



# REQUEST FOR ECONOMIC DEVELOPMENT AUTHORITY ACTION

Date: 12/02/2019  
Item No.: Closed Session

Department Approval

Executive Director Approval

*Janice Gundlach*

*Patricia Ferguson*

Item Description: Consider Options for 196 South McCarrons Boulevard

1 **BACKGROUND**

2 On October 7, 2019 the Roseville Economic Development Authority (REDA) met in closed session to  
3 discuss offers made by Northeast Bank in regards to various mortgage and development interests with  
4 196 South McCarrons Boulevard (Attachment A). Staff was directed to counter offer NE Bank with a  
5 REDA offer of \$10,000 to buyout their 1<sup>st</sup> lien position or \$50,000 to the REDA to release the  
6 Development Agreement. NE Bank sent the attached e-mail (Attachment A) explaining their decision  
7 to not accept the REDA's counter offer and reaffirming their offer of \$25,000 to buyout their 1<sup>st</sup> lien  
8 position or \$40,000 to the REDA to release the Development Agreement.

9  
10 **BUDGET IMPLICATIONS**

11 The costs associated with the possible options are provided in Attachment B.

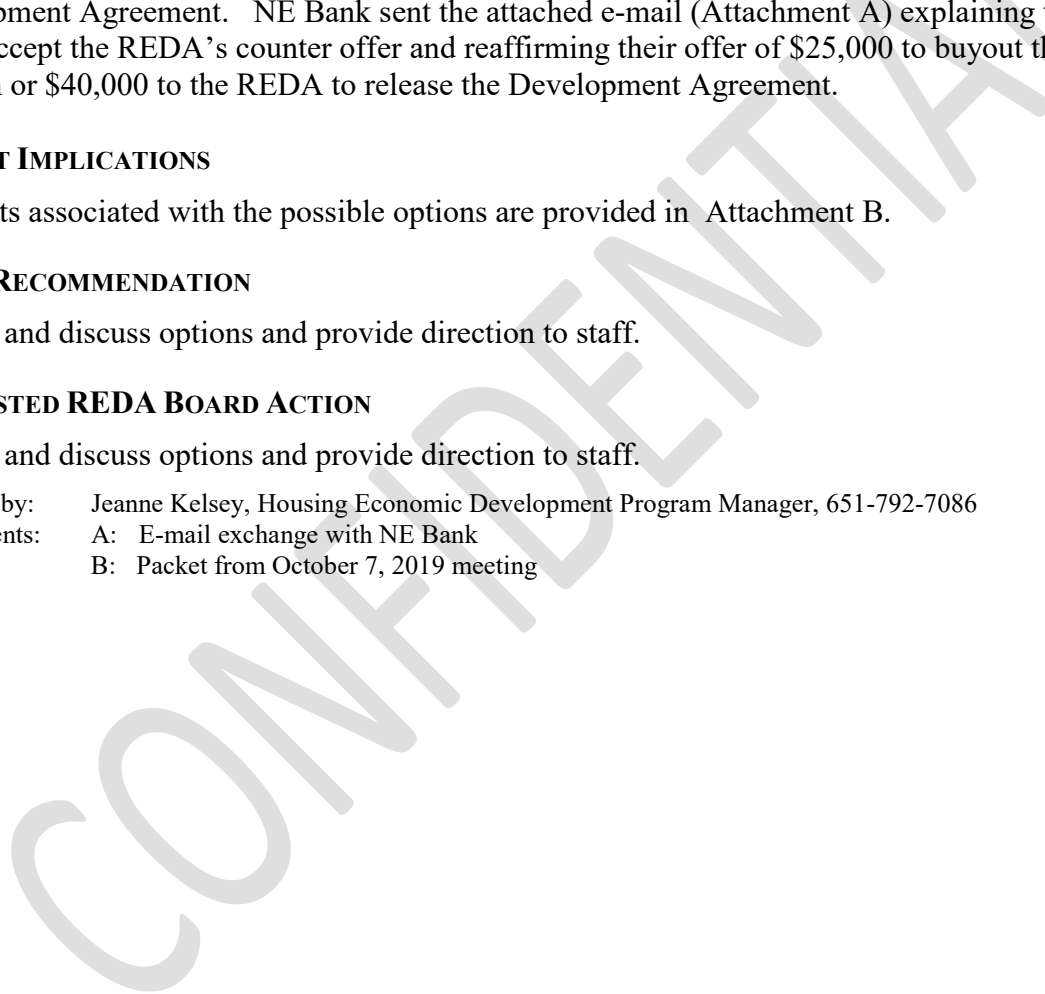
12 **STAFF RECOMMENDATION**

13 Review and discuss options and provide direction to staff.

14 **REQUESTED REDA BOARD ACTION**

15 Review and discuss options and provide direction to staff.

16 Prepared by: Jeanne Kelsey, Housing Economic Development Program Manager, 651-792-7086  
Attachments: A: E-mail exchange with NE Bank  
B: Packet from October 7, 2019 meeting



**From:** [Janice Gundlach](#)  
**To:** [Pat Trudgeon](#); [Jeanne Kelsey](#)  
**Subject:** FW: 196  
**Date:** Friday, November 15, 2019 4:06:51 PM  
**Attachments:** [image002.png](#)  
[image003.png](#)

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FYI, see below from Northeast Bank. I told Mike we were leaning towards a December 2<sup>nd</sup> meeting to discuss. Jeanne and I will plan on that (and let Martha know) unless you tell us otherwise.

**Janice Gundlach | Community Development Director**

O: 651.792-7071

[janice.gundlach@cityofroseville.com](mailto:janice.gundlach@cityofroseville.com)



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**From:** Mike F. Scholl <MScholl@nebankmn.com>  
**Sent:** Friday, November 15, 2019 3:22 PM  
**To:** Janice Gundlach <Janice.Gundlach@cityofroseville.com>  
**Subject:** RE: 196

**Caution:** This email originated outside our organization; please use caution.

Janice – Thank you for the continued dialogue on 196 McCarrons. We appreciate the offers listed below, however we would like to request that the city reconsider the bank’s previous offer from 9/23/19 (see below):

- 1) Northeast Bank to release our mortgage to the City of Roseville on the 196 South McCarron Blvd property in exchange for \$25,000.
- 2) Northeast Bank to purchase the City of Roseville’s interest in the 196 South McCarron Blvd property for \$40,000. The EDA would need to release its mortgage and development agreement as part of any agreement.

With regards to option 2, I wanted to briefly explain our rationale behind the \$40,000 offer. Our forecast would be that both sides end up at roughly that number, essentially splitting the difference. Estimated appraisal is \$115K with the following deductions:

\$11,500	10% deduction for bank owned property (history for the industry is closer to 15% to 20%)
\$7,000	RE Broker selling cost
\$15,500	RE Tax & assessments
\$5,000	Soft/closing costs estimate

If you take the \$115,000 value and subtract the \$39,000 listed above, net is \$76,000. We offered

\$40,000 to city, which would net the bank roughly \$36,000. The last offer from the city was \$50,000, which would result in an estimated \$26,000 to the bank. The bank has a current loan balance of roughly \$155,000 remaining.

A brief update on our end, as I mentioned via phone a couple weeks ago, the foreclosure process has started. Notice of pendency has occurred and there will be 6 weeks publication of the notice of foreclosure. First week of publication was 10/31/19. Sheriff sale will likely be scheduled for 12/30/19. The bank has also resolved a number of nuisance code issues on the property per the city's request. Our intent is to request an accelerated redemption period of 5 weeks and we anticipate that the foreclosure process to be complete by 2/27/20. A point of clarification on timing, if option 2 is agreeable to the city, the bank would pay out the \$40,000 at end of foreclosure process. The bank would list the property for sale immediately following fee title ownership.

Northeast Bank wishes to maintain continued dialogue with the City of Roseville in regards to a path forward toward a resolution of the failed project by Journey Homes. We would entertain any feedback you have regarding this offer and would appreciate a response by November 26, 2019. Please feel free to contact me with any questions, concerns, or acceptance.

Thanks,

**Michael Scholl** | Senior Vice President – Commercial Loans

**Phone:** (651) 529-1461 | **Fax:** (651) 529-1680 | **Email:** [mscholl@nebankmn.com](mailto:mscholl@nebankmn.com)

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**From:** Janice Gundlach [<mailto:Janice.Gundlach@cityofroseville.com>]

**Sent:** Tuesday, October 08, 2019 3:23 PM

**To:** Mike F. Scholl <[MScholl@nebankmn.com](mailto:MScholl@nebankmn.com)>

**Cc:** Pat Trudgeon <[Pat.Trudgeon@cityofroseville.com](mailto:Pat.Trudgeon@cityofroseville.com)>

**Subject:** RE: 196

Hey Mike,

Here is what the EDA directed staff to communicate back to Northeast Bank following our closed session yesterday:

- The EDA will purchase Northeast Bank's mortgage at a discounted price of \$10,000, or
- The EDA will accept \$50,000 to release their Development Agreement.

Please let me know if the bank intends to accept either of these offers. The next opportunity for the EDA to meet and discuss this issue is October 21, 2019.

I appreciate your continued efforts to resolve the nuisance code issues on the property.

Let me know if I can answer any questions, thanks!

**Janice Gundlach | Community Development Director**

O: 651.792-7071

[janice.gundlach@cityofroseville.com](mailto:janice.gundlach@cityofroseville.com)



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## REQUEST FOR ECONOMIC DEVELOPMENT AUTHORITY ACTION

Date: 10/7/2019  
Item No.: Closed Session

Department Approval

Executive Director Approval

*Janice Gundlach*

*Patricia J. Trueman*

Item Description: Consider Options for 196 South McCarrons Boulevard

### 1 BACKGROUND

2 On September 16, 2019 the Roseville Economic Development Authority (REDA) met in closed session  
3 to discuss offers made by Northeast Bank in regards to various mortgage and development interests with  
4 196 South McCarrons Boulevard (Attachment A). Staff was directed to counter offer NE Bank with a  
5 REDA offer of \$10,000 to buyout their 1<sup>st</sup> lien position. NE Bank has counter offered with a request to  
6 pay them \$25,000 to buyout their 1<sup>st</sup> lien position. In addition, NE Bank has increased their offer to  
7 buy out the REDA's 1<sup>st</sup> lien position to \$40,000 (\$35,000 was originally offered) (Attachment B).

8  
9 Staff offers the following points in considering whether or not to accept either counter offer (Attachment  
10 C):

- 11 • If the REDA pays NE Bank \$25,000, the REDA will have invested, to-date, \$175,266. Staff  
12 would advise the REDA there will be additional legal costs as it relates to foreclosing on the  
13 property to remove any other liens.
- 14 • If the REDA accepts NE Bank's offer of \$40,000 to release the 1<sup>st</sup> lien position, the REDA's  
15 costs will be reduced to \$86,952. The bank will still need to go through the foreclosure process  
16 and the REDA will no longer have use guidelines on the property beyond those inherent in the  
17 underlying zoning of the property.

18 Staff has been informed that NE Bank will be starting the notices by advertisement for the foreclosure  
19 proceeding and wishes to get this liability off their books by the end of the year. This does not affect  
20 any of the options described above. Northeast Bank has indicated the above described offers represent  
21 their best and final offers.

### 22 BUDGET IMPLICATIONS

23 The costs associated with the possible options are provided in Attachment C.

### 24 STAFF RECOMMENDATION

25 Review and discuss options in Attachment B and provide direction to staff.

### 26 REQUESTED REDA BOARD ACTION

27 Review and discuss options in Attachment B and provide direction to staff.

28 Prepared by: Jeanne Kelsey, Housing Economic Development Program Manager, 651-792-7086  
29 Attachments: A: Spread sheet from September 16, 2019 closed door session  
B: E-mail exchange with NE Bank  
C: Estimated EDA costs

**Details Regarding Development Agreement Options for 196 South McCarrons Boulevard**

When considering the options and scenarios detailed below, please note the following:

1. The REDA Development Agreement (DA) is in first position. Any development of the property is controlled by the terms of the DA unless the REDA releases it or amends it to remove the restrictions (i.e.Exhibit F).
2. The REDA has cashed the escrow of \$10,000. (See attached spreadsheet for total out-of-pocket expenses)
3. NE Bank has first mortgage in maximum amount of \$249,400, of which \$155,476.43 has been drawn down.
4. The property has been vacant since removal of the structure on November 27, 2018. The removal costs have been abated to property.
5. Mechanics liens have been filed against the property. Foreclosure proceedings by NE Bank or the REDA is the only way to clear said liens from the property title.

	<b>NE Bank Option 1</b>	<b>NE Bank Option 2</b>	<b>Foreclosure</b>	<b>Tax Forfeiture</b>
<b>Scenario</b>	<p>REDA purchases NE Bank mortgage at discounted price of \$50,000.</p> <p>(Previous offer from NE Bank proposed a price of \$125,000).</p> <p>There are mechanics lien on the property and the EDA would need to foreclose after the bank.</p>	<p>NE Bank buys out EDA’s interest in the property for \$35,000 and sells the property. REDA releases DA.</p> <p>(Previous offer from NE Bank proposed \$20,000).</p>	<p>REDA does not agree or does not negotiate with NE Bank then NE Bank has indicated it will foreclose on the property regardless as the bank would like to clear title to the property from all liens.</p>	<p>NE Bank indicates it will not be paying any of the property taxes after the foreclosure proceedings. If the bank is not able to sell property, the taxes will continue to be delinquent.</p> <p>The current balance for unpaid property taxes is \$2,354.76.</p>
<b>Pro</b>	<p>1. REDA still in control of lot and type of home to be built on the property.</p>	<p>1. REDA out of deal but has recouped some costs.</p>	<p>1. The REDA remains in first position with the recorded development agreement.</p>	
<b>Con</b>	<p>1. There is no assurance of full repayment of the additional \$50,000. REDA would be investing an additional \$50,000 to the \$150,266 currently out by the City and REDA.</p> <p>2. To work with an alternate developer, REDA would have to foreclose on NE Bank mortgage or exercise right of reverter.</p>	<p>1. REDA out \$91,952.</p> <p>2. No assurance of what will be built on property.</p>	<p>1. Foreclosure by the bank could potentially eliminate any possibility of recovering the \$35,000, which means the REDA is out \$126,952 on this property.</p>	<p>1. A tax forfeiture would wipe out the first position of the REDA Development Agreement and all of the abatements. (The City may recover unpaid utilities from the sale of property in the future and may also re-abate the property.)</p>

**From:** [Janice Gundlach](#)  
**To:** [Jeanne Kelsey](#)  
**Subject:** FW: Offer Letter  
**Date:** Tuesday, September 24, 2019 7:37:23 AM  
**Attachments:** [image001.png](#)  
[image002.png](#)

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Fyi, I got this last night. Pat and I already talked and would like to do the closed session on October 7<sup>th</sup>. Can you see if Martha is available?

**Janice Gundlach | Community Development Director**

O: 651.792-7071

[janice.gundlach@cityofroseville.com](mailto:janice.gundlach@cityofroseville.com)



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**From:** Mike F. Scholl <MScholl@nebankmn.com>  
**Sent:** Monday, September 23, 2019 5:25 PM  
**To:** Janice Gundlach <Janice.Gundlach@cityofroseville.com>  
**Cc:** Pat Trudgeon <Pat.Trudgeon@cityofroseville.com>  
**Subject:** RE: Offer Letter

**Caution:** This email originated outside our organization; please use caution.

Thank you again Janice and Pat for all your efforts on this. Given the city's response below, Northeast Bank would like to make one final offer (2 options) for your consideration:

- 1) Northeast Bank to release our mortgage to the City of Roseville on the 196 South McCarron Blvd property in exchange for \$25,000.
- 2) Northeast Bank to purchase the City of Roseville's interest in the 196 South McCarron Blvd property for \$40,000. The EDA would need to release its mortgage and development agreement as part of any agreement.

We would entertain any feedback you have regarding this offer and would appreciate a response by October 8, 2019. Please feel free to contact me with any questions, concerns, or acceptance. My direct dial line is (651) 529-1461.

Thanks,

**Michael Scholl | Senior Vice President – Commercial Loans**

**Phone:** (651) 529-1461 | **Fax:** (651) 529-1680 | **Email:** [mscholl@nebankmn.com](mailto:mscholl@nebankmn.com)

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**Costs Associated with Buying 196 S. McCarrons through the Housing Replacement Program**

Home Acquisition	\$101,038	
Appraisals	\$1,000	
Legal-closing, contracts, amendments to agreements	\$ 8,984	
Demolition	\$ 12,650	
Holding costs of Utilities/Maintenance/Taxes	\$ 2,699	
<b>Total</b>	<b>\$126,370</b>	
Appraised Value Vacant Lot - 2nd Mortgage Amount		\$115,000

**Costs Associated with Journey Home Acquisition after Closing**

Costs Associated with buying, holding prior to Journey Home	\$126,370
Legal related to nonperformance	\$10,582
<b>Total REDA funds expended to date</b>	<b>\$136,952</b>

Abatement-demolition, maintenance to be certified \$13,314

**Recovery of Costs**

Abatement payment on property	\$13,314*	
Escrow deposit secured against nonperformance		\$10,000
Proposed NE Bank payment for release of Development Agreement		<u>\$40,000</u>
<b>Total</b>		<b>\$50,000</b>

**Total out of EDA pocket \$ 86,952**

**\*Ability to recover is uncertain**

**EDA to purchase lot, total out of pocket**

Total costs to date	\$136,952
Abatements	\$13,314
Payment to NE Bank for release of Mortgage	\$25,000
Additional legal related to foreclosure process	<u>???</u>
	<b>\$175,266+++</b>