

**WORTHINGTON CITY COUNCIL
REGULAR MEETING, JULY 23, 2012**

The meeting was called to order at 7:00 p.m. in City Hall Council Chambers by Mayor Alan E. Oberloh with the following Aldermen present: Lyle Ten Haken, Mike Kuhle, Scott Nelson, Ron Wood, Mike Woll. Honorary Council Member: Amy Woitalewicz.

Staff present: Craig Clark, City Administrator; Jim Laffrenzen, Public Works Superintendent; Dwayne Haffield, Director of Engineering; Brad Chapulis, Director of Community/Economic Development; Dan Wycoff; Janice Oberloh, City Clerk.

Others present: Justine Wettshreck, Daily Globe; Glenn Thuringer, WREDC; Bob Campbell, Lexington Group; Darlene Macklin, Chamber of Commerce; Tom Macklin; Ken Moser; Bob and Judy Rieckhoff; Howard Anderson; Scott Doble; Greg Raymo; Bob Bristow; Lee Hain; Rod Sankey; Raj Patel; Michele Metz; Sunny Patel; Nancy Vaske; Steve Robinson, SEH (9:05 p.m.) et. al.

FINANCIAL ASSISTANCE APPROVED - LEXINGTON HOTEL DEVELOPMENT GROUP, LLC

Pursuant to published notice, this was the time and date set for a public hearing for discussion of a loan requested by Lexington Hotel Development Group, LLC.

The motion was made by Alderman Ten Haken, seconded by Alderman Nelson and unanimously carried to open the hearing.

Brad Chapulis, Director of Community/Economic Development, presented background information on the request, stating that Lexington was requesting an amount not to exceed \$400,000 in financial assistance from the City, for a 75 room Comfort Suites hotel adjacent to the City's event center. With a total project cost estimated at just under \$8 million, the company is looking to sell 28 shares at \$50,000 each to raise total equity for the project of just under \$2.4 million. The request to the city is to allow the company to continue to sell the remaining shares without delaying the start of the project which is scheduled to commence this month. They were requesting that the loan be structured similar to a line of credit - if approved the company would use the loan commitment as a guarantee to proceed with the closing of the construction loan. If at the end of the construction phase the company has not sold the shares the company would execute the City's loan. The loan would be considered as a deferred loan, and would be in a subordinate position to the primary lender. Though deferred, the loan would bear interest for the term of the loan, which is proposed at 7% over a 3 year period. Monies collected from sold shares after execution of the loan would be pledged to pay off the City loan. At the end of the term, Lexington would be required to make a balloon payment for the balance of the loan. Being in a subordinate position to the lenders, staff's opinion is that personal guarantees from all the principal owners of Lexington would be necessary.

Bob Campbell, of Lexington Group, addressed Council and said they have achieved all of their goals except for a portion of the financing. Mr. Campbell said to date they have sold 14 shares for \$700,000 and to delay the project could be a breach of representation to those individuals potentially

resulting in a refund of their money. They would have seven months to sell eight shares and secure the other half of the equity position before the loan would kick in. Mr. Campbell said he still believes the loan will be unused, but they will not start the hotel without it and not developing the hotel would trigger a penalty from the franchise. Hotel occupancy trends were reviewed.

Testimony

Ken Moser - Wanted to speak in favor of the loan. Has been involved with the Event Center project since 2003. Previously, as Convention and Visitors Bureau President, at that point our Committee felt the need for this. Now in 2012, when he read the different letters, and participated in different meetings that have been going on for several years, he wondered what was the intent of trying to get this sales tax and everything, was the Event Center. The mandate from the City Council was to try to figure out a way to make this happen without an on-going subsidy from the City. The Committee went to work for that with the help of some other property owners in town and out of town, and came to the conclusion to pair this up with a hotel. So here we're looking at a letter of credit, a loan guarantee, for \$400,000, which is one half of one percent of the project costs. I'm wondering if the hotel won't go, would the City build the Event Center and what kind of subsidies would we have from there on out in operating. So when I weigh is it a benefit, or is it a strike against any other entrepreneurs, a similar situation, this is a dynamic group, bring it to the Council - let's talk about it. We've been working on it a long time, one half of one percent, we're not writing a check today, we're backing it up. We've got eight months, a year to sell these, there's a penalty, there's interest involved, I think the Council is probably wise enough that you would give consideration to other requests that may come along with that. It's one half of one percent of the total cost. I think it's important for the city, I think the additional stock of hotel rooms will only benefit the other hotels that we have in town. If we have five hundred people at the [hotel], 500 people can't just be staying at the Comfort Inn and Suites. I personally, when I'm going to a wedding, will not stay at the hotel where the reception is being held because I always get stuck in that room where they're running up and down the halls or whatever. I think the other properties that surround it will all benefit from this and I just come back to one half of one percent versus what kind of subsidies, if the City wanted to have the Event Center, would we be facing down the road. So I support the Council supporting a letter of credit, a draw account, a promissory note, whatever it may be, and in eight months, from my involvement with the Lexington Group, my involvement with the community, I don't think it will even be an issue. Thank you.

Discussion followed Mr. Moser's testimony.

Howard Anderson (representing the hotel owners in Worthington) - thanks for letting us speak tonight. Obviously we have a lot of information that we've been digesting this evening, we have a few different points, but we want to reiterate that I was one of the members that sent the letter, sent the email, and we do want to reiterate that we're fully supportive of the Event Center to your point, a stand alone Event Center, whatever arrangement of an Event Center that does occur, but we

strongly disapprove of the City Council approving an additional funding source that really goes back to the equity, what is apparently the 22% equity, or in addition to the 22% equity that the ownership or development company has. Having already approved over \$550,000 that I believe is being utilized as a portion of the \$2.4 million dollars of equity that they're generating. As it turns out, the 5% that you would be approving, the \$400,000 loan is obviously a significant portion of the equity. We also believe quite frankly, we disagree with the representations that the market can bear this additional set of rooms into the market. The Smith Travel report, the Star report that you've discussed, you can get a trend report, I've ordered dozens and dozens of trend reports with no less than five hotels, not eight, you can have five, and there's some stipulations as far as brand or fairness and in this area that wouldn't be an issue. I can say that, given the Star report that we received that has our market, segments in it are market competitors, what we call our competitive set, that the ADR's and occupancy aren't much different than the letter for the area. So we find that we are disagreeing in some portions of the arguments that are coming forward. Specifically the southern track of Minnesota which is basically all of I-90 from South Dakota towards Wisconsin. The southern tier has a 49% occupancy rate and a \$77 rate in 2011 - trailing 12 months it's slightly above in average rate and flat for the last three years in occupancy. So I can tell you there is no particular trend, there was an argument made that the general economic conditions of hotels are much greater, ADR is rising, occupancy is rising. The upper, upscale and luxury segments have been rising the last few years. The mid-scale, which is what a Comfort Suites is in, what an Americinn in this particular deal is, and Holiday Inn Express, they've not been rising as quickly as what's been expressed. And ADR, average daily rate, is a conglomeration of your highest rate and your lowest rate. And certainly within a market like this there are some low rated rooms and there are some higher rated rooms but I can tell you that about \$80 is about where this market's bearing at the moment as a collective group. Certainly our hotel, I believe the Holiday Inn Express, we don't share our numbers directly with each other, but I would say that they're approaching \$100. Occupancies, I can tell you this much, a 42 room hotel - 10% occupancy is only four rooms. So if I gain or lose 10% share that means a difference of four rooms on average on any given night. So a 75 room hotel needs to generate significant numbers well over 60% occupancy in all likelihood. That's a whole lot more than, in fact that's the same number of rooms that our hotel is. The difference between 42 and 45. So, average daily rates, I believe that they'll need to be well over \$100 personally if I'm looking at the offering letter correctly. If I'm not, someone can exchange, show me how the numbers work. We've been given a lot of information here at the last minute, quite frankly, that has changed our view point quite substantially, including the fact that the \$400,000 at one point, from what I understood, that they were awfully close to selling all but a few of the shares, but it sounds like tonight that there's an equal number of shares sold and an equal number of shares unsold. And in order to get spades in the ground they're looking for this in order to speed up their process and shorten up your process. I guess that's, along with a variety of other points that we have. We strongly oppose the funding, as an additional funding, to this project.

Discussion followed.

Judy Rieckhoff - she is representing her husband, Bill, who was not able to be here tonight, and my brother in law, Jim. We own the Holiday Inn Express and we're a one hotel operation. We came to Worthington, we did receive - I can't remember, Brad, if it was 60 or 66 thousand dollars for soil corrections, on a loan, which we have paid back to the City, and other than that, we've received no money whatsoever to build our property. I know I've bombarded you with emails and I'd like to clarify that I am the one who drew up this little outline of equity. I am confused, especially after hearing you speak tonight about the 22% you have. What I'm wondering is are those the shares and your equity that add up to 22% because I just simply looked at the article in the Daily Globe. My husband, Bill, and I were here the night you approved the TIF and the sale of the land. And great, we go home and we hear later that things are a lot different than we thought they were the night of that meeting. We assumed we had a developer ready with money, the ground would be broken by July 1st, and then we read in the Daily Globe that they need \$400,000 more and they haven't sold shares even though they were selling shares. So my question is if the bank needs approximately \$2,400,000 of equity, 30%, of the \$7,900,000 and if the City of Worthington is contributing 6.9% of the total cost, and I add up what the investors shares are, and that's 17.7%, I get developers equity of 5.4%. 5.4 plus 17.7 plus 6.9% is the 30% equity and so I don't understand where you say you have 22% of cash in the project, and I think that is what is disturbing us. That suddenly, after being at the Council meeting June 11th, we find they're short of cash, they're looking for investors. And their share, by my simple math, is much smaller than the City's share. Because in the event you needed to provide the land, the TIF, and the bridge loan, you have contributed 12% of the entire project. That's quite a bit. The other thing that Howard mentioned is looking at the Minnesota track, not just seven properties, you know we are unfortunately, not a destination that attracts a lot of leisure travel or even business travel, we have great agricultural travel and so forth, so the upside would be, I think you need to be more conservative on looking toward the upside. That's mainly what I have to say - are there any questions?

Discussion followed.

Darlene Macklin - Ken had alluded back to 2003 when I looked back in our records, that's how long it has been going, ever since the Coliseum Ballroom closed, our members have been telling us that we need to fill that gap and we need a new event center. And so our position all along has been that we support an event center. I cannot comment on the hotel because we've stayed focused on the event center.

Discussion followed.

Glenn Thuringer, Manger of Worthington Regional Economic Development Corporation - I guess I'd just like to continue the good conversation you're having regarding the loan portion regarding the right or wrong side of it. You've had good discussion on that. WREDC's Board on Thursday morning authorized me to submit a letter of support, and I'm taking it that you've received that, and we're looking at it strictly from a standpoint that we think this is good practice and we're more

concerned that the loan that you're providing is done in a manner that other businesses would be able to apply for similar type funds to help with similar type projects. And you were just discussing that and you were saying "yes, they would." We don't need to rehash. Lyle, your comment about the security of this \$400,000 loan to Lexington, the one question I would simply urge you to ask is, by them providing personal guarantees to this \$400,000, does this have any impact on that authorized by the primary lender. That will tell you about their level of success, their ability to secure this and their financial wherewithal. I didn't think I heard that question asked, but if you ask if there's any breach by the primary lender it would tell you a lot. I have nothing more, I'd be happy to field some questions but I'm done.

Discussion followed.

Bob Bristow - I'm just here as a concerned citizen and I just have one question and that is, just based off what Mr. Kuhle said, can the City lose \$400,000 in three years. Gone - you get none of it back could you afford to do that. I mean - he's looking at, if you build a stand alone event center, you might have to cut other budgets to support the event center. If you support this private business and in 2 or 3 years it goes belly up where they can't afford to pay you back, even Mr. Campbell said that three years is a very short time frame for them to come up with the \$400 grand and he didn't think the place would cash flow that, very little of it and that the investors themselves would have to come up with the money. So if they're still going to have to come up with it why can't they come up with it today. That's all I have to say. Can the City afford to lose the \$400 grand.

Discussion followed.

The motion was made by Alderman Wood and seconded by Alderman Woll to close the hearing.

Alderman Kuhle asked if a member of the audience wished to speak.

Sunny Patel, Travelodge Hotel - I don't have a grievance with the hotel, hotel go ahead no problem. But when you guys decide for the .5% tax that time talked to put the hotel with the convention center. Never talked and never write it down on any paper. Only convention center - you put it in. Now why need the new hotel in the town. I'm not against the hotel right now. I'm against only the \$400,000. He have the money, he build up the 75 - 100 rooms hotel, I don't have any problem. But I disagree for the \$400,000, City gives the money, and this is a private business, and this is the company from Wisconsin people. Why should you not give it in town people to help out. I already approve for 2003 when Darlene tell me "Why you not go" I already give them proposal with Mr. Ken, before Ken, not Ken. When Ken is coming in President, my proposal is declined. I don't know why it's declined. Never asking me anything. I got 250 people for banquet room. I make for 500 people banquet room addition go like that too.

And second question - how surviving, number one. Holiday Express, Americinn, our hotel in town,

this is independent hotel, that's a different story. But, short form, I'm not angry for \$400,000, if he have the money he can build it, no problem, but City give the money then I need the money too. Why help out private investor with the money from City.

Discussion followed.

Judy Rieckhoff - I am sorry to come back with this again, as you can see I'm kind of a numbers person - I've been reworking the little yellow sheet. I 'm just look at if you provide approximately \$550,000 in TIF money and land it's 23% of the equity. What the bank would like to see for cash coming in according to my figures is \$2,000,379 and if a million four of that is coming from investors, that's 59% of that money. And if \$429 is coming from the developer, that's 18% of the money, and if 5500 is coming from the City that's 23% of the money. So I just want to be clear and reworking these numbers seems to me, once again, unless they're taking credit for the investors money, the City has more invested in this down payment equity money than the developer does.

The motion was made by Alderman Wood, seconded by Alderman Kuhle and unanimously carried to close the hearing.

The motion was made by Alderman Wood, seconded by Alderman Nelson and unanimously carried to approve up to \$400,000, with the stipulation that all personal guarantees are verified with a credit check, the loan is for up to three years, and a balloon payment, at 7% interest rate.

AGENDA APPROVED WITH EXHIBITS ADDED FOR CASE ITEM F.3

Craig Clark, City Administrator, noted the addition to the agenda of exhibits for case item F.3 *Lease Agreement with Bioverse, Incorporated for Utilization of the Biotechnology Advancement Center.*

The motion was made by Alderman Ten Haken, seconded by Alderman Kuhle and unanimously carried to approve the agenda with the addition of the exhibits as noted.

CONSENT AGENDA APPROVED

The motion was made by Alderman Woll, seconded by Alderman Wood and unanimously carried to approve the consent agenda as follows:

- City Council Minutes - Special meeting, July 9, 2012; regular meeting July 9, 2012; special meeting July 11, 2012; July 11, 2012 continuation of special meeting of July 9, 2012
- Minutes of Boards and Commissions - Worthington Housing and Redevelopment Authority Board of Commissioners Minutes of June 7, 2012; Worthington Housing & Redevelopment Authority Personnel/Finance Committee Minutes of June 15, 2012; Planning Commission Board of Appeals Minutes of July 10, 2012

- Financial Statements - Municipal Liquor Store Income Statement for the Period of January 1, 2012 through June 30, 2012; General Fund Statement of Revenues and Expenditures - Budget and Actual for the Period January 1, 2012 through June 30, 2012
- Application to block streets from the Worthington Area Chamber of Commerce Retail Committee for Crazy Day on Thursday, July 26, 2012 from 5:30 a.m. to 6:00 p.m. as follows:
Tenth Street from Second Avenue to Fifth Avenue with intersections open at Third Avenue and Fourth Avenue
- Application to Block a portion of a sidewalk from the Worthington Area Chamber of Commerce Retail Committee for a sidewalk sale from 8:30 a.m. to 8:00 p.m. on Friday, July 27, 2012 and from 8:30 a.m. To 5:00 p.m. on Saturday, July 28, 2012 on Tenth Street between Second Avenue and Fifth Avenue, and on Fourth Avenue between Tenth Street and 11th Street
- Application for off-sale beer license for Steven Taylor, Food & Fuel, 907 Diagonal Road.
- Bills payable and totaling \$816,840.97 be ordered paid

QUOTE FOR PHASE I PROPOSAL APPROVED FOR NEW SHELVING AT MUNICIPAL LIQUOR STORE

Two quotes were received for the Phase I enhancement project at the Municipal Liquor Store:

Stan Morgan & Assoc. for Lozier Shelving	\$6,430
Reco Store Equipment	\$9,977

Staff was recommending approval of the quote for Lozier Shelving.

The motion was made by Alderman Wood, seconded by Alderman Kuhle and unanimously carried to approve the quote from Stan Morgan & Associates for Lozier Shelving in the amount of \$6,430.

2012-2013 RENTAL AGREEMENT APPROVED BETWEEN CITY OF WORTHINGTON AND ISD 518 FOR USE OF THE MEMORIAL AUDITORIUM

The motion was made by Alderman Wood, seconded by Alderman Woll and unanimously carried to approve the 2012-2013 Rental Agreement between the City of Worthington and ISD 518 for use of the Memorial Auditorium at the contract rate of \$18,600.

The estimated costs of the contract were between \$22,000 and \$24,000.

LEASE AGREEMENT APPROVED BETWEEN CITY OF WORTHINGTON AND BIOVERSE, INC. FOR UTILIZATION OF THE BIOTECHNOLOGY ADVANCEMENT CENTER

The motion was made by Alderman Ten Haken, seconded by Alderman Woll and unanimously carried to approve the lease agreement between the City of Worthington and Bioverse, Incorporated for utilization of the Biotechnology Advancement Center, which includes the following terms:

- Two year guaranteed term with up to four years as an option;
- Lease rates of \$1 per square foot in the first year, \$2 per square foot in year two, \$3 per square foot in year three and \$5 per square foot in year four;
- Lessee is responsible for the real estate taxes and utilities;
- Improvements within the bays are at the lessee's expense with the exception of the air conditioning and 75 percent of the costs for a loading dock for pickups and deliveries;
- Provision for use of Bay 1 on a month to month basis and at \$2 per square foot;
- Lessee has the use of the common areas and classroom space at no charge; and
- Provision related to the lease if an option to purchase land in the bioscience park is exercised.

CONTRACT AWARDED FOR APRON A RECONSTRUCTION PROJECT - WORTHINGTON MUNICIPAL AIRPORT

The following bid was received on July 23, 2012 for the Apron A reconstruction project at the Municipal Airport:

<u>Engineer's Estimate</u>	<u>Russell Drainage, LLC</u>
\$516,872.50	\$534,640.00

Mead and Hunt were recommending award of the bid, which was 3.4% over the Engineer's estimate, contingent upon availability federal funds.

The motion was made by Alderman Nelson, seconded by Alderman Wood and unanimously carried to award the bid for the Worthington Municipal Airport Apron A reconstruction project to Russell Drainage, LLC in the amount of \$534,640.00, contingent upon receipt of a federal AIP grant to fund 90% of the project costs.

CONTRACT AWARDED FOR 2012 STORM SEWER IMPROVEMENTS PROJECT

The following qualified bids were received on July 23, 2012 for the 2012 Storm Sewer Improvements project:

<u>Engineer's Estimate</u>	<u>Russell Drainage, LLC</u>	<u>Larson Crane Service, Inc.</u>
\$97,227.40	\$89,477.00	\$95,399.50

Dwayne Haffield, Director of Engineering, noted an additional higher bid had been received but had to be discarded, and that staff was recommending award of the bid to Russell Drainage. The project provides for the reconstruction of storm sewer on 9th Avenue from Clement Street to an easement and alley corridor located approximately 200 feet west of Clement Street.

The motion was made by Alderman Wood, seconded by Alderman Woll and unanimously carried to award the bid for the 2012 Storm Sewer Improvements project to Russell Drainage, LLC in the low bid amount of \$89,477.00.

COUNCIL COMMITTEE REPORTS

Mayor Oberloh - nothing to report.

Alderman Ten Haken - nothing to report.

Alderman Kuhle - nothing to report.

Alderman Nelson - nothing to report.

Alderman Wood - The Water and Light Commission is looking at water usage and well levels as they are dropping but have not yet reached critical stage.

Alderman Woll - nothing to report.

CITY ADMINISTRATOR'S REPORT

Craig Clark, City Administrator, the Coalition of Greater Minnesota Cities (CGMC) is having a Thank LGA meeting here in Worthington on July 30th. Invitations have been issued - Mayor Coleman from St. Paul and Mayor Oberloh will attend. The intent is to educate people on LGA and the role it plays in local communities, Worthington specifically.

Alderman Ten Haken added that he and his wife, the Mayor, Clerk, and the City Administrator will be attending the CGMC Summer Conference in Owatonna later this week.

ADJOURNMENT

The motion was made by Alderman Kuhle, seconded by Alderman Woll and unanimously carried to adjourn the meeting at 9:33 p.m.

Janice Oberloh, MCMC
City Clerk