

City of Excelsior
Hennepin County, Minnesota

MINUTES
EXCELSIOR CITY COUNCIL WORK SESSION

FEBRUARY 2, 2015

1. CALL TO ORDER/ROLL CALL

Mayor Gaylord called the meeting to order at 6:02 p.m.

Present: Councilmembers Caron, Fulkerson, Miller, and Mayor Gaylord

Absent: Councilmember Beattie

Also Present: City Manager Luger, Finance Director Tumberg, Public Works Superintendent Wisdorf and City Clerk Johnson

2. AGENDA APPROVAL

Fulkerson moved, Miller seconded, to approve the agenda. Motion carried 4/0.

3. ESTABLISHING LONG TERM FINANCIAL GOALS AND PRIORITIES

Tumberg stated that, over the last couple of years, the Council has put together a listing of their long term financial plans and objectives. She said that the Council should discuss what should be removed from the list and decide if anything should be added to the list, in order to establish these goals. At the next City Council meeting, Tumberg said she will prepare a resolution and attachment with the goals and objectives. She said this will also be published in the Sun Sailor Newspaper.

The Long Term Financial Plan Goals and Objectives include:

<u>Priority</u>	<u>Year to be Accomplished</u>	<u>Long Term Financial Plan Goals and Objectives</u>
	2015-2025	Continue to line old sanitary sewer pipe
	2015	Lafayette Lift Station Reconstruction
	2015	Crack Seal 2010/2011 Pavement Project
	2015	Pavement Management Plan Update
	2015	Water Plant Roof
	2015	St. Alban's bay Bridge (rip rap and surface improvements)
	2015	City Hall/Library Remodel
	2016	Phase III Street Project
	2016	Seal Coat 2010/2011 Pavement Project
	2018	St. Alban's Bridge (planning and design)
	2019	St. Alban's Bridge (construction)
	2020	Crack Seal 2010/2011 Pavement Project
	2021	Seal Coat 2010/2011 Pavement Project
	2021	Seal Coat Met Council Project Streets
	2024	Paint Water Tower

3. ESTABLISHING LONG TERM FINANCIAL GOALS AND PRIORITIES - Continued

<u>Priority</u>	<u>Year to be Accomp.</u>	<u>Long Term Financial Plan Goals and Objectives</u>
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Projects with Undetermined Start/Finish Dates

- Port Building
- Beach Bathhouse
- Band Shell
- Ballfield Concession Stand
- East & West Parking Lot Upgrades
- Five Corner Intersection Reconfiguration

Fulkerson asked if the "St. Alban's Bay Bridge" objective may be removed. Mayor Gaylord said that Councilmember Beattie was appointed as the representative on this item and that there have already been discussions with the City of Greenwood. Mayor Gaylord said that item should stay on the list for now.

Tumberg said the rating of the St. Alban's Bay Bridge has gone down over the past few years but that this item could be moved out further. Fulkerson said she think this item should be moved earlier. Caron said that the Council will know more after Beattie attends some of these meetings.

Caron said that she would like to see the City Council add an objective titled, "Enhance The Commons." Luger asked whether Caron was referring to the grounds or the buildings in The Commons. Caron said the Council needs to know what the priorities are for the buildings in The Commons. Mayor Gaylord said that the land and landscaping could also be a part of this goal. Caron asked if this objective can be left as a general description; Luger said yes. Tumberg said she will add this objective to the list.

Caron suggested removing the "Five Corner Intersection Reconfiguration" goal. Tumberg said she will remove this goal.

Mayor Gaylord asked if the City is moving forward with the water plant reroofing; Wisdorf said yes.

Tumberg said everything listed as 2015 has been approved in the Capital Improvement Plan and that the rest of the objectives are listed as placeholders.

Mayor Gaylord asked if future lists could include approved costs and the approval date of each item; Tumberg said yes.

Mayor Gaylord asked if the list of goals and objectives would be listed on the City of Excelsior website; Tumberg said yes.

4. PROPOSAL FOR 810 EXCELSIOR BOULEVARD BUILDING

Luger said that Scout.com has submitted a lease proposal for the City Council's consideration for the 810 Excelsior Boulevard building. Luger said this proposal is included in the Council's packet, along with a previous proposal from Kirby Vacuum Company and comparisons between the two proposals. Luger said that the City has also received a proposal from The Waters Senior Group to purchase the building and the land adjacent to it.

Luger said that Tumberg included in the Council's packet a financial analysis of the two proposals, comparing leasing versus selling the property.

Tumberg presented an analysis that shows what may happen if the City leases the 810 Excelsior Boulevard building but doesn't bond for any projects. The analysis projects a two percent increase for the lease revenue. Tumberg said that expenses have been factored in with all of the projects the City has, including the Oak Street Sidewalk Project. Tumberg said that bonding for the 2016 Street Improvement Project is included, but the chart does not assume bonding for other projects. Tumberg said that, when the parking impact fees are removed, this fund goes into the negative during the years 2019 through 2026, assuming that the City does not bond or borrow from another fund. She said this doesn't include any potential overage from the 2014 year that may be transferred into this fund.

Tumberg said the analysis for selling the 810 Excelsior Boulevard building shows a one-time cash flow from the sale of the property. She said that the same assumptions list the highest possible cost for 2015, in case the City didn't sell until the end of the year. Under this scenario, Tumberg said that the fund balance is quite healthy throughout. In order to make up for the loss of potential annual revenue, Tumberg said she factored in the 2010A Bond's levy that will be paid off in 2026. She said that the \$100,000 levy used to pay those bonds back could potentially go into this Capital Improvement Fund to help fund future capital projects.

Tumberg said that there is another difference that comes into play and that is the property taxes. Currently, the property generates approximately \$3,300 in property taxes annually for the City. Tumberg said the proposed owners, if the property is sold, would be guaranteeing \$50,000 in tax revenues back to the City. Because the City would have to raise the levy to realize those extra revenues, Tumberg said she kept the property tax revenues out of the scenario that was included in the Council's packet.

Miller asked Tumberg if she is assuming the personal property taxes would be paid in the future by any renters. Tumberg said the expense for personal property tax could change, depending on building evaluations. Miller said the other variable is the appreciation of the property as economic conditions improve. Mayor Gaylord commented that the analysis appears to show that the lease option doesn't have a break-even point, as compared to the sell option. Miller questioned what the numbers would look like if the tenant paid the property taxes after the initial three-year term.

4. PROPOSAL FOR 810 EXCELSIOR BOULEVARD BUILDING - *Continued*

Bill Wolfson, Bill Wolfson Commercial Real Estate, addressed the Council and said that the current proposal is for a three-year lease with a three-year option. He said, if the City recaptured the taxes, that most likely the rent would be less than what the City would have now. Miller said this depends on the market at that period of time. Mr. Wolfson said the proposal ties it up for six years, unless wording is added to negotiate the second three-year term. He also said it can't be assumed that there will be a 30 percent increase in three years. Mr. Wolfson said this is an office property, not a typical retail property.

Mayor Gaylord asked Mr. Wolfson if he is representing both parties; Mr. Wolfson said no.

Mark Norquist, Scout Media, addressed the Council and said that he is representing Scout.com. Mayor Gaylord asked Mr. Norquist to provide a summary of their proposal.

Mr. Norquist said that Scout.com is a digital media company that is comprised of two major components. He said that one component is their digital media division of Fox Sports. He said that Scout.com has created nearly 300 websites nationwide for college and NFL teams. He said the other portion of their company is North America media, which has been based out of Minnetonka for the past 30 years. Mr. Norquist said Scout.com has historically been a marketing and digital print company. He said they are looking to bring their editorial staff of about 25 employees into this space. Mayor Gaylord asked Mr. Norquist if they will use the basement; Mr. Norquist said yes. Mr. Norquist said they will use the basement because it is one of the better **spaces in the building where they can build up a façade and studio spaces to produce videos**. Mr. Norquist said Scout.com produces videos for the Handyman Company of America.

Tumberg said if the personal property taxes are removed from the example, there is still a negative balance in 2019 through 2023.

Caron asked about what may happen in 2030. Tumberg said that, in the lease scenario, she added \$100,000 from the 2010A Bond's levy, similar to the other scenario. In the lease scenario, Tumberg said the fund balance is \$1.2 million by 2030. The fund balance is about \$957,000 in 2030 for the sell scenario.

Miller asked Tumberg about the lease increase she used in the scenario. Tumberg said she used two percent.

Miller asked Mr. Wolfson about his experience over time for a rental increase. Mr. Wolfson said he thinks two percent annually is a healthy increase for an office space.

Miller asked if some of the taxes could be recaptured in the future. He said this may look better long-term for the lease. Miller said that the City could sell the property later at a higher price. Miller said, for instance, the City may have an asset worth twice as much if the property weren't sold until 2030. Miller suggested that the City do a direct comparison of rent versus tax revenue. He said that he thinks the rent

4. PROPOSAL FOR 810 EXCELSIOR BOULEVARD BUILDING - *Continued*

may be higher, even if the City pays for the taxes. Miller said that he likes both proposals; however, in terms of revenue for the City, Miller said he thinks the lease option is better long-term.

Mr. Wolfson said the increase in property tax is the comparison that should be looked at and said that it would be approximately \$50,000 net to the City.

Jay Jensen, Principal, The Waters Senior Living, addressed the Council and said that he is basing his proposal on a similar project of similar value, which would have an approximate net of \$50,000 to the City annually.

Mayor asked Mr. Jensen if The Waters Senior Living has talked with the owners of Adele's. Mr. Jensen said that he has met with the owner a couple of times and she may be interested in selling. He said the owner is looking to expand her business for what she does now and also for the exposure she will receive from the Twins stadium. Mr. Jensen said that he referred her to Mr. Wolfson for potential locations in Excelsior. Mr. Wolfson said that one issue for Adele's is the age and condition of the current building. He said it's eminent that the owner needs to do something with the building. In Adele's current location, Mr. Wolfson said the owner may not be able to rebuild. Mr. Wolfson said the owner is looking for a better location for her retail business. He said the first step is to see if it makes sense to repurpose the Adele's property. Mr. Wolfson said the owner is open to it.

Mayor Gaylord asked if the purchase of the Adele's property is contingent to the owner moving her business elsewhere. Mr. Wolfson said, if the owner doesn't find what she needs, then there would be a contingency timeline that the owner would need to meet for that requirement. He said the unique piece is that the sale of the 810 Excelsior Boulevard property to another purchaser may not bring the tax base up and wouldn't do much for the City's bottom line. Mr. Wolfson said it would be hard to envision what else could be put on this property that would increase the tax base.

Mayor Gaylord said that, if there were another proposal (i.e., mixed use, retail, commercial, etc.), the tax base could be more. Mr. Wolfson said another use may not be well received in that area, but that it's possible to have higher density retail there.

Caron asked if there is a site plan for parking, given that the proposal from The Waters Senior Living is quite large. Mr. Jensen said the property is about two acres, all added together. Mr. Jensen said it may be a "U"-shaped building. He said he would like to sit down with the City to brainstorm what will work best. Mr. Jensen said the first concern is how much traffic will be generated. He said this proposal is similar to a 90-unit project they built in Edina and that the traffic impact there has been minimal. Mr. Jensen said the second concern is the design of the building. He said they could put together a rough idea of what it may look like and would work with the City to develop a design everyone would be agreeable to.

4. PROPOSAL FOR 810 EXCELSIOR BOULEVARD BUILDING - *Continued*

Miller asked Mr. Jensen if The Waters Senior Living is looking for direct access from Highway 7. Mr. Jensen said they would use existing roadways.

Miller asked how much additional acreage the Adele's property is. Mr. Jensen said the Adele's property is about 2/3's of an acre and that the valuation of the property is about \$500,000. Mr. Jensen said he expects the hard construction costs of the building to be over \$15 million. He said the assessed value is usually a little over the hard construction costs, initially, and that they work with the assessors from Hennepin County.

Mayor Gaylord said that, at the last discussion on this property, the Council wanted to have more time to discuss this property, in general, and decide what to do with it. Mayor Gaylord questioned if there is something more suited for this use.

Fulkerson questioned if the public should be involved regarding the sale of this property. Caron said this would be part of the whole conversation. Caron said she agrees that we have an asset that the City owns and that Excelsior is a unique community, with a number of challenges ahead. Caron said she is reluctant to commit to a sale without a minimum of a discussion on goals in the community. She said she is not really sold on the idea of senior assisted living at that site. Caron commented that there are several assisted living properties around Excelsior and also a lot of housing that appeals to a senior demographic. She said the City needs to carefully consider this if Excelsior is looking to add more to the community.

Miller said The Waters Senior Living proposal is the most ambitious and attractive idea for this property. He said the City hasn't been very successful in leasing this property in the past five years. Miller said the Council needs to discuss what type of development the City wants in that area. Fulkerson agreed that it needs to be studied more. Mayor Gaylord agreed and suggested that the Council take time to study it. He said that having a three-year lease seems attractive and buys the City time to understand the property. Mr. Jensen said they wouldn't be around in three years and would have to find another location. Mr. Jensen encouraged the Council to look at The Waters Senior Living's other properties, which may help the Council decide whether or not they want this in Excelsior. Mr. Jensen said that the City wouldn't get as competitive a proposal, with as low an impact to the neighbors, with any alternative use.

Mayor Gaylord asked Mr. Norquist if his company would still want to be there at the end of a three-year lease. Mr. Norquist said his company would be comfortable with a three-year lease, knowing that it may end after three years. He said they may even outgrow the space by that time. Mr. Wolfson added that it could be an annual lease. Mr. Norquist said it's a possibility they could look at.

Mr. Jensen said that his company really wants to be in Excelsior. He said they would be willing to incorporate a land lease with the same numbers, so that the hard property tax plus the lease payment would be comparable to what the City would have gotten. Mr. Jensen said they are trying to come up with a win-win situation. Caron said that Mr. Jensen is giving a really good offer. She asked why Excelsior is

4. PROPOSAL FOR 810 EXCELSIOR BOULEVARD BUILDING - *Continued*

so desirable for them. Mr. Jensen said they mapped out the entire metro area. He said they currently have properties in Edina, Rochester, Highland Park on Snelling Avenue, and are also about to purchase land in White Bear Lake. He said that one of the spots they marked in the metro area was Excelsior. Mr. Jensen said that the City of Edina went through almost a two year process for their project. He said that other cities are very happy with their development. Caron reminded Mr. Jensen that Excelsior is only one square mile in size. Mr. Jensen said they may be currently in larger cities, but they work with the smaller immediate neighborhoods when they are building a new development.

Miller asked if the City were to give a one-year lease to Scout.com, would Mr. Jensen's company still be around while the City discusses the property during this time. Mr. Jensen said yes and that it takes a year for his company to work on the development plan. Miller asked Mr. Norquist if Scout.com would be interested in an annual lease. Mr. Norquist said they would look at it, but it's very possible. Mr. Norquist said they are looking to move in as soon as possible. Miller asked what their timeframe is for when they need to move. Mr. Norquist said they wanted to be in by February 1st. Caron said the City will, realistically, need more than a year, possibly 18 months, to discuss the analysis. Mayor Gaylord said the City may have more direction at the end of one year, but 18 months seems more reasonable. Mr. Jensen said his company would wait 18 months.

Luger said that Scout.com's lease proposal is also on tonight's regular Council agenda.

6. ADJOURNMENT

Fulkerson moved, Caron seconded, to adjourn at 6:54 p.m. Motion carried 4/0.

Respectfully submitted,

Shirley Johnson
City Clerk