

The Verso Paper Mill Site

**A ULI Minnesota Technical Assistance Panel
for the City of Sartell, MN**

December 7th, 2016



**Urban Land
Institute**

Minnesota

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The Verso Paper Mill Site TAP Background

About Technical Assistance Panels (TAPs)

The Urban Land Institute Minnesota (ULI MN) conducts Technical Assistance Panels (TAPs) at the request of a community or public agency to provide an unbiased, interdisciplinary panel of volunteer real estate professionals who address a specific project, development or policy issue. The workshop is preceded by analysis of background information provided by the sponsor, planning sessions, community interviews, and site tours. The panel's findings and recommendations are documented in a written report. Panelists are ULI MN members and leaders from across the real estate and land use industries who volunteer their time and talent because of a commitment to making positive economic, environmental and social impacts in our communities.

The Panel

Keith Ulstad, *United Properties* **TAP Chair**
Phil Cattanaach, *OPUS*
Steve Feneis, *Granite City Properties*
Monte Hilleman, *Saint Paul Port Authority*
Tony Kuechle, *Doran Companies*
Kendra Lindahl, *Landform*
Mike Sturdivant, *Paster Properties*

ULI Minnesota Staff

Cathy Bennett, *Housing Initiative*
Gordon Hughes, *Advisory Services*
David Baur, *Director*

About the Verso Paper Mill Site

The Verso Paper Mill site was a fixture in Sartell for more than a century, dating back to the Watab Pulp and Paper company in 1905. This longstanding operation came to an end when an explosion and fire on Memorial Day in 2012 damaged the facilities beyond repair, an event that is well-remembered across the state of Minnesota. The subsequent decision by Verso to forgo rebuilding the plant and to discontinue operations in Sartell resulted in a loss of 260 jobs on top of 175 lost in layoffs six months prior to the explosion. This also led to a loss of over \$1 million in property taxes for Sartell and Benton County and a loss of over \$150,000 a year in water, sewer, and utility revenues. The site was sold to AIM Development LLC which acquired it to salvage materials. All damaged structures were demolished, except for two buildings which survived the fire.

The demolition and salvage process required an Interim Use Permit (IUP) and the City of Sartell also required AIM to participate in the Minnesota Pollution Control Agency's (MPCA) Voluntary Investigation and Cleanup (VIC) program. AIM was required to post performance bonds to assure compliance with the terms of the IUP. A preliminary environmental analysis revealed the possibility of contaminants such as arsenic, cadmium and lead; however, removal and remediation were not required if the property remains vacant. A market analysis and redevelopment planning process was also required, which AIM postponed in

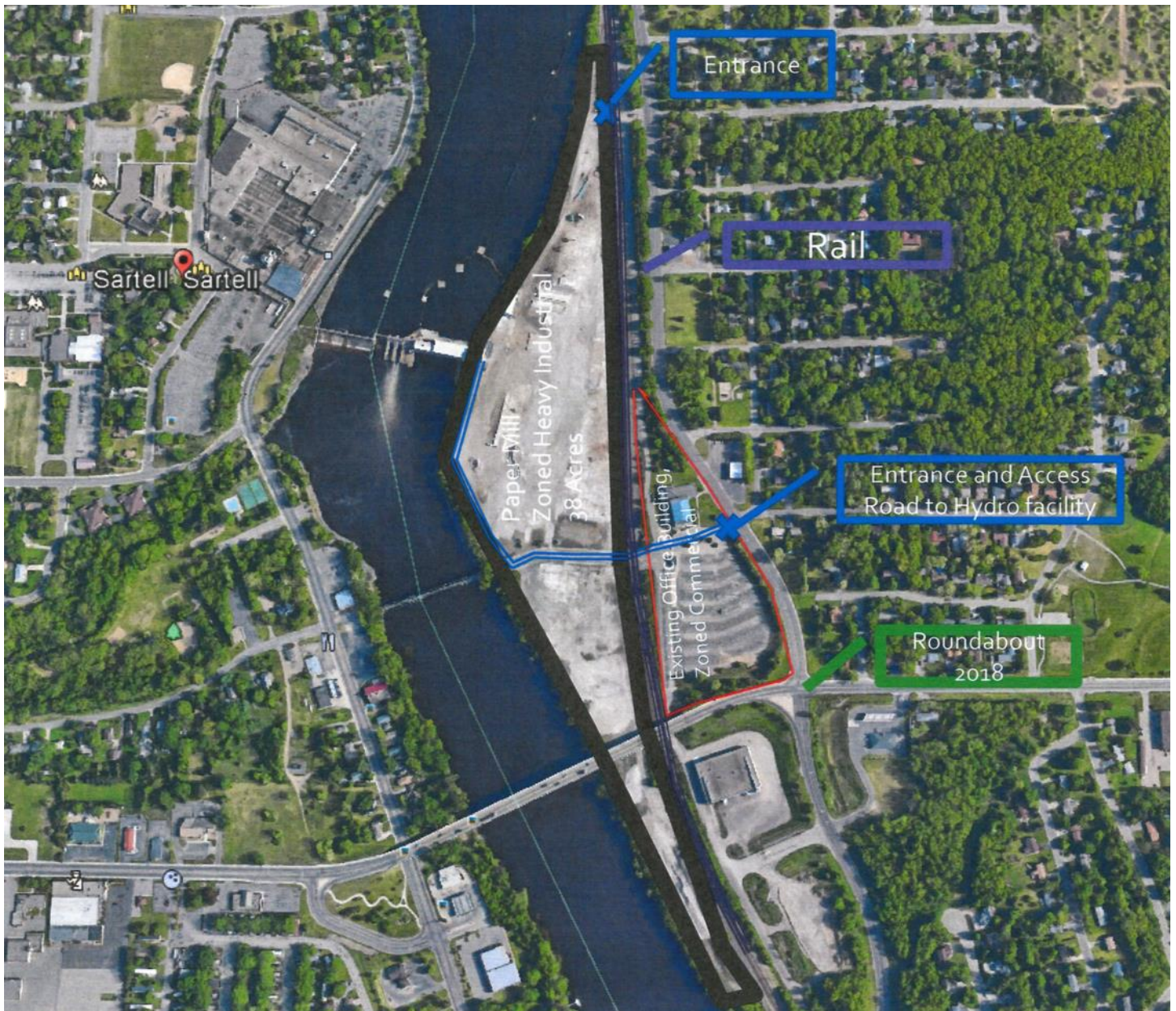
Site Details

- 38 acres zoned Heavy Industrial**
- 20 acres zoned Commercial/Light Industrial**
- Adjacent to active BNSF rail line**
- Contains a private rail spur off the main rail line.**
- Two access points, both at-grade with the rail line**
- Roundabout construction at Benton County Drive in 2018**
- Hydroelectric plant with access through the site**

2014 pending resolution of the environmental review. However, more detailed environmental testing has not been undertaken.

AIM has completed its salvage efforts and demolished the damaged structures. However, footings and foundations for the buildings remain, which AIM has suggested could be repurposed in a new development. The city and AIM are at an impasse regarding whether AIM is responsible for removing the footings and foundations and completing further environmental analysis. The city has refocused on the paper mill site as part of the comprehensive planning process, wanting to ensure the plan aligned with the city's long term vision for I-2 (heavy industry) properties along the river. A task force was formed, and a moratorium on new uses on I-2 properties was enacted, including the paper mill site. At the request of the City of Sartell, the TAP was convened to help inform the task force. This report constitutes the panel's opinions as to the future potential of the paper mill property and is submitted for the task force's consideration.

AERIAL PHOTO OF PAPER MILL SITE



Panel Findings

These findings are based on the panel’s opinions and analyses as real estate, planning, finance, and development professionals regarding what would best position the Verso Paper Mill site for redevelopment in the coming years. While the panel considers these ideas and suggestions sound, they are not directives. There is no substitute for developers with motivation and vision. Should partners come to the table with proposals that do not align with these findings but otherwise meet the city’s goals, there should be no hesitation in moving forward.

REDEVELOPMENT WILL NOT HAPPEN UNTIL THE SITE’S FULL ENVIRONMENTAL CONDITIONS ARE KNOWN

AIM participated in the MPCA’s Voluntary Investigation and Cleanup (VIC) program and it is the panel’s understanding that a determination of “No Action” was reached for the site’s environmental conditions based on the preliminary investigation and remediation completed thus far. However, this determination reflects leaving the site as is and does not indicate that any new development can take place without further cleanup action.

“Nothing is going to happen until the problem is quantified. It is an illiquid asset until you know what's in the ground.”

Keith Ulstad
United Properties

In the panel’s opinion, the current condition of the property has not been fully and adequately documented from a contamination standpoint. The uncertainty this creates will deter redevelopment because prospective developers will not be willing to take on the risk of conducting further environmental review only to learn remediation will be prohibitively expensive. At minimum, developers will expect to know what is required upfront and, ideally, they would prefer a site that is ready to go. It is the panel’s belief that until the uncertainty is removed, the site will remain vacant. The uncertainty and risk significantly outweigh any upside for redevelopment.

BEYOND THE ENVIRONMENTAL CONCERNS, THE SITE HAS BOTH CHALLENGES AND ADVANTAGES

The unknown “cost to cure” the site’s possible contamination is the biggest impediment to redevelopment, but it is not the only one. The panel does not believe that the existing footings, foundations and concrete pads can be feasibly reused as AIM has suggested, which will likely require further site preparation to enable new construction.

Access to the site is limited on all sides due to an active railroad track to the east and the river to the west, south, and north. The BNSF rail line along the eastern edge of the site carries 40+ trains each day traveling at around 50 miles per hour as they pass the site. The tracks are also at-grade with the two access points to the site, creating delays for ingress/egress to/from the property when trains are passing. These noise and access issues will be challenging for any non-industrial users, and would likely increase the cost of redevelopment for such projects. The power plant with easement access to the site could also be an issue for prospective future developments as it may create some limitations on how the property can be reconfigured.

There is a flipside to each of these characteristics. For the right users, some of these could be an asset rather than a liability. The site has a rail spur that could be attractive for industrial projects, and the availability of nearby power generation may be viewed as an asset. Being adjacent to the river is a clear selling point for residential or recreational uses if the access impediments caused by the rail line could be overcome. The historic bridge connecting the east and west banks is a unique feature that would significantly enhance the appeal of the site if restored as a safe walk/bike path.

THE CITY NEEDS TO FIND A WAY TO BREAK THE CURRENT LOGJAM WITH AIM

The panel's conversations with both AIM and representatives of the city suggest that redevelopment discussions have stalled based on AIM's contention that it has done what it was required to do via the IUP and the city's disagreement with that assessment. Step one in moving forward must involve a fresh approach to this relationship. Panelist Kendra Lindahl of Landform said, "There is no downside to trying to be clear about restarting the process and what it would take to bring it to a close."



The panelists analyze and discuss the site's properties.

The diminished tax value of the site and low holding costs makes it relatively easy for AIM to take a slow, wait-and-see approach. At this point the city may be more motivated to see activity on the site and should take the lead on getting the ball rolling again. The panel believes it would be money well spent if the city participated in the next phase of environmental assessment; however, there are other options available that should be considered. The city should look to extend an olive branch by offering to partner to obtain the funding for additional environmental review through a program such as the Department of Employment and Economic Development's (DEED) [Contamination Cleanup and Investigation Grant](#) program. Encouraging AIM to bring on a local owner's representative that understands the state's brownfields processes and programs as well as the Sartell market would help with communication and timely action. This person should have independent authority to negotiate on AIM's behalf and, ideally, to make decisions in that negotiation as well. The presence of an AIM representative quite literally at the table with the Sartell task force will help accelerate the process and make finding solutions more collaborative.

While the panel believes an amicable resolution is possible, the city must know what legal leverage it has with respect to non-performance on the performance bonds. The goal should be to reengage with AIM and find a new path forward while being prepared to protect the city's interests in getting the paper mill site to market.

MAKE THE SITE "SHOVEL READY" AND GIVE THE LAND AWAY OR SELL IT FOR A NOMINAL PRICE

The panel believes the paper mill site's most economically feasible use is industrial as outlined in detail in question four [in the section below](#). The current value of the site for any reuse may be starting from a negative valuation—the cost to remediate it and prepare it may exceed its value. Additionally, it is competing against other "shovel ready" parcels in the region that could be built on immediately. Panelist Steve Feneis of Granite City Properties provided his insight on the market for new industrial properties in and around Sartell, noting the site's limitations apart from the river and the rail spur. He said, "You can buy ready-to-go, developable sites for \$1.25 a square foot that share the other positive qualities of this site without the risks."

The proximity to the river presents an interesting opportunity for a residential or mixed development reuse of the property. However, the panel was particularly troubled by the investment needed to overcome the access limitations posed by the active rail line and the large number of high speed trains using this route. As with industrial sites, it appeared to the panel that there were numerous opportunities in the Sartell market for residential development without the attendant costs associated with this site. In the panel's opinion, the high

costs of a grade-separated access and other mitigation costs due to the rail line appeared to override the benefits of proximity to the river.

The panel believes that the site needs to be in a “shovel ready” state before developers will show interest. Even if “shovel ready,” the site must compete with all other similar sites in the Sartell market. If finding a user for this site is a high priority for the city, then the true value of the site will be in its ability to attract jobs and help rebuild the tax base that were lost following the mill closure, not in the proceeds of a land sale. Finding a way to transfer the property in a ready-to-go state to a prospective developer for a nominal fee would be the most significant competitive advantage the site could have. In the panel’s conversation with AIM, the notion of using the property as a tax write-off was floated, and AIM indicated that was not a worthwhile option for their organization; however, the panel feels the city should keep this option on the table while also looking at other ways in which the property might be made available to developers for a very low acquisition cost.

“This is not a site you're going to drive a user to without incentivizing it. The jobs and tax base are the value, not the land.”

Monte Hilleman
Saint Paul Port Authority

Panel Response to Questions

The following questions were developed by the City of Sartell for the panel's consideration as they evaluated the paper mill site. The [Panel Findings](#) section addresses these items as well; however, the panel also provided direct answers to each specific question. This section of the report organizes and presents those responses, providing additional detail to the findings above.

Question 1.

DOES THE CURRENT STATE OF THE PROPERTY (RECENTLY DEMOLISHED WITH EXISTING FOOTINGS/FOUNDATIONS STILL IN PLACE) AFFECT THE REDEVELOPMENT POTENTIAL?

Yes, the current state of the site negatively affects its redevelopment potential, and in the opinion of the panel the property is not saleable in its present condition for an alternate use. Regarding the footings and foundations that remain onsite, the panel does not see those as contributing any value to the property. At best, some concrete pads could possibly be left in place at some locations, but in all likelihood, they will need to be completely removed to facilitate redevelopment.

Having footings and foundations in place defines building footprints at a site where any prospective user would almost certainly want the freedom to start from scratch. Even in the unlikely event that the existing footprint aligned perfectly with a desired use, reusing the structures would be cost prohibitive compared to building new. It is also highly unlikely that a structural engineer would sign off on their use and lenders would not be willing to take on the type of risk associated with such a project.

Although the remaining footings and foundations are a detriment, the unresolved state of the site's environmental cleanup is the biggest barrier to redevelopment. Developers can price the cost of removing footings and foundations with reasonable accuracy, but they cannot accurately price the risk of additional environmental cleanup when it remains unknown what precisely must be done to remediate the site. Until these uncertainties are addressed, the panel believes the site is effectively unmarketable. No developer or prospective tenant will be willing to take on the risk of a costly remediation process without knowing upfront what is required and the likely cost with some certainty.

"Even if you could somehow incentivize a user with lower rents, the amount of uncertainty associated with the site is likely to be such a major deterrent it won't matter."

Phil Cattanach
OPUS

Question 2.

IN GENERAL TERMS, WILL THIS PROPERTY BE COSTLIER TO DEVELOP THAN OTHERS. IF SO, WHY?

Given the property's long tenure as an industrial site, there is a strong possibility that it will be costlier to redevelop than other properties; however, the unknown remaining cost to remediate the site means it is impossible to know the redevelopment cost with any certainty. Determining what additional remediation would be required may cost upwards of six figures, and it is unlikely a developer in this market would front that expense.

Other aspects of the site could make it more expensive including footing and foundation removal. If the site were targeted for any use other than industrial, it would require significant infrastructure improvements, most notably grade-separated access. The historic bridge on the site could be a fantastic amenity for residential or

recreational users, but the price tag to restore it provided by MnDOT of \$3 million is a major challenge added onto normal redevelopment and infrastructure costs.

Finally, even in markets with a high volume of transactions, former industrial sites often require incentives to trigger redevelopment. Even after environmental remediation this site is unlikely to attract a wide range of users. Instead, it will come down to finding a willing partner with a specific desire to be at this location—perhaps because of the rail spur, a specific workforce need that is available in this market, or even a connection to the community. Incentivizing a good project may be what it takes to get a deal done, which further drives up costs. As noted above, Steve Feneis of Granite City Properties observed that the going rate for industrial sites in the region is approximately \$1.25 per square foot. This is the value against which the paper mill site will be compared by potential investors and developers.



Around 40 BNSF trains pass along the site each day

Question 3.

HOW CAN THE CITY AND THE PROPERTY OWNER MAXIMIZE THE REDEVELOPMENT POTENTIAL OF THE SITE?

Knowledge is power, and maximizing redevelopment potential means the market needs to know a lot more about the property than it currently does. What is the “cost to cure” for the site’s environmental conditions? Will any further demolition of the footings and foundations take place? “You have to remove the unknowns,” Mike Sturdivant of Paster Properties said.

The city should consider helping to remove unknowns by pursuing a [DEED investigation grant](#) to help cover the cost of the next phase of environmental investigation. A grant application to verify compliance with the IUP could be completed in partnership with AIM as a way of returning to the table with a path forward. Because the panel views the property as unsaleable without these unknowns addressed, learning what it will take to fully remediate the site will be money well spent even if some had to come from the city.

AIM could further improve redevelopment potential by bringing on an owner’s representative to take the lead on marketing the site and working with the City. While AIM has indicated a desire to be a part of a quality redevelopment proposal, it was clear to the panel that real estate development is not a primary function of their organization. A local owner’s representative who knows the challenges and opportunities of brownfield redevelopment and understands the local/regional market would help accelerate the timeline for securing a proposal for the site. It is important that this person have authority to negotiate and make decisions on AIM’s behalf rather than serving simply as an intermediary for information. A knowledgeable and empowered owner’s rep could do much to accelerate the timeline for reaching an agreement on how to move forward.

Another approach to maximizing redevelopment potential is to break the site into pieces that could be consumed by smaller projects rather than waiting for one large redevelopment. For example, some portion of the site could be subdivided and marketed for light industrial use, leaving room for additional industry later or other possible uses like mixed-use residential and service retail. One vision for this included preserving the land along the river for residential uses, including possible single family homes or townhomes along the southernmost portion of the site while opening the remainder up for smaller light industrial users. This could begin to restore the tax base and would make the site more resilient than depending on a single user.

Question 4.

GIVEN THE SITE CONSTRAINTS AND MARKET CONDITIONS, WHAT IS AN APPROPRIATE LAND USE DESIGNATION FOR THE PROPERTY?

The panel sees industrial use as the most appropriate designation for the property, particularly given the city and county's goals of attracting jobs and restoring the tax base that was diminished when the mill closed. It should be noted, however, that there is a strong likelihood that a new industrial user will not pay wages at the same level as the jobs the paper mill offered. Thus, recovery of the employment levels and tax base that existed previously may be partial in nature. Still, with the onsite rail spur and power plant and the constraints of the river and the railroad, this location is most likely to attract an industrial user with the least amount of public investment. It is also likely to require the least amount of additional environmental cleanup.

The panel also discussed the property as a residential and/or mixed-use site. The proximity to the river is very attractive for residential development, and if the historic bridge could be restored to use it would be an amenity for the site as well. Unfortunately, getting the property to a state that would work for residential users is a very expensive proposition. Any such development would require strong public leadership and likely a significant up-front subsidy.

Residential use will require more environmental remediation than industrial, driving up costs. While the railroad crossings are not a barrier for an industrial user, as noted earlier, the site would require grade-separated access for housing to be feasible. Tony Kuechle of Doran Companies pointed out that access to transit and walkable amenities like coffee shops and restaurants is critical for making multifamily developments work, and neither one of those is a current strength of this property. A redevelopment would need to make walkable amenities available onsite by attracting a mix of uses including some service retail, and these uses would likely need heavy subsidy to survive. If residential uses are pursued, the city should be prepared to take on significant costs to make that work.

With respect to other uses, the panel does not view the site as a feasible office location unless it was a small part of a subsidized mixed-use redevelopment. It also does not view the site as a likely location for destination retail. Being located next to the river suggests that recreational uses might be appealing, but it was the panel's understanding that the city would prefer not to turn this into park land and the environmental cleanup required for such a use would probably be cost prohibitive without the upside of an increased tax base.

One counterpoint to the limits of recreational use was the idea of positioning the northern portion of the site above the hydro plant as a marina and boat launch. This would likely be an expensive undertaking, but if completed, it could bolster the demand for retail and services in the vicinity and make the rest of the site more feasible for mixed-use and residential redevelopment. A marina would also need grade-separated access to succeed, and again the cost of building that access would have to be incurred upfront with an uncertain payoff in the long run.

Question 5.

WILL THIS SITE BE OF INTEREST TO A STATE OR NATIONAL MARKET?

It is unlikely that this site will draw attention from a national market. There is too much competition from other sites in and around the Sartell area with fewer risks that are in a better strategic position. The property may attract interest from savvy developers across Minnesota who better understand the regional market and are prepared to work closely with the city and property owner to create a compelling proposal. In any case, this will only happen with strong city leadership, a clean and ready-to-go site, and possibly an agreed upon subsidy.

The panel feels the most likely scenario for the site is to attract a potential user with a specific desire to be at this particular location as opposed to competing sites. This may mean someone looking for a rail spur or who believes the local labor market is well-positioned to meet their needs. It may mean a local or regional business who knows the history of the property and wants to be a part of bringing it back into productive use. Whatever the reason, the unique attributes of the paper mill site make it likely that a prospective user is interested because the site meets a need that is not easily found elsewhere. The city and property owner should identify such competitive advantages and position the site accordingly.

Question 6.

WHAT IS THE BEST WAY OF ATTRACTING ATTENTION TO THIS OPPORTUNITY?

Get it to a “shovel ready” state, make it available as cheaply as possible, and focus on the goals of attracting well-paying jobs and bolstering the tax base. As stated above, the present condition of the property render it unsaleable at present. Even if the unknowns are removed, the property is at a competitive disadvantage compared to a typical greenfield development site. The key to attracting attention to the opportunity at the paper mill site is to make the property as simple to develop on as possible. If there are approval processes that can be streamlined, do so. If the city can be flexible on uses—such as allowing some amount of outdoor storage for an otherwise desirable user—that helps open up possibilities. If the site can be developed in smaller pieces over time, that adds flexibility. Focus on making the paper mill site easier and cheaper to develop than competing properties.



The panelists view the property from the west bank of the Mississippi River during the site tour.

Conclusion

The site of the former Verso Paper Mill has a long and important history in the City of Sartell. For more than a century it was home to an important industry and provided valuable jobs and tax base to the community. Though the number of jobs at the mill had declined from its peak, it was still an important piece of local industry until the explosion and fire on Memorial Day of 2012. This Technical Assistance Panel was convened so independent real estate professionals could evaluate what they believe are the most likely redevelopment opportunities for the site to help the city's taskforce studying industrial properties in Sartell move forward and maximize what is possible at this important location.

The site has been an industrial property for over a hundred years, and the ULI Minnesota panelists believe that is the most likely future use for it as well. The site is well-positioned for industrial users with good highway access, a rail spur, and nearby power generation. Proximity to the river makes uses like residential and recreation intriguing, but the need for expensive infrastructure and environmental remediation are a barrier. They would also do less to restore the loss of jobs and tax base that are important to the city and county.

However, before any redevelopment will happen, it is imperative that additional environmental analysis is conducted. The site may not require remediation if it is left vacant, but new users will be expected to complete the environmental investigation and remediate contamination if it is discovered. Despite what strengths the site has, it is unlikely that a developer would bring a proposal to the table without a much deeper understanding of what will be required to prepare it. The uncertainty and risk are too great in a market where ready-to-go sites are available.

It is paramount that the city and AIM find a way to complete the next phase of environmental analysis to begin removing unknowns for prospective developers. There is funding available to help with these processes, and the panel recommends pursuing them, such as the DEED grant mentioned above. Beyond the environmental assessment, the panel believes getting the site to a "shovel ready" status, including the removal of footings and foundations, will dramatically improve its prospects for redevelopment. If these barriers can be removed, then the paper mill site has the potential to be home to industry and a tax generator and employment for the City of Sartell and Benton County once again.



The hydroelectric plant on the western edge of the paper mill site

ULI Minnesota

About Us

ULI Minnesota is a District Council of the Urban Land Institute (ULI), a 501(c)(3) nonprofit research and education organization supported by its members and sponsors. Founded in 1936, ULI now has more than 40,000 members worldwide representing the full spectrum of land use and real estate development disciplines, including developers, builders, investors, architects, public officials, planners, real estate brokers, attorneys, engineers, financiers, academics and students.

As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information and experience among local, national and international industry leaders and policy makers dedicated to creating better places.

Regional Council of Mayors

Supported by ULI Minnesota, the nationally recognized Regional Council of Mayors (RCM) was formed in 2004 and represents Minneapolis, Saint Paul and 52 municipalities in the developed and developing suburbs and Greater Minnesota. This collaborative partnership provides a nonpartisan platform that engages mayors in candid dialogue and peer-to-peer support with a commitment towards building awareness and action focused on housing, sustainability, transportation and job growth.

Advisory Services

ULI has a long history of providing unbiased, market-based solutions and best-practice advice on land use and building resilient and competitive communities through Advisory Services. At ULI MN, three advisory service options are offered to policy leaders. Each option, including the Technical Assistance Panel (TAP), engages ULI MN real estate professionals who volunteer their time and talent to contribute their wisdom and expertise.

For more information, visit minnesota.uli.org.

“With the assistance of a ULI MN Technical Assistance Panel (TAP), our city has moved forward on a key redevelopment project that expands rental housing options for residents. The TAP provided immeasurable assistance and was vital in guiding the strategic direction for the property.”

Mayor Sandra Martin, City of Shoreview



Urban Land Institute

Minnesota

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