

**WORTHINGTON CITY COUNCIL
SPECIAL MEETING - WORK SESSION, OCTOBER 26, 2015**

The meeting was called to order at 5:00 p.m. in City Hall Council Chambers by Mayor Mike Kuhle with the following Council Members present: Scott Nelson, Diane Graber, Larry Janssen, Mike Harmon, Rod Sankey. Honorary Council Member: Amy Ernst.

Staff present: Steve Robinson, City Administrator; Brian Kolander, Finance Director; Janice Oberloh, City Clerk; Todd Wietzema, Public Works Director.

Others present: Justine Wettschreck, KWOA; Kristin Kirtz, Daily Globe; Brian Pellowski, 7 & 41, LLC; Kevin Donovan and Abraham Algadi, WREDC; Rebecca Kurtz, Ehlers and Associates; James Schultz and Rebecca Weisenberger, Dorsey & Whitney, and others as named on the attached attendance sheet.

The Pledge of Allegiance was recited.

PROMENADE ON OXFORD REDEVELOPMENT PROJECT PRESENTATION

Mayor Kuhle welcomed everyone to the meeting and welcomed Rebecca Kurtz, Ehlers and Associates - our financial Counsel, and James Schultz and Rebecca Weisenberger from Dorsey & Whitney, our legal and bond Counsel. Mayor Kuhle read an opening statement regarding the project and what the City's involvement has been, and requested that everyone be mindful of the EDA meeting that was scheduled to begin tonight at 6:45 p.m.

Kevin Donovan thanked Council for this opportunity and indicated that there would be three speakers for the project tonight: Abraham Algadi, Brian Pellowski, and Dan Schleck. Mr. Donovan provided a background on the three speakers.

Abraham Algadi called the redevelopment a complex project, and provided information on what he described as WREDC's role in the project to date. As part of their process, they decided to work with a market appraisal, with some type of specialty in redevelopment and tax increment financing, specifically related to bond finances. He visited with the County Administrator and was directed to go ahead and engage someone for the appraisal. There is an inherent gap in the market, and they are asking the City to keep an open mind until they get the appraisal done, to put a schedule in place, and to look at some of the scenarios that they identified before. It will require a partnership in a larger amount than the City is used to.

Brian Pellowski, owner of 7 & 41, LLC and of the former Northland Mall property, said he appreciated the opportunity to be here and wanted to clear up some misunderstandings or at least start a dialogue and get this project underway, adding that it's been two and half years and we aren't close to the start line. He pointed out that he had met with Council and Ehlers back in March or April on what the costs were going to be on this project and if there was going to be a shortfall, and which it appeared with the difference between the amount of tax increment and the amount of money needed to do the project, there was going to be a shortfall. It appears that there still is a shortfall.

He's heard there are rumors that the developer has not provided the numbers - he takes issue with that - they've provided the numbers they have with using contractors and using his expertise of 30 years. They are not 100%, but they believe they are sufficient for their request to build the infrastructure. - not build the buildings but to redo the infrastructure. They don't have final plans, final civil plans, and they won't have. Mr. Pellowski said there will be no other numbers coming to make a decision. He has worked for agreements with retailers, but those have come to an end because of the delay.

Mr. Pellowski said he has spent \$110,000 in civil fees, and \$120,000 in architect fees, and has a quarter of a million in legal and other fees - he is not willing to commit any more without an agreement in place. The TIF revenues are already being affected.

Mayor Kuhle said the City was aware going in to this that we would need to do everything possible, but we need to follow legal advice, bond counsel, and TIF counsel. The City has created 16 TIFs - a handful of them were around a million dollars, but the rest were much less than that, and 11 of those were true pay-as-you-go. We don't have the information we need to go forward.

Mr. Pellowski said the City was asking for significantly more information than the City of Marshall did for his project there. Mayor Kuhle noted that the TIF in Marshall was a true pay-as-you-go, so there was no risk for the City, but the request to the City of Worthington was for a full GO Bond where we bond up front for the \$4 million, or whatever that is when we get the market assessment, which is a pretty significant hit on the tax payers. Mr. Pellowski also said if the City was looking for everything to be in good order it's not going to happen - he is not willing to risk hundreds of thousands of dollars until we have a deal and there won't be any deals with any of the other players either. TIF financing is to level the playing field - that's all they are asking for. They need \$9.8 million, and it won't support that, and they will likely be several million short. In response to a question from Mayor Kuhle, Mr. Pellowski said he has not sought additional investors in his project. Mayor Kuhle said the State has given us two tools, TIF financing, and other than forgivable loans/job creation type programs, we don't have the ability to put in another 3 or 4 million dollars

Rebecca Kurtz, Ehlers and Associates, said what they've estimated using the County Assessor's numbers is \$5.3 million over the 26 year term, but if that is financed in any way, for example a GO Bond, we would be looking at having it at only \$2.8 million.

Council and Mr. Pellowski discussed the minimum assessment and the use of an independent assessor. Ms. Kurtz said they would default to whatever the County provides. James Schultz, Dorsey and Whitney, said it is possible that the County could be informed by another assessor of their assessment of the property, but he has never seen an instance where ultimately the City has to rely upon judgement of the County Assessor to determine in assessing whether or not you could issue bonds in connection with a project like this.

Discussion was held on the minimum assessment. Todd Frager, owner of the Northland Cinema

Theater was present at the meeting and spoke of his concerns and the possibility that Worthington may end up with no theater.

Dan Schleck, Mr. Pellowski's attorney, provided a power point presentation that addressed the different risks in development projects and how to manage that risk, noting that you have to keep your goals in mind. He addressed public / private relationships and risk and political risk. He noted the biggest tool the City has is to require Brian to put up a personal guarantee. Mr. Schleck also talked about the differences between the pay-as-you-go TIF vs a GO, indicating that there really was not much risk difference between the two in the case of a minimum assessment agreement. If we can agree on a reputable third party appraiser we can get past this issue and move on.

Rebecca Kurtz said she differed with Mr. Schleck's statement regarding the risk difference between the pay-as-you-go and the GO - the risk is very minimal with the pay-as-you-go, however, issuing a GO would require the City to pay if Mr. Pellowski did not. Mr. Schleck responded that the City's risk with GO would be managed by the minimum assessment agreement, and the personal guarantee of Mr. Pellowski. Ms. Kurtz also reminded Council that with the issuance of GO tax increment bonds you have pledged at that time your general obligation and full faith and credit of the taxing powers should there be any shortfalls. James Schultz agreed with Ms. Kurtz, adding that it sounds like there will be financials with that - could Mr. Schleck walk us through the process of how to get them. Mr. Schleck said an agreement would be needed first because the lender won't start investigating them until there is an agreement in place. If this project doesn't go there will be no property tax relief for the residents here, and for some time the Council has been representing to the citizens that this project is going to go. Mr. Schleck added that there will likely be lawsuits if this doesn't go forward.

ADJOURNMENT

The motion was made by Council Member Sankey to adjourn the meeting at 6:45 p.m.

Mayor Kuhle requested to read a closing statement indicating that everyone at the City is extremely excited about this project but as a government entity we're obligated to comply with applicable laws, including state statutes and tax increment financing act regarding the expenditure of public funds. We must have all the information necessary for us to perform our due diligence to determine that we are complying with the law, that we are being fiscally responsible to the tax payers and that we do not place undue risk on the public.

The motion was seconded by Council Member Nelson.

Mr. Schleck said that was very succinctly put, but if Council wants this to happen Council has to direct staff to make this happen on a schedule certain. There's been a lot of wheel spinning and we need to get out of that.

Worthington City Council
Special Meeting - Work Session, October 26, 2015
Page 4

The motion to adjourn was unanimously carried.

Janice Oberloh, MCMC
City Clerk