension of loan with an increased interest rate of 8% and the addition of a personal guarantee.

Discussion: Fedora said that we don't know anything about Mr. Giuliani, we have no financial information, and only the interest has been paid back. Norr added that if there is enough support to pass this resolution, it should be conditional on clear understanding of the take out, have firm expectations of what we expect in 90 days, a clear repayment schedule, full understanding of the financial underpinnings of the project, and sources of repayment. Fedora added that we have no financial statements or projections to justify the extension of credit this time around. Hanson responded that the loan is being made on equity investment to get the hotel in place, and we do have collateral in real estate. Fedora asked about a contingency plan if we don't get paid back in 90 days. Heino reminded the Board that this is not a new loan and the question is whether or not we want to pass an extension tonight.

Alex Giuliani shared that his restaurant has been open 9 months and he has built and invested over \$28 million at Clyde without ever asking for any subsidy. He has 94 employees now, have \$250,000 in sales tax projected to be paid this year, have paid real estate taxes, and have contributed \$4 million in land and building to Heritage group. The hotel will not have debt financing in 90 days, but will have an equity investor. The original hotel design will not work now as it is a hard part of town to gain people's interest, so they are going in a new direction with the hotel. It would be the first hotel in the nation to be a passive house certified

hotel, which uses 90% less energy than a typical hotel, and they would also be the first LEED certified hotel in the state. He needs something different because of the location in order to attract the Monday-Thursday crowds. Giuliani said that his property is not a piece of dirt as Fedora stated, but it is a pad ready for construction. They have parking, environmental work has been done, and they will have a half million people visiting the site this year. He is confident in the hotel and very much committed to the project. He is not asking for a handout - only 90 days to finish the study so he can bring in the equity investor.

Heino explained that everything that has already been done at Clyde is appreciated, but wonders if Mr. Giuliani can offer any assurances that the equity partner will be in place in 90 days. Giuliani said that his history should show his accountability; making all payments on time, taxes have been paid and everything he has said he would do, he has done. He is 100% confident that he will have his equity in place in 90 days.

Fedora said that he has gotten calls from restaurant owners who are unhappy that DEDA is subsidizing competitors. Giuliani said that this comment is disheartening because \$20 - \$25 million is projected to be brought into the community because of the arena at Clyde.

Vote to Approve Resolution 11D-17: Passed (3-1-1) Fedora. Cuneo abstains.

ADJOURNMENT: President Heino adjourned the March 2, 2011, meeting of the DEDA at 6:58 p.m.

Respectfully submitted,



Brian W. Hanson
Executive Director

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