

City of Lake Elmo
3800 Laverne Avenue North
Lake Elmo, MN 55042

SPECIAL CITY COUNCIL MEETING

December 29, 2011

The Lake Elmo City Council will hold a Special meeting Thursday, December 29, 2011, from 9:00 a.m. – 10:00 a.m. at Lake Elmo City Hall, Council Chambers, 3800 Laverne Avenue North, Lake Elmo, MN. The purpose of the meeting is to address the employment of a City Administrator.

Carole Luczak, Interim City Clerk

City of Lake Elmo
3800 Laverne avenue North
Lake Elmo, MN 55042

NOTICE OF SPECIAL MEETING

December 29, 2011

10:00 a.m.

- A. CALL TO ORDER
- B. ATTENDANCE: _____ Johnston _____ Emmons _____ Park _____ Pearson _____ Smith
- C. APPROVAL OF AGENDA: (The approved Agenda is the order in which the City Council will do its business.)
- D. PUBLIC COMMENTS/INQUIRIES:
- E. REGULAR AGENDA:
 - 1. Library
- F. Adjourn



MAYOR & COUNCIL COMMUNICATION

DATE: December 29, 2011

AGENDA ITEM: Various Issues regarding Potential Purchase
of 3537 Lake Elmo Avenue North

**** Non-public Information (relates to real estate negotiations) ****

SUBMITTED BY: Craig W. Dawson, Interim City Administrator

The City Council and the Library Board have recently started to pursue the possible purchase of 3537 Lake Elmo Avenue North, which has also been referred to as the "Clock Building" or the "Bush Building", as the facility in which to locate the Lake Elmo Public Library. It is currently in foreclosure, and the financial institution holding it is open to discounting its price for the property. In their discussion during the December 20, 2011, meeting of the City Council, there was general agreement that it would be worthwhile to get processes underway to develop further information needed in deciding whether to purchase the property.

Due Diligence Structural Assessment: On December 21, the Library Board authorized engaging services for up to \$2,000 to perform a "due diligence" assessment/evaluation of the building, in order to gain an understanding of general building conditions and building code issues that may need correction, and to have an estimate of the cost to address them. On December 22, I gave authorization to Partner Engineering and Science to perform the work. Partner's standard performance condition is to provide a full report within 12 business days after receipt of authorization. The cost for the study will be assigned to the Library Fund.

Possible Structural Engineering Analysis: This due diligence assessment may indicate that it would be prudent to have an engineering firm do the detailed structural analysis of what improvements are needed and their likely range of costs. The City Engineer has estimated that this work would probably fall in the \$3,000 to \$5,000 range. It would likely take a few weeks for this process to take place.

Phase I and Phase II Environmental Reviews: It is a very common and prudent practice to conduct an environmental review of a property. A Phase I review is research on the property regarding its past uses and finding any known or likely activity which may require environmental clean-up. This work generally costs around \$2,000 and can be done in a fairly short period of time. Phase II reviews are not as commonly performed, and rely on the findings of a Phase I review to determine the scope of work to be performed. Consequently, the cost and time to complete a Phase II review can vary considerably from site to site.

Concerns with Sewage: The adequacy of the sewage system for the property has been raised as a concern. Washington County will provide technical assistance to the City, but it does not perform a full compliance review that a buyer would want. The City would likely want to have a firm hired to do the full compliance review. (A firm is planning to visit the site on Dec. 29 and prepare an estimate for its work to do the full compliance review.) In a usual real estate transaction, it is the seller's responsibility to disclose the adequacy of the sewage system. In this case, the City could engage the services of a firm to do the review as part of its own due diligence. If it is determined that the property used for a public library and private services needs to be served with holding tanks, then the City would be put in a position of granting itself a variance for the property to be served in this manner.

Transaction Framework and Financing: I have spoken with Paul Donna of Northland Securities, the firm that does the City's bond issuance work. The method of acquiring and financing the property would be with "annual appropriation" (aka "lease-revenue") bonds, and would not require a referendum. As these bonds may be defaulted if an annual appropriation is not made, they carry a perceived higher amount of risk, and hence have a higher rate of interest – usually up to 0.5%. The City would purchase the property and issue the bonds, with the revenue to pay them off from an annual appropriation from the Library Fund. Given the probable size of the issue, it is quite possible that bonding could be done with a bank, who would act as trustee on the bonds for the duration of the issue. Mr. Donna believes that the process to closing on the bonds would be 60 to 90 days, and more likely toward the 60-day end of the range, after work is authorized. There would be no compensation due Northland Securities unless and until the bonds are sold.

One key concern is that the bond issue is sufficient to cover all of the costs of the project. This would occur after the sale price on the property is agreed, and after costs for building improvements (either through bids or confident cost estimates) are determined.

For purposes of illustration, around Thanksgiving I asked Mr. Donna for some estimates of costs for 10-, 15-, and 20-year bond issues that would yield \$500,000 in proceeds. This illustration is attached. As we have spoken about the structure of the bond sale, the figures under columns D, E, and F are the ones to consider.

Summary of Action Items/Timeframe:

- 1) Due diligence structural assessment: Underway; due ca. Jan. 10; \$1,800
- 2) Possible structural engineering analysis: After #1; a few weeks to perform; \$3,000 - \$5,000
- 3) Phase I environmental review: After #1 & concurrent w/#2; a few weeks; \$2,000
- 4) Sewage system review: After #1 & concurrent w/#2 & 3; a few weeks?; \$?
- 5) Cost estimating: After #1 thru #4; a few weeks to perform (by mid-Feb?); \$?
- 6) Bond work: After #5; 60-90 days to perform (done late Apr-early May?) \$ incl. w/bonds

City of Lake Elmo, Minnesota
City Library Project
Summary of Preliminary Bond Financing Scenarios

	City Library					
	General Obligation CIP Bonds			Annual Appropriation Lease Revenue Bonds		
	A	B	C	D	E	F
Project Funds	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Financing Costs	\$34,206	\$34,206	\$34,206	\$37,250	\$37,125	\$36,875
Par Amount of Bonds	<u>\$535,000</u>	<u>\$535,000</u>	<u>\$535,000</u>	<u>\$600,000</u>	<u>\$595,000</u>	<u>\$585,000</u>
Total Principal	\$535,000	\$535,000	\$535,000	\$600,000	\$595,000	\$585,000
Estimated Average Interest Rate	2.15%	2.71%	3.17%	2.47%	3.14%	3.65%
Estimated Total Interest	\$71,733	\$131,353	\$203,911	\$91,875	\$170,040	\$258,579
Estimated Total P&I	\$606,733	\$666,353	\$738,911	\$691,875	\$765,040	\$843,579
Term	10	15	20	10	15	20
Est. Avg. Annual Pymt.	\$60,673	\$44,424	\$36,946	\$69,188	\$51,003	\$42,179
DSR Impact	\$0	\$0	\$0	\$1,472	\$1,667	\$1,590
Net P+I	\$60,673	\$44,424	\$36,946	\$67,715	\$49,336	\$40,589

On Tuesday, I visited the Larsen Family Library of Webster Wisconsin. The building had been a car dealership, founded in 1974 by Terry Larsen. The Larsens moved their dealership south to Frederick Wisconsin about five years ago and the building remained empty. It is located on Highway 35 in Webster. After some years, the Larsen family donated the building to the city of Webster. I am sending some photos that I took, however there are many more on the flicker website:

<http://www.flickr.com/photos/webster54893/with/4771983442/>

The library had been in a bank building smaller than our current library. They used a USDA grant to help remodel the car dealership. The current square footage of the library is 2100 square feet. The library is open 47 hours in winter and summer, which include evening and Saturday hours. The library has seven computers used by patrons. There are 3,570 borrowers, of which only 463 are residents of Webster. The city of Webster has about 650 residents, with a median price of a house at \$100,000. Contrast with Lake Elmo, with a population approximately 8,000, and a median price of a house at \$400,000, in 2010.

The community at large donated books much as is happening here in Lake Elmo. Once people began to see the Library as a community resource, the donations went up. The book shelves were built in the high school shop class. The local bank gave \$80,000 to the Library for the initial remodeling. The annual budget comes from funds dedicated by Burnett County to the library of \$49,000, and the Village of Webster contributes \$37,147. With two small grants, the budget for the library for 2010, was \$94,000. The head librarian is paid annual salary of about \$24,000, for 40 hours a week and the assistant at about \$8,000, for 15 hours a week. Volunteers make up the rest of the team, a group of about 14 to 20 volunteers check out books, help patrons find books, use the computers, do story time, and provide other services to the library. The Friends of the Library were deeply involved and have an office in the new facility. The library board helped to push through the change from a small library to the new library. The library board members come from Danbury, Webster, Siren, and other small townships.

There is a conference room and community groups can sign up to use the room. They have now community book clubs for both adults, and teens including a Murder Book Club...those who love a good murder mystery. Local community groups use the conference room. They also had some extra room that they turned into a tutoring room for students. There is a computer there and in the children's area.

The local fire department and local business groups got involved in helping in some part of the library remodeling and housing. The library now houses business and investment periodicals, such as the Wall Street Journal, Barons, and Investment Digest, where once those had to be found only in larger communities. Having a library visible in the main business area is good for business. As our local wine store observed that when the library has author events, people then use the time before and after to visit other businesses. Artists provide their work, shown on easels throughout the library. The pictures on flickr and the ones I am including show interiors.

The biggest expense for the library was the remodeling since the building was an empty shell with large garage like storage. The operating expenses, including salaries, technology, and acquisitions were about \$87,000 for 2010.

I want to contrast this scenario of the Webster library with its normal budget of less than \$100,000 and no money by which to pay back a part of the remodeling loan, (which the small town of Webster will have to come up with) with our \$260,000 annual budget, and the likelihood of buying a building like the "Clock" building which already has been transformed into office like structures. I certainly think this is very possible. I am going to propose that we do more community outreach to businesses to help with our efforts in terms of acquisitions and furnishings which will free up money for the building itself.