



CITY OF GRAND RAPIDS

Meeting Agenda Full Detail City Council

Tuesday, June 30, 2015

7:15 AM

City Hall Conference Room 2A

Special Meeting

CALL TO ORDER: Pursuant to due notice and call thereof a Special Meeting of the Grand Rapids City Council will be held on Tuesday, June 30, 2015 at 7:15 a.m. in City Hall Conference Room 2A, 420 North Pokegama Avenue, Grand Rapids, Minnesota.

CALL OF ROLL

ADMINISTRATION DEPARTMENT

1. 15-1440 A Loan Agreement between the City, GREDA, and Minnesota Energy Resources Company (MERC)
Attachments: [6-30-15 Natural Gas Expansion Area.pdf](#)
[Grand Rapids reso approving GREDA CIAC loan - 461716v1](#)
[Grand Rapids - MERC Loan Agreement](#)

2. 15-1441 Establish End User connection fees related to the natural gas expansion by Minnesota Energy Resources Corporation (MERC)
Attachments: [6-30-15 NaturalGasExpansionPaymentStructure.pdf](#)
[6-30-15 end user agreements.pdf](#)

ADJOURNMENT

Attest: Kimberly Gibeau, City Clerk



CITY OF GRAND RAPIDS

Legislation Details (With Text)

File #: 15-1440 **Version:** 1 **Name:** MERC Natural Gas CIAC Agreement
Type: Agenda Item **Status:** Passed
File created: 6/24/2015 **In control:** City Council
On agenda: 6/30/2015 **Final action:** 6/30/2015
Title: A Loan Agreement between the City, GREDA, and Minnesota Energy Resources Company (MERC)
Sponsors:
Indexes:
Code sections:
Attachments: [6-30-15 Natural Gas Expansion Area.pdf](#)
[Grand Rapids reso approving GREDA CIAC loan - 461716v1](#)
[Grand Rapids - MERC Loan Agreement](#)

Date	Ver.	Action By	Action	Result
6/30/2015	1	City Council	Approved As Presented	Pass

A Loan Agreement between the City, GREDA, and Minnesota Energy Resources Company (MERC)

Background Information:

The City has been working to expand natural gas services to as many residential areas as possible to reduce home owners cost of living and minimize the potential for blight. The three neighborhoods are generally the plats of Remer/Deschepper, Stoeke/Maxwell, and Strader/McGuire/Whitetail. A location map is attached for reference.

MERC is regulated by the State Public Utilities Commission. Under the commissions rules, expansion of natural gas must be paid for on its own and not be subsidized by existing customers. Because the neighborhoods are more rural in natural and less dense in development, it requires funding beyond MERC's cost recovery calculations. This additional funding is known as a Contribution In Aid of Construction or CIAC. The CIAC for the proposed expansion areas is \$264,444. With these areas containing a fair number of low to moderate income household, it is very difficult for the home owners to upfront the CIAC in order to receive the benefit of natural gas. City staff, through a neighborhood survey determined that if the City/GREDA could finance the CIAC, a large majority of the households would want natural gas and be willing to pay a monthly on their GRPU electric utility bill. The potential annual savings vary from approximately \$500 to \$1,000 depending on their current fuel type.

In order for the CIAC to be paid to MERC, the GREDA must act as the loan agent. GREDA has the authority under the States business subsidy laws to provide the funding to MERC under the action to "minimize or eliminate the potential for blight". The attached Loan Agreement between the City, GREDA, and MERC, accomplish the goal of paying the CIAC and moving forward the expansion of natural gas. Under this agreement, the City will loan \$132,222 to GREDA and GREDA will provide a forgivable loan to MERC in an amount of \$264,444. Under a separate RCA, the City Council will consider approving individual home owner connection fees and a master agreement between the City and homeowners to recover the cost of the CIAC/forgivable loan to MERC. As the individual collection fees are collected, GREDA's contribution to the CIAC will first be reimbursed.

Staff Recommendation:

City staff is recommending the approval of a Loan Agreement between the City, GREDA, and Minnesota Energy Resources Company (MERC).

Requested City Council Action

Consider adotping a resolution approving a Loan Agreement between the City, GREDA, and Minnesota Energy

Resources Company (MERC) and approve payment from the PIR account in an amount of \$132,222 to GREDA in accordance with the agreement.



Remer-DeSchepper
Area

Soldiers-Strader
McGuire Area

Stoeke-Maxwell
Area

CITY OF GRAND RAPIDS

RESOLUTION NO. _____

RESOLUTION APPROVING LOAN AGREEMENT, BUSINESS SUBSIDY AGREEMENT, AND INTERNAL LOAN FOR ADVANCE OF CERTAIN COSTS IN CONNECTION WITH NATURAL GAS INFRASTRUCTURE INSTALLATION

BE IT RESOLVED by the City Council (Council”) of the City of Grand Rapids (the
“City”) as follows:

Section 1. Recitals.

1.01. The City and the Grand Rapids Economic Development Authority (the “Authority”) have determined that it is necessary and desirable to facilitate the extension of natural gas infrastructure into certain areas of the City that currently do not have such infrastructure (the “Work Area”).

1.02. The City has reviewed a Loan Agreement (the “Loan Agreement”) between the City, the Authority, and Minnesota Energy Resources Corporation (“MERC”), pursuant to which the Authority agrees to advance certain City and/or Authority funds to MERC in order to pay certain charges in aid of construction necessary for the installation of the natural gas infrastructure in the Work Area, and has determined that the Loan Agreement is in the best interests of the City and will achieve a public purpose.

1.03. The advance of funds under the Loan Agreement constitutes a “business subsidy” exceeding \$150,000 within the meaning of Minnesota Statutes, Section 116J.993 to 116J.995 (the “Business Subsidy Act”).

1.04. The “business subsidy agreement” required under the Business Subsidy Act is included as one section of the Loan Agreement.

1.05. The Authority duly noticed a public hearing regarding the business subsidy agreement, and on June 29, 2015 held such a hearing and adopted a resolution approving the Loan Agreement and business subsidy agreement.

1.06. Under the Business Subsidy Act the Council is required to approve any business subsidy agreement approved by the Authority.

1.07. The Council finds that the execution of the Loan Agreement, including the business subsidy agreement, by the City and Authority and performance of the City’s and Authority’s obligations thereunder are in the best interest of the City and its residents.

1.08. Pursuant to Minnesota Statutes, Sections 469.001 to 469.047 and Sections 469.090 to 469.1082, as amended (the “Act”), the Authority is authorized to advance or loan money from legally available City and/or Authority funds in order to finance the Work under the Loan Agreement, and to reimburse itself for the Loan from Payment Shares paid by End Users (as such

terms are defined in the Loan Agreement). Such loan of City and/or Authority funds constitutes an Interfund Loan.

1.09. On June 29, 2015, the Authority approved a resolution (the "Loan Resolution") authorizing the Interfund Loan, designating funds from its economic development fund as well as City funds as the source of funds for the Interfund Loan, and setting the terms for repayment of the Interfund Loan using Payment Shares.

Section 2. Loan Agreement and Business Subsidy Approved

2.01. The City approves the Loan Agreement and the business subsidy agreement contained therein, and authorizes and directs the Mayor and City Administrator to execute same in substantially the form on file, subject to modifications that do not alter the substance of the transaction and are approved by the Mayor and City Administrator, provided that execution of the Loan Agreement by such officials will be conclusive evidence of their approval.

2.02. City officials and consultants are authorized to take any other actions necessary to carry out the City's obligations under the Loan Agreement.

Section 3. Interfund Loan Approved.

3.01. The City approves the Interfund Loan described in the Loan Resolution, and authorizes the use of City funds as a source of funds for the Interfund Loan.

3.02. The City Finance Director is authorized and directed to credit repayments of the Interfund Loan to the relevant Authority and City funds according to the terms set forth in the Loan Resolution.

3.03. City staff and officials are hereby authorized and directed to execute any collateral documents and take any other actions necessary to carry out the intent of this resolution.

Approved by the City Council of the City of Grand Rapids this _____ day of _____, 2015.

Mayor

Attest:

City Clerk

LOAN AGREEMENT

This Loan Agreement ("Agreement") is made this ___ day of _____, 2015, by the City of Grand Rapids, a Minnesota municipal corporation (the "City"), the Grand Rapids Economic Development Authority, a public body corporate and politic and political subdivision of the State of Minnesota ("GREDA"), and Minnesota Energy Resources Corporation, a Delaware corporation ("MERC").

RECITALS

A. In consideration for the loan contemplated by this Agreement, MERC is executing and delivering to the City and GREDA this Agreement.

B. MERC is a gas utility which provides natural gas services to City residents.

C. The City and MERC desire to extend natural gas mains (the "Gas Mains") into three recently-annexed areas of the City described in Exhibit A hereto (the "Work Area") that do not currently benefit from access to natural gas services, and to offer connections to the Gas Mains to individual residential and/or commercial customers in the Work Area (the "End Users"). Such extension of the Gas Mains in the Work Area is hereinafter referred to as the "Gas Main Work," the connection of individual End Users to the Gas Mains is hereinafter referred to as the "Connection Work," and the Gas Main Work and Connection Work are collectively the "Work."

D. The parties to this Agreement agree that potential End Users do not have the financial resources necessary to pay an up-front contribution in aid of construction ("CIAC"), and pursuant to MERC's tariffs, payment of the CIAC is necessary before MERC undertakes the Work.

E. In order to facilitate the Work and offer the benefit of natural gas services to the End Users, the City and GREDA have agreed to advance to MERC the total CIAC required to construct the Work in the Work Area, pursuant to the terms of this Agreement.

ACCORDINGLY, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Loan Amount.

- (a) Subject to and upon the terms and conditions of this Agreement, the City agrees to advance to GREDA from any legally available funds the sum of Two Hundred Sixty-Four Thousand, Four Hundred Forty-Four and no/100ths Dollars (\$264,444), and GREDA agrees to loan to MERC the total amount advanced from the City in accordance with this Agreement (the "Loan"). The Loan shall be evidenced by a promissory note ("Note") payable by MERC to GREDA and substantially in the form of Exhibit B attached to this Agreement, which shall be dated as of the Loan Closing Date (as hereinafter defined). Proceeds of the Loan shall be disbursed in accordance with Section 3 hereof. The City and

GREDA agree that the Loan is needed to satisfy the CIAC payment as required by MERC's tariffs. Promptly upon receipt of the Loan, MERC shall apply the Loan proceeds to diligent prosecution of the construction of the Gas Main Work, which shall be substantially completed by November 15, 2015 (the "Gas Main Completion Date"), and of the Connection Work, which shall be performed throughout the term of this agreement as described in paragraph 3 hereof.

2. Repayment of Loan; Process. The parties to this Agreement agree that the Loan shall be payable solely from Payment Shares (as defined below), and agree that the Loan shall be repaid as follows:

- (a) The total amount of the Loan shall be allocated to the estimated total number of potential End Users in the Work Area on a pro rata basis (each a "Payment Share"). The City shall calculate the Payment Share attributable to an End User and provide MERC notice of such Payment Share.
- (b) The process for End User connection to the Gas Mains and the roles and responsibilities of MERC, the City, and GREDA in that process are described in Exhibit C. In amplification of the process described in Exhibit C, upon the request of any End User in the Work Area to connect to the Gas Mains and notice by the City to MERC of City approval of such connection, MERC will apply for a Right of Way Permit for such approved End User in accordance with City Ordinance, Section 58, Article II. The City shall grant a Right of Way Permit within 15 business days after receipt of (i) the application, and (ii) an executed End User CIAC Agreement from the End User, in substantially the form attached as Exhibit D (the "End User Agreement"). MERC shall perform the Connection Work for said approved End User as soon as practicable after receipt of the Right of Way Permit. The City and MERC agree and understand that the process described in Exhibit C shall be followed until the earlier of (i) payment or provision for payment in full of all Payment Shares by End Users pursuant to End User Agreements, or (ii) December 31, 2035.
- (c) The City shall collect the applicable Payment Share for any approved End User pursuant to the End User Agreement. Upon payment or provision for payment of each Payment Share to the City by each End User, the total principal amount of such Payment Share shall be credited against and shall reduce the total outstanding amount of the Loan. MERC shall not be liable for any failure by an approved End User to pay Payment Shares.
- (d) The City and/or GREDA shall provide to MERC semiannual reports as to the aggregate total of Payment Shares collected by the City.
- (e) MERC shall have no obligation to pay any outstanding balance of the Loan upon the earlier of (i) payment in full of all Payment Shares by End Users, or (ii) December 31, 2025.

3. Disbursement of Loan Proceeds.

(a) The Loan proceeds shall be paid to MERC on July 15, 2015 or such other date as the parties hereto agree ("Loan Closing Date").

(b) The following events shall be conditions precedent to the payment of the Loan proceeds to MERC on the Loan Closing Date:

(i) MERC having executed and delivered to GREDA, prior to the Loan Closing Date and without expense to GREDA or the City, executed copies of this Agreement and the Note; and

(ii) MERC having provided evidence reasonably satisfactory to GREDA that MERC has established a means of segregating the Payment Shares from other MERC accounts and the Work performed for the purpose of recording the receipt and expenditure of the Loan proceeds.

4a. Representations and Warranties as to MERC. MERC represents and warrants to the City and GREDA that:

(a) MERC is duly authorized and empowered to execute, deliver, and perform this Agreement and to accept the Loan from GREDA.

(b) The execution and delivery of this Agreement, and the performance by MERC of its obligations hereunder, do not and will not violate or conflict with any provision of law and do not and will not violate or conflict with, or cause any default or event of default to occur under, any agreement binding upon MERC.

(c) The execution and delivery of this Agreement has been duly approved by all necessary actions of MERC, and this Agreement has in fact been duly executed and delivered by MERC and constitutes its lawful and binding obligation, legally enforceable against it.

(d) MERC warrants that it shall keep and maintain books, records, and other documents relating directly to the receipt and disbursements of Loan proceeds and that any duly authorized representative of GREDA shall, at all reasonable times, have access to and the right to inspect, copy, audit, and examine all such books, records, and other documents of MERC pertaining to the Loan until the completion of all closeout procedures and the final settlement and conclusion of all issues arising out of this Loan. All such information shall be kept confidential by GREDA and the City to the extent permitted under Minnesota law, ordinance, rule or court order.

(e) MERC warrants that it has fully complied with all applicable state and federal laws pertaining to its business and will continue to comply throughout the terms of this Agreement. If at any time MERC receives notice of noncompliance from any governmental entity, MERC agrees to take any necessary action to comply with the state or federal law in question.

(f) MERC warrants that it will use the proceeds of the Loan made by GREDA solely for the Work.

4b. Representations and Warranties as to the City and GREDA. The City and GREDA represent and warrant to MERC that:

(a) The City and GREDA are duly authorized and empowered to execute, deliver, and perform this Agreement as described herein.

(b) The execution and delivery of this Agreement by the City and GREDA, and the performance by the City and GREDA of their obligations hereunder, do not and will not violate or conflict with any provision of law and do not and will not violate or conflict with, or cause any default or event of default to occur under, any agreement or statute, ordinance, rule or order of court binding upon the City or GREDA.

(c) The execution and delivery of this Agreement has been duly approved by all necessary actions of the City and GREDA, and this Agreement has in fact been duly executed and delivered by the City and GREDA and constitutes their lawful and binding obligation, legally enforceable against them.

(d) If at any time the City or GREDA receives notice of noncompliance from any governmental entity, the City and/or GREDA, as applicable, agrees to take any necessary action to comply with the state or federal law in question.

(e) GREDA shall timely allocate Payment Shares to reduction of the outstanding amount of the Loan.

5a. Event of Default by MERC. The following shall be Events of Default under this Agreement:

(a) Connection of any End User to the Gas Mains prior to receiving notice of approval and/or the necessary Right of Way Permit as described in paragraph 2(b);

(b) any representation or warranty made by MERC herein or in any document, instrument, or certificate given in connection with this Agreement or the Note that is false when made;

(c) MERC fails to pay its debts in a timely manner, makes an assignment for the benefit of its creditors, admits in writing its inability to pay its debts as they become due, files a petition under any chapter of the Federal Bankruptcy Code or any similar law, state or federal, now or hereafter existing, becomes "insolvent" as that term is generally defined under the Federal Bankruptcy Code, files an answer admitting insolvency or inability to pay its debts as they become due in any involuntary bankruptcy case commenced against it, or fails to obtain a dismissal of such case within thirty (30) days after its commencement or convert the case from one chapter of the Federal Bankruptcy Code to another chapter, or be

the subject of an order for relief in such bankruptcy case, or be adjudged a bankrupt or insolvent, or has a custodian, trustee, or receiver appointed for, or has any court take jurisdiction of its property, or any part thereof, in any proceeding for the purpose of reorganization, arrangement, dissolution, or liquidation, and such custodian, trustee, or receiver is not discharged, or such jurisdiction is not relinquished, vacated, or stayed within thirty (30) days of the appointment;

(d) a garnishment summons or writ of attachment is issued against or served upon GREDA for the attachment of any property of MERC in GREDA's possession or any indebtedness owing to MERC, unless appropriate papers are filed by MERC contesting the same within thirty (30) days after the date of such service or such shorter period of time as may be reasonable in the circumstances;

(e) any breach or failure of MERC to perform any other term or condition of this Agreement not specifically described as an Event of Default in this Agreement and such breach or failure continues for a period of thirty (30) days after the City or GREDA has given written notice to MERC specifying such default or breach, unless the City or GREDA agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the City or GREDA will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by MERC within the applicable period and is being diligently pursued until the Default is corrected, but no such extension shall be given for an Event of Default that can be cured by the payment of money (i.e., payment of taxes, insurance premiums, or other amounts required to be paid hereunder);

(f) any breach by MERC of any other agreement between MERC and GREDA or the City.

5b. Event of Default by the City or GREDA. The following shall be Events of Default under this Agreement:

(a) Failure of the City to timely approve properly filed applications by End Users as described in paragraph 2(b);

(b) Failure of the City to timely grant Right of Way Permits to MERC as described in paragraph 2(b);

(c) Failure of the City or GREDA to allocate Payment Shares to reduce the outstanding principal balance of the Loan, or to deliver the Reports to MERC as provided in paragraph 2(d);

(d) any representation or warranty made by the City or GREDA herein or in any document, instrument, or certificate given in connection with this Agreement or the Note that is false when made;

(e) any breach or failure of the City or GREDA to perform any other term or

condition of this Agreement not specifically described as an Event of Default in this Agreement and such breach or failure continues for a period of thirty (30) days after MERC has given written notice to the City or GREDA specifying such default or breach, unless MERC agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, MERC will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City or GREDA within the applicable period and is being diligently pursued until the Default is corrected;

6. Business Subsidy Agreement. The provisions of this paragraph constitute the “business subsidy agreement” for the purposes of Minnesota Statutes, Sections 116J.993 to 116J.995, as amended (the “Business Subsidy Act”).

(a) *General Terms.* The parties agree and represent to each other as follows:

(i) The subsidy provided to MERC consists of the principal amount of the Loan described in paragraph 1.

(ii) The public purposes of the subsidy are to assist in the expansion of MERC’s existing gas main infrastructure pursuant to its tariffs, thereby facilitating connection to natural gas services to underserved areas in the City and the State, in order to enhance property values in the Work Area, prevent the emergence of blight, and increase the tax base of the City and the State.

(iii) The goals for the subsidy are: to enable MERC to perform the Gas Main Work in the Work Area, and to provide affordable connection to the Gas Mains by the End Users through the Connection Work.

(iv) If the goals described in clause (iii) are not met, MERC must make the payments to GREDA described in paragraph 6(c).

(v) The subsidy is needed to induce MERC to perform the Work.

(vi) MERC must continue to perform the Connection Work and to provide service to approved End Users in the Work Area for at least five years after the Gas Main Completion Date (for purpose of this paragraph 6, the “Benefit Date”).

(vii) MERC has a parent corporation, which is Integrys Energy Group, Inc.

(viii) MERC has not received, and does not expect to receive, financial assistance from any other “grantor” as defined in the Business Subsidy Act, in connection with the Property.

(b) *Job and Wage Goals.* The City and GREDA have determined after a duly noticed public hearing that the creation or retention of jobs is not a goal of this Agreement, and accordingly the job and wage goals pursuant to this Agreement are set at zero.

(b) *Remedies.* If MERC fails to meet the goals described in paragraph 6(a)(iii) by a date which is five years after the Benefit Date, MERC shall repay to GREDA upon written demand from GREDA the Outstanding Balance pursuant to Section 116J.994, subdivision 6 of the Business Subsidy Act. The term “Outstanding Balance” means an amount equal to the principal amount of the Loan, less the costs attributable to the Gas Main Work, less the costs attributable to the Connection Work actually performed by MERC. MERC shall provide GREDA with calculations of such costs reasonably acceptable to GREDA.

Nothing in this paragraph shall be construed to limit GREDA’s remedies under paragraph 7 hereof. In addition to the remedy described in this paragraph and any other remedy available to GREDA for failure to meet the goals stated in paragraph 6(a)(iii), MERC agrees and understands that it may not receive a business subsidy (as defined in the Business Subsidy Act) from GREDA or any grantor (as defined in the Business Subsidy Act) for a period of five years from the date of the failure or until MERC satisfies its repayment obligation under this paragraph, whichever occurs first.

(d) *Reports.* Pursuant to Section 116J.994, Subd. 7 of the Business Subsidy Act, MERC shall provide GREDA with a list of the End Users connected to the Gas Mains within the past 12-month period by no later than February 1 of each year, commencing February 1, 2016 and continuing until the later of (i) the date the goals stated Section 6(a)(iii) are met; (ii) 30 days after expiration of the period described in Section 6(a)(vi); or (iii) if the goals are not met, the date the subsidy is repaid in accordance with Section 6(c). If MERC fails to timely file any information required under this Section, GREDA will mail MERC a warning within one week after the required filing date. If, after 14 days of the postmarked date of the warning, MERC fails to provide a report, MERC must pay to GREDA a penalty of \$100 for each subsequent day until the report is filed. The maximum aggregate penalty payable under this Section is \$1,000.

7. City or GREDA Remedies upon MERC's Default. Upon an Event of Default by MERC and after provision by the City and GREDA of written notice, the City and GREDA shall have the right to exercise any or all of the following remedies (and any other rights and remedies available to them):

- (a) declare the Outstanding Balance, calculated as of the event of default, to be immediately due and payable upon providing written notice to MERC;
- (b) suspend their performance under this Agreement;
- (c) take any action provided for at law to enforce compliance by MERC with the terms of this Agreement and the Note; and
- (d) exercise their rights under the Business Subsidy Agreement.

8. Costs of Enforcement of Agreement. If an Event of Default has occurred as

Grand Rapids, MN 55744
Attn: Executive Director

To MERC: Minnesota Energy Resources Corporation
1995 Rahncliff Ct., Suite 200
Eagan, MN 55122-3401
Attn: General Manager

(f) Termination. This Agreement shall terminate on the earliest of (i) repayment in full of the principal amount of the Loan from Payment Shares by End Users; (ii) repayment by MERC of the Outstanding Balance following an event of default by MERC pursuant to paragraphs 6 or 7 hereof; or (iii) December 31, 2035.

(g) Entire Agreement. This Agreement, together with the Exhibits hereto, which are incorporated by reference, constitutes the complete and exclusive statement of all mutual understandings between the parties with respect to this Agreement, superseding all prior or contemporaneous proposals, communications, and understandings, whether oral or written, concerning the Loan.

(h) Headings. The headings appearing at the beginning of the several sections contained in this Agreement have been inserted for identification and reference purposes only and shall not be used in the construction and interpretation of this Agreement.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the proper officers thereunto duly authorized on the day and year first written above.

CITY OF GRAND RAPIDS

By: _____

Its Mayor

By: _____

Its City Administrator

[SIGNATURE PAGE TO LOAN AGREEMENT –CITY]

GRAND RAPIDS ECONOMIC DEVELOPMENT AUTHORITY

By: _____

Its President

By: _____

Its Executive Director

[SIGNATURE PAGE TO LOAN AGREEMENT – GREDA]

MINNESOTA ENERGY RESOURCES CORPORATION

By: _____

Title: _____

[SIGNATURE PAGE TO LOAN AGREEMENT – MERC]

EXHIBIT A
WORK AREA

EXHIBIT B

PROMISSORY NOTE

\$264,444

_____, 2015

Minnesota Energy Resources Corporation, a Delaware corporation (“Maker”), for value received, hereby promises to pay to the Grand Rapids Economic Development Authority, a public body corporate and politic under the laws of Minnesota or its assigns (Authority and any assigns are collectively referred to herein as “Holder”), at its designated principal office or such other place as the Holder may designate in writing, the principal sum of Two Hundred Sixty-Four Thousand, Four Hundred Forty-Four and no/100ths Dollars (\$264,444) or so much thereof as may be advanced under this Note, in any coin or currency that at the time or times of payment is legal tender for the payment of private debts in the United States of America. This Note shall not bear interest. Capitalized terms shall have the meanings provided in the Loan Agreement between the Maker, the Holder, and the City of Grand Rapids, dated _____, 2015 (the “Loan Agreement”), unless the context requires otherwise. The principal of this Note is payable as follows:

1. The total amount of the Loan shall be allocated to the estimated total number of potential End Users in the Work Area on a pro rata basis (each a “Payment Share”) as described in the Loan Agreement.
2. Upon payment or provision for payment of each Payment Share to the City by each End User, such Payment Share shall be credited against and shall reduce the total outstanding amount of the Loan.
3. Any portion of the Loan that remains outstanding as of December 31, 2025 shall be forgiven.
4. This Note is given pursuant to the Loan Agreement. If the Loan Agreement is found to be invalid for whatever reason, such invalidity shall constitute an Event of Default hereunder.

All of the agreements, conditions, covenants, provisions, and stipulations contained in the Loan Agreement or any other instrument securing this Note are hereby made a part of this Note to the same extent and with the same force and effect as if they were fully set forth herein. It is agreed that time is of the essence of this Note. If an Event of Default occurs under the Loan Agreement or any other instrument securing this Note, then the Holder of this Note may at its right and option, without notice, declare immediately due and payable the outstanding principal balance of this Note (as reduced by any Payment Shares pursuant to the Loan Agreement), together with reasonable attorneys fees and expenses incurred by the Holder of this Note in collecting or enforcing payment hereof, whether by lawsuit or otherwise, and all other sums due hereunder or any instrument securing this Note. The Maker of this Note agrees that the Holder of this Note may, without notice to and without affecting the liability of the Maker, accept additional or substitute security for this Note, or release any security or any party liable for this Note or extend or renew this Note.

5. The remedies of the Holder of this Note as provided herein, and in the Loan Agreement or any other instrument securing this Note shall be cumulative and concurrent and may be pursued singly, successively, or together, and, at the sole discretion of the Holder of this Note, may be exercised as often as occasion therefor shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

The Holder of this Note shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the Holder and then only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event. This Note may not be amended, modified, or changed except only by an instrument in writing signed by the party against whom enforcement of any such amendment, modifications, or change is sought.

6. If any term of this Note, or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Note, or the application of such term to persons or circumstances other than those to which it is invalid or unenforceable shall not be affected thereby, and each term of this Note shall be valid and enforceable to the fullest extent permitted by law.

7. It is intended that this Note is made with reference to and shall be construed as a Minnesota contract and is governed by the laws thereof. Any disputes, controversies, or claims arising out of this Agreement shall be heard in the state or federal courts of Minnesota, and all parties to this Agreement waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.

8. The performance or observance of any promise or condition set forth in this Note may be waived, amended, or modified only by a writing signed by the Maker and the Holder. No delay in the exercise of any power, right, or remedy operates as a waiver thereof, nor shall any single or partial exercise of any other power, right, or remedy.

9. IT IS HEREBY CERTIFIED AND RECITED that all conditions, acts, and things required to exist, happen, and be performed precedent to or in the issuance of this Note do exist, have happened, and have been performed in regular and due form as required by law.

IN WITNESS WHEREOF, the Maker has caused this Note to be duly executed as of the
_____ day of _____, 2015.

MINNESOTA ENERGY RESOURCES CORPORATION

By: _____

Title: _____

[SIGNATURE PAGE FOR PROMISSORY NOTE – MERC]

EXHIBIT C

PROCESS, ROLES AND RESPONSIBILITIES

1. The City will provide MERC with a list of addresses within the Work Area, which MERC will use as a master list of potential End Users.
2. City will notify potential End-Users in the Work Area of the potential availability of the Connection Work by MERC. The City or MERC will provide potential End-Users in the Work Area with an informational packet explaining the Connection Work to occur in the Work Area and the process by which a potential End-User may be connected to MERC's Gas Mains, along with a joint application for service, requiring the End User to complete MERC's Site Sketch and Waiver form, execute a Liability Waiver, and authorize the City to bill the End User for the Payment Share by executing an End User CIAC Agreement.
3. Upon receipt of a completed application for service from a potential End User, MERC will follow its standard process for extending service to customers residing along existing Gas Mains, pursuant to MERC's current tariffs.
4. MERC will design the service for the potential End User, and will move forward with scheduling and applying for a Right of Way Permit in accordance with City Ordinance, Section 58, Article II for the potential End-User.
5. If the End User's residence is located more than 75 feet from the property line, MERC will calculate an excess footage charge, not to exceed the amount allowed pursuant to MERC's current tariffs, and will inform the potential End-User of the excess footage charge [which will be payable to MERC]. If the potential End User agrees to the excess footage charge, MERC will move forward with scheduling and applying for a Right of Way Permit for the potential End-User as described in paragraph 4.
6. If a potential End User completes an application for service, but does not submit an executed End User CIAC Agreement to the City, the City will withhold the Right of Way Permit and will notify MERC and the End User that the End User CIAC Agreement must be received before the City grants the Right of Way Permit.
7. At least monthly from May 1 through November 1 of years of the first and second year after the Benefit Date, MERC and the City will make a good faith effort to reconcile their records of End Users for whom Connection Work has been performed in the Work Area. At least semiannually in the third, fourth, and fifth year after the Benefit Date MERC and the City will make a good faith effort to reconcile their records of End Users for whom Connection Work has been performed in the Work Area.

EXHIBIT D

END USER CIAC AGREEMENT

This End User CIAC Agreement (this "Agreement") is made this ____ day of _____, 2015, by and between the City of Grand Rapids, a Minnesota municipal corporation (the "City") and _____, [an individual] [married to each other] (the "Owner").

RECITALS

WHEREAS, the Owner is the fee owner of certain land in the City of Grand Rapids, Minnesota, with an address of _____, legally described on Exhibit A attached hereto (the "Property"); and

WHEREAS, the City has entered into an agreement with Minnesota Energy Resource Corporation ("MERC") to pay the Charges in Aid of Connection ("CIAC") required for construction of a gas main and connection by individual property owners to such gas main (the "Project") in the area of the Property (the "Work Area"); and

WHEREAS, a condition of connection to the gas main by each residential or commercial property owner ("End User") in the Work Area is that such End User agree to the imposition of the End User's share of the CIAC (the "End User CIAC"); and

WHEREAS, the City is willing to allow End Users to pay the End User CIAC over a period of years subject to the execution by individual End Users of this Agreement; and

WHEREAS, the Owner has agreed to pay the City for 100 percent of its End User CIAC, and has requested that payment to the City of the End User CIAC be collected over time by the City's public utilities commission ("PUC") by adding a CIAC fee to the monthly utility bill for the Property which will be payable to the City in installments over ten years; and

WHEREAS, were it not for the assurance and covenants hereinafter provided, the City would not provide for the payment of the End User CIAC in installments.

NOW, THEREFORE, on the basis of the mutual covenants and agreements hereinafter provided, it is hereby agreed by and between the parties hereto as follows:

1. The Owner hereby requests that the City provide the necessary right-of-way permits to allow connection by the Owner to the gas main. The connection will be constructed by MERC and/or its contractor in conjunction with the Project.
2. The Owner represents and warrants that the Owner is the owner of 100 percent of the Property, that the Owner has full legal power and authority to encumber the Property as herein provided, and that as of the date hereof, the Owner has fee simple absolute title in

the Property.

3. The cost of the End User CIAC is \$_____. The Owner agrees to pay this amount in connection with Owner's connection to the gas main.
4. The Owner agrees that the End User CIAC will be payable in monthly installments over ten years. No interest shall accrue on the unpaid principal of the End User CIAC. The Owner may prepay the End User CIAC on any date, in whole or in part, without penalty.
5. The Owner further agrees that payment of the End User CIAC will continue to be the Owner's personal obligation until it is paid. If the Owner conveys the Property to a third party before collection in full of the End User CIAC, any outstanding amount of the End User CIAC shall be immediately due and payable to the City in full.
11. The City makes no warranties, express or implied, regarding the Project. In no event shall the City be liable to the Owner for consequential, special or indirect damages of any kind.
12. The Owners agree to indemnify, defend, and hold harmless the City, its officials, employees, agents, and contractors from and against any action, claim, damage, liability, loss, costs, or expenses in connection with any claim or liability arising in any manner from the Project.
13. This Agreement shall be construed and enforced according to the laws of Minnesota.
14. This Agreement and its exhibits attached hereto, evidence the entire agreement between the parties relating to the subject matter addressed herein and supersedes all other prior agreements and understandings, written or oral, between the parties.
15. Any alterations, variations, modifications, or waivers of provisions of this Agreement shall only be valid when they have been reduced to writing as an amendment to this Agreement signed by the parties hereto or their successors.
16. It is the intent of the parties hereto that this Agreement be in a form which is recordable by the City among the land records of Itasca County, Minnesota; and they agree to make any changes in this Agreement which may be necessary to effect the recording and filing of this Agreement against the title of the Property.
17. This Agreement shall terminate upon the final payment of the CIAC charged against the Property.

EXHIBIT A to END USER CIAC AGREEMENT

Legal Description of the Property

PID:



CITY OF GRAND RAPIDS

Legislation Details (With Text)

File #: 15-1441 **Version:** 1 **Name:** Natural Gas End User Agreements
Type: Agenda Item **Status:** Passed
File created: 6/24/2015 **In control:** City Council
On agenda: 6/30/2015 **Final action:** 6/30/2015
Title: Establish End User connection fees related to the natural gas expansion by Minnesota Energy Resources Corporation (MERC)

Sponsors:

Indexes:

Code sections:

Attachments: [6-30-15 NaturalGasExpansionPaymentStructure.pdf](#)
[6-30-15 end user agreements.pdf](#)

Date	Ver.	Action By	Action	Result
6/30/2015	1	City Council	Approved	Pass

Establish End User connection fees related to the natural gas expansion by Minnesota Energy Resources Corporation (MERC)

Background Information:

Upon approval of a loan agreement between the City, GREDA, and MERC, for the expansion of natural gas, the City Council must consider approval of End User connection fees so that the cost of CIAC in the loan agreement can be repaid. The attached connection fee model identifies what city staff are recommending for connection fees. Also attached are the End User CIAC Agreements.

Staff Recommendation:

City staff is recommending approval of the attached connection fee model along with the End User CIAC Agreements.

Requested City Council Action

Consider approval of the attached connection fee model along with the End User CIAC Agreements and authorize the City Administrator and City Engineer administrative authority to execute End User CIAC Agreements.

**MERC Natural Gas Expansion
Proposed Payment Structure**

CIAC Fee \$264,444	PU Financing Term 10	Total Housing Units 159	Target Connection Rate 75%	Anticipated Units Connected 119	Recording Fee \$46.00	CIAC / Unit \$2,270	Annual CIAC Payment \$227.00	Monthly CIAC Payment \$18.92	Revenue Year
Yr 1	5.0%	\$2,156	-\$114	\$215.60	\$17.97	20%	32	\$6,899	\$6,899
Yr 2	2.5%	\$2,213	-\$57	\$221.30	\$18.44	35%	56	\$6,899	\$26,191
Yr 3	0.0%	\$2,270	\$0	\$227.00	\$18.92	5%	8	\$6,899	\$47,299
Yr 4	0.0%	\$2,270	\$0	\$227.00	\$18.92	3%	5	\$6,899	\$69,542
Yr 5	0.0%	\$2,270	\$0	\$227.00	\$18.92	2%	3	\$6,899	\$92,466
Yr 6	0.0%	\$2,270	\$0	\$227.00	\$18.92	2%	3	\$6,899	\$116,071
Yr 7	0.0%	\$2,270	\$0	\$227.00	\$18.92	2%	3	\$6,899	\$140,357
Yr 8	0.0%	\$2,270	\$0	\$227.00	\$18.92	2%	3	\$6,899	\$165,324
Yr 9	0.0%	\$2,270	\$0	\$227.00	\$18.92	2%	3	\$6,899	\$190,972
Yr 10+	0.0%	\$2,270	\$0	\$227.00	\$18.92	2%	3	\$6,899	\$217,301
						75%	119		\$236,731
									\$243,768
									\$248,989
									\$253,075
									\$256,480
									\$259,204
									\$261,247
									\$262,609
									\$263,290
									-\$1,154
				\$68,992	\$11,350	\$6,810	\$6,810	\$6,810	\$6,810
				\$123,928	\$18,160	\$6,810	\$6,810	\$6,810	\$6,810

**Assume all units finance for 10 yrs (conservative cash flow)

END USER CIAC AGREEMENT

This End User CIAC Agreement (this “Agreement”) is made this ____ day of _____, 2015, by and between the City of Grand Rapids, a Minnesota municipal corporation (the “City”) and _____, [an individual] [married to each other] (the “Owner”).

RECITALS

WHEREAS, the Owner is the fee owner of certain land in the City of Grand Rapids, Minnesota, with an address of _____, legally described on Exhibit A attached hereto (the “Property”); and

WHEREAS, the City has entered into an agreement with Minnesota Energy Resource Corporation (“MERC”) to pay the Charges in Aid of Connection (“CIAC”) required for construction of a gas main (the “Project”) in the area of the Property (the “Work Area”); and

WHEREAS, a condition of connection to the gas main by each residential or commercial property owner (“End User”) in the Work Area is that such End User agree to the imposition of the End User’s share of the CIAC (the “End User CIAC”); and

WHEREAS, the City is willing to allow End Users to pay the End User CIAC over a period of years subject to the execution by individual End Users of this Agreement; and

WHEREAS, the Owner has agreed to pay the City for 100 percent of its End User CIAC, and has requested that payment to the City of the End User CIAC be financed by the City’s public utilities commission (“PUC”) by adding a CIAC fee to the monthly utility bill for the Property which will be payable to the City in installments over ten years; and

WHEREAS, were it not for the assurance and covenants hereinafter provided, the City would not provide for the payment of the End User CIAC in installments.

NOW, THEREFORE, on the basis of the mutual covenants and agreements hereinafter provided, it is hereby agreed by and between the parties hereto as follows:

1. The Owner hereby requests that the City provide the necessary right-of-way permits to allow connection by the Owner to the gas main. The connection will be constructed by MERC and/or its contractor in conjunction with the Project.
2. The Owner represents and warrants that the Owner is the owner of 100 percent of the Property, that the Owner has full legal power and authority to encumber the Property as herein provided, and that as of the date hereof, the Owner has fee simple absolute title in the Property.
3. The cost of the End User CIAC is \$ _____. The Owner agrees to pay this amount in connection with Owner's connection to the gas main.
4. The Owner agrees that the End User CIAC will be payable in monthly installments over ten years. No interest shall accrue on the unpaid principal of the End User CIAC.
5. The Owner further agrees that payment of the End User CIAC will continue to be the Owner's personal obligation until it is paid. If the Owner conveys the Property to a third party before collection in full of the End User CIAC, any outstanding amount of the End User CIAC shall be immediately due and payable to the City in full.
11. The City makes no warranties, express or implied, regarding the Project. In no event shall the City be liable to the Owner for consequential, special or indirect damages of any kind.
12. The Owners agree to indemnify, defend, and hold harmless the City, its officials, employees, agents, and contractors from and against any action, claim, damage, liability, loss, costs, or expenses in connection with any claim or liability arising in any manner from the Project.
13. This Agreement shall be construed and enforced according to the laws of Minnesota.
14. This Agreement and its exhibits attached hereto, evidence the entire agreement between the parties relating to the subject matter addressed herein and supersedes all other prior agreements and understandings, written or oral, between the parties.
15. Any alterations, variations, modifications, or waivers of provisions of this Agreement shall only be valid when they have been reduced to writing as an amendment to this Agreement signed by the parties hereto or their successors.
16. It is the intent of the parties hereto that this Agreement be in a form which is recordable by the City among the land records of Itasca County, Minnesota; and they agree to make any changes in this Agreement which may be necessary to effect the recording and filing of this Agreement against the title of the Property.

17. This Agreement shall terminate upon the final payment of the CIAC charged against the Property.

IN WITNESS WHEREOF, the parties have set their hands the day and year first written above.

OWNER

By: _____

By: _____

STATE OF MINNESOTA)
) ss.
COUNTY OF ITASCA)

The foregoing instrument was acknowledged before me this _____ day of _____, 2015, by _____, [an individual] [married to each other].

Notary Public

EXHIBIT A

Legal Description of the Property

PID: