

Audit/Finance Committee Meeting Minutes

August 22, 2016

9:00 AM City Commission Chambers

Committee Attendees: Gardner, Allen, Stahl, Ruthsatz, Nickles, Wobser, Solowiej, Murray, and Brady as alternate if needed.

Chairman Nickles opened the meeting at 9:04 AM. He thanked everyone for coming on such short notice. He explained that there would only be one topic for today's meeting, that being to discuss the potential move of City Hall. He then turned the floor over to Wobser to begin his presentation to the committee.

Wobser began by explaining to the committee that approximately a month ago, the City Commission was presented with several options as to what to do with City Hall. At that time, they requested that the Finance Committee review the options and make a recommendation on how to proceed in the process. He would now walk the committee through the process and then Matt Lasko would present on the Admin portion of the project. Wobser explained that first they looked at our facilities, similar to what we had done in the past. The city had begun this process three times in the past, but the project had never progressed. They then looked at what we wanted to do in the future. Aaron Klein along with DS Architecture went through the entire building, to determine what would be required to bring the building up to modern standards. They then met with each department to discuss the department's needs now and in the future. They then costed out different options to see what best meet the needs of the city. Wobser advised the committee that early on in the process, DS Architecture advised the city that it would be irresponsible to not make a decision this time with the project, because it would get more and more costly to the city if we put the decision off again. They explained that the cost of lack of maintenance would continue to climb. They came up with three possible solutions. One was to rehab the existing building, two was to build a new facility, or three to move to another building and rehab it to suit our needs. They also looked at keeping the admin and justice buildings both together and also apart.

The consultants determined that the cost of rehabbing our existing building would be quite high. They found after reviewing admin's needs, we would require less space than we currently have, even with economy growth. They thought we could decrease the amount of space needed by a few thousand square feet. Most of this is due to the poor layout of our existing building. They then determined that the police and court offices needs have drastically changed over the years. The police department no longer needs the cell space they currently have, as well as the space previously held by the dispatchers. Due to changes in technology though, the detective bureau would need increased space. The court also is in desperate need of additional space, due to increase caseloads and additional staffing. In total, the justice division estimates an additional 15,000 square feet being needed. Wobser also advised the committee that our current building is not very handicap accessible at this time and the updates needed would be quite costly at this current location.

Next, the consultants looked at the cost of new construction. They estimated that the cost to the city for a brand new building would be around \$5.8 to \$6.4 million dollars. New construction would require the purchase of land, grade changes, and parking lots. Wobser explained that there would be the risk of cost overruns and increased interest cost if we financed the project ourselves.

Finally, the consultants looked at the possibility of teaming up with the Marous Brothers to rehab three historic buildings downtown. Wobser advised that the last time the city went through this review process they requested proposals for a new site. At that time, the Marous Brothers presented a proposal to rehab two of the three buildings currently being discussed.

The City Commission elected to move forward with the Marous Brothers proposal, with a vote of 7-0. They felt this proposal most meet the needs of the city. They liked the idea of rehabbing three historic buildings in the heart of the city. They also were fond of the idea of passing the interest and overrun risk over to a private developer. At this point in the process, the city is looking to sign a letter of intent to proceed with the Marous Brothers in the development process. This would allow them to apply for state and federal historic tax credits. Ruthsatz then asked if we would be presented with some numbers for this project and Wobser explained the numbers would be included in Lasko's portion of the presentation.

Lasko then began his portion of the presentation. He reminded the committee that the total project cost for this project was \$11 million dollars to be shared by the city and the Marous Brothers. He advised that 21,500 square feet of the project or 40%, would be allocated for city hall. The remainder of the footage would be mixed use made up of 18 apartments and three new store fronts. He then explained that there would be a variety of funding sources for this project. New market tax credits, federal and state historic tax credits, \$1.5 million contribution from the city, and owner's equity. Initially, there will be a 30 year lease established between the Marous Brothers and the city. The monthly lease payment will be \$20,220 a month with a 1.5% increase annually. We feel this is a conservative interest rate, which is well below market standards. As part of this lease, there are options to buy. After year 7, there is a purchase price of \$2.9 million dollars established. The tax credits should burn off at that time and we would be eligible to purchase our portion of the buildings. If we did not purchase the building after year 7, we would continue with our monthly lease payments. In year 20, we would have another option to buy at 90% of the fair market value of the city's leased space. In year 30, there is another option to buy at 80% of the fair market value of the city's leased space. If at year 30, we still did not want to purchase the leased space, there is a renewable 30 year lease agreement included in the contract. Lasko also mentioned that there would likely be a one month security deposit that would also need to be paid by the city.

Lasko explained that the first step to get the ball rolling is the letter of intent that needed to be signed by the city. He advised the committee that with the letter of intent the city will need to provide a check for \$80,000 to help offset the cost of the needs analysis that will need to be done. This first step, is a very detail step in the process. Lasko assured the committee that the final lease agreement, along with the construction cost figures will be vetted by the committee at a later date. Right now, the only obligation to the city is the \$80,000 to go with the letter of intent.

Lasko then explained to the committee how the \$1.5 million down payment would be funded by the city. Currently, the city has one million dollars in the Urban Development Action Grant (UDAG) that could go towards the city's portion of the down payment. The city would also contribute \$450,000 towards the private retail portion of the project or 10%, from Issue 8 funds. \$150,000 would come from the community development funds and \$300,000 from the economic development funds. Ruthsatz then asked if the city would be paying for the build out and he explained that no the developer would be paying for it. Ruthsatz wondered with the rent at that rate, shouldn't that be included in the rent. Lasko then explained the all in cost of the project to the city. There would be the \$80,000 upfront space design cost, \$1.5 million down payment, \$2

million in lease payments, and then the \$2.9 million purchase price. Lasko then explained that the \$2.9 million would be bonded out, so there would be additional interest cost attributed to the financing. He advised that this cost was less than if we built a new facility. Wobser explained that this was a non-traditional leasing situation, since we hoped to take ownership after 7 years, the down payment would help to offset the construction costs that the developer would not be able to recoup due to the short leasing period. Nickles then asked if the city would see any return on the \$450,000 being given to the private retail space. Wobser explained that we would not see any of those funds returned to the city, that it was similar to what we had done in the past to entice businesses to the city. Ruthsatz questioned if we'd be on the first floor of the building. Wobser explained that we'd be on the first floor of the Kingsbury building and the second floor of the Calvary Building. This is because we would ruin the historical value of the Calvary Building if we had to add floors to it. Wobser explained that the first floor of that building (approximately 4,000 square feet) would be for commercial use.

Lasko then asked Solowiej to explain the financing of the lease payments. Solowiej explained to the committee that 2017 would be the last year of our Honeywell financing energy conservation lease, which was an energy audit performed several years ago on the fire station, service center, water plant, sewer plant, and the greenhouse. It is our hope that what we paid towards those lease payments will cover the cost of this new lease. He explained that those payments were broken out over the general fund, water, and sewer. He then went on to explain how the year 7 buyout might work when it comes to the funding. In year seven, the city will have more capacity to borrow. In the next few years, the city has several pieces of debt falling off its books. Stahl reminded the committee that when this review of moving city hall was done in 2009, the city was in a different situation when it came to borrowing capacity. At that time the committee decided, that it was a good time to move city hall, but it's an even better idea now. Wobser agreed. When they began this process of whether or not to move city hall, they wondered how they would fund the project. When they determined the debt would be rolling off, they knew it was the perfect time to make the move.

Gardner then asked what our plans were for the justice center. Wobser explained that they were just beginning the process for the justice center. They are reviewing whether to stay at the current location or find another site somewhere on the edge of town. He explained that the site selection process has begun, to see if they can find a site large enough for what they need. He advised the committee that 40% of the project would be funded by court fees assigned to the public and the remaining 60% from the general fund for the police portion of the project. Again, it is our hope that the funds made available to the city with the debt rolling off will cover these costs also. Wobser anticipates the site selection process to take approximately 90 days to complete. He explained that the option to have the justice center remain in the existing building was not a good option, due to the costs to rehab this building. Nickles then asked what would happen to the current building once everyone was gone. Murray explained that today we are concerned with the letter of intent portion of the project and whether or not we should proceed with it. He asked Solowiej to provide a detailed spreadsheet in the near future that outlined how the funding would work for each step of the process. He advised that right now we do not know what will happen to the building if everyone was to leave it. He said there were a variety of factors to consider when it comes to the existing property, i.e. Battery Park and the Sailing Club. Murray explained that they don't anticipate a sale of the property, but possibly more of a long-term lease situation. Nickles then apologized for cutting Lasko off and asked him if he had anymore to add to his presentation. He advised that he did not, that his intent was just to give the committee background on what they are considering. He explained that this was a long process and that the lease agreement and the numbers could change as we get further into the process. The tax credits may change as we progress, there's a large amount of legal work that is required

to make this all happen. Ruthsatz then asked if this was a triple net lease and Lasko agreed that it was. Lasko explained that the developer would be responsible for the building envelope and the city would be responsible for the interior work. The landlord would be responsible for the larger systems of the building. Ruthsatz then asked if you can make these historical buildings energy efficient. Lasko acknowledged there may be some restrictions due to the historic tax credits, but they would be more energy efficient than the building we currently have. He advised that we hadn't gotten into the building specifications yet, but they would be vetted by the appropriate committees to make sure these concerns are addressed. Ruthsatz was curious as to why we were leaving the police here for now and having a half empty building. Wobser explained that the administrative building was fast tracked due to historical tax credits that were about to expire. Our intent is not to leave police down there for long.

Nickles then asked if what they were looking for from the Finance Committee was a recommendation to proceed with the letter of intent, along with the \$80,000 payment. Lasko agreed that yes that was what was needed, along with the knowledge that they would then proceed on to the development of the lease agreement between Marous Brothers and the city to bring back to the Finance Committee for review. He advised the committee that there was a March 2017 deadline to get the lease agreement negotiated, with construction to begin in the second quarter of next year. Murray reiterated that he needed more detailed numbers before we could go ahead with the project. He explained that he was feeling pretty good with the estimates, since they fit into our bonding capabilities. He just needs to look at the project as a whole to move forward. Ruthsatz then asked if the letter of intent bound us to signing the lease agreement. Lasko explained that if we cannot negotiate a lease with them, we can go our separate ways. Allen then asked if a study had been done at this location to determine the effect this move would have on parking in that area. Wobser advised that the comprehensive plan had done some research on downtown parking and found that only one third of Jackson Street parking lot was being used. He explained that the 45 city employees would be asked to use the Jackson Street parking lot and the county's parking garage. He also advised that some changes would need to be made to parking limit for spaces surrounding the building. Some spots that were previously all day parking may need to be changed to more short term parking.

Nickles then asked for a motion to recommend to the City Commission to proceed with the letter of intent and to spend the \$80,000. Stahl made the motion, with a second from Ruthsatz. There was no further discussion. All ayes – motion carried.

Nickles then opened the floor for public participation pertaining to this matter. Mark Norman thanked Wobser for explaining about the parking situation, because that was one of his concerns. He did ask if the county building was explored as an option, since they had previously offered us space. Wobser answered that they do not have enough space available to meet our needs, without moving some of their employees out to other locations. Murray agreed with Wobser. Wobser did note that we have had many good discussions with the county about using there parking garage though. Allen also suggested studying the traffic lights in that area, because there still seems to be some issues in that regard. There were no further comments.

Motion to adjourn made by Stahl and seconded by Solowiej. **All ayes – motion carried.**
Adjourned at 9:55 A.M.