



STAFF REPORT

DATE: January 16, 2018
REGULAR #21

AGENDA ITEM: Purchase Agreement for 3880 Laverne Ave

SUBMITTED BY: Kristina Handt, City Administrator

REVIEWED BY: Brian Swanson, Finance Director

BACKGROUND:

The City began a space needs study for a new city hall, fire station and updates to public works in 2017. One of the options examined in that report was the Brookfield building, 3880 Laverne Ave N. At the December 19th meeting, the Council held a closed session to discuss an offer for the property.

ISSUE BEFORE COUNCIL:

Should the City Council approve the purchase agreement for 3880 Laverne Ave N?

PROPOSAL:

The City Attorney has drafted a purchase agreement for 3880 Laverne Ave N and the .58 acre adjacent parcel at the corner of 39th St and Laverne Ave N. The proposed purchase price is \$875,000. In addition, the City would assume the pending street assessment (Laverne Ave N) estimated at \$71,750. Earnest money of \$40,000 is proposed.

The purchase agreement includes five contingencies:

- Title of the property is acceptable to the city
- Environmental condition of the property is acceptable to the city
- The physical condition of the property is acceptable to the city
- Building analysis/fit test results acceptable to the city
- A financing contingency

Staff has contacted two firms to do the environmental and physical condition inspections. CEG Assessments fee for both is \$3,300. Leo Daly's fee is \$2,500 for each the property condition assessment and the environmental review for a total of \$5,000. Given that it is uncertain if the property will be used for a city hall and/or fire station at this time, staff is not recommending the building fit test be completed. If council would like to identify which option we can obtain quotes for that study.

The City will have 90 days to perform its due diligence in these areas. The closing will then be 30 days after the due diligence period.

The cost of obtaining a Title Commitment will be paid by the sellers. Real estate taxes (est \$23,330) will be prorated from the date of the closing. Other closing fees will be split as is customary along with the seller paying the broker fee.

The purchase agreement allows the city to assign it to the Economic Development Authority (EDA) which may be necessary for financing reasons discussed later.

The Sellers would like for the City to decide if they would like to have the Financing Contingency or the EDA Assignment language but not both. They don't feel it is clear what will happen. Staff left both sections in the agreement and Council can decide which, if any, to remove. A decision on the financing of the purchase will help in determining which removal is in the City's best interest.

FISCAL IMPACT:

Staff has been meeting with bond counsel and our municipal financial advisor Tammy Omdal from Northland to discuss financing options. Having the city issue General Obligation Capital Improvements Bonds is not an option since tenants will remain initially in the building. Therefore, any bonding would need to be done through the Economic Development Authority with taxable lease revenue bonds. Three options include:

- 1) Using City Fund Balance. This could be fund balance in the general fund as well as the utility funds, likely split 80/10/10 (general/water/sewer). Staff would not recommend this option as drawing down the general fund balance that significantly may impact the city's bond rating and trigger the need to levy to increase the fund balance to be within policy guidelines of 50-60%.
- 2) Have the EDA issue lease revenue bonds as the EDA is currently organized. This would then lead to a lease agreement between the City and EDA which would cover the debt payments and possibly operating costs, property taxes, property insurance, etc.
- 3) Have the EDA issue lease revenue bonds after granting HRA powers. The EDA could then pledge the HRA levy as a backup if future Councils decide not to levy for the lease bond payment amounts. This could result in the interest rate being as much as 1% lower than option 2 above. A lease agreement would still be needed as described in option 2.

In the near term, as long as all tenants remain at their current rates, staff estimates the city will net funds after paying bond payments, operating costs, property taxes and insurance. This is due to the city not having to make the current lease payments once ownership changes as well as reduced taxes for the portion that is tax-exempt.

General fund balance can be used in the interim for the purchase of the property and then once bond proceeds are received the City can be reimbursed for the purchase. The EDA will need to approve a reimbursement resolution within 60 days of the purchase. Then they would reimburse the City.

If the Council decides to use fund balance and not have the EDA issue bonds, the unrestricted unassigned fund balance in the General Fund is projected to be at about 51% by 12/31/18. Council could impact that percentage by having the utility funds pay their fair portion of the building costs.

OPTIONS:

Regarding Purchase Agreement:

- 1) Approve the Purchase Agreement for 3880 Laverne Ave N
- 2) Amend and then Approve the Purchase Agreement for 3880 Laverne Ave N
- 3) Do not Approve a Purchase Agreement for 3880 Laverne Ave N

Regarding the contingencies:

- 1) Approve \$3,300 for CEG to complete a property conditions assessment and Phase 1 Environmental
- 2) Approve \$5,000 for Leo Daly to complete a property conditions assessment and Phase 1 Environmental
- 3) Direct staff to obtain quotes for a building fit test (Council identify the use)

Regarding Financing:

- 1) Use fund balance
- 2) EDA taxable lease revenue bonds
- 3) Use HRA powers of EDA, taxable lease revenue bonds

RECOMMENDATION:

“Motion to Amend and then Approve the Purchase Agreement for 3880 Laverne Ave N.”

AND

“Motion to approve \$3,300 for CEG to complete a property conditions assessment and Phase 1 Environmental Assessment.”

AND

“Motion to direct staff to begin securing financing via the EDA using HRA powers.”

ATTACHMENTS:

- Purchase Agreement
- CEG Proposal