

Date: February 20, 2008

To: Centennial Mayor and City Council

From: Centennial Treasurer Susan Bockenfeld

Re: Purchase of Westerra Property – Fiscal Impact Analysis

As I reviewed the Staff Report concerning the purchase of the Westerra Property, in particular Item 5, Fiscal Impact, I found a few discrepancies that need to be brought to your attention as you consider this action.

- 1) The purchase of the Westerra Property will be made with cash from the General Fund but to show an accurate impact on the General Fund we need to include the cost of the 3.84 acre multi-use property that is also being purchased with cash from the General Fund. This increases the reduction to the General Fund to \$4,104,540.
- 2) The total rent for 2009 is projected to be \$374,167. What is not being considered is that the \$4.1 million would provide \$185,936 investment income in 2009 to offset the rent expense reducing it to a net figure of \$188,231.
- 3) The Staff Report shows the 2009 Westerra payment of \$392,834. This was calculated incorrectly. An amortization over 10 years provides an annual payment of \$469,446. See attached amortization schedule.
- 4) The Cost of Annual Financing at 4.2% is being shown as \$15,834. Again, this was calculated incorrectly. The correct cost of annual financing is \$158,340.
- 5) Another consideration is the loss of property tax income to the city when the building changes from commercial use subject to property tax to tax exempt municipal use. The impact to the City would be \$4,565 annually. The impact to the community would be \$87,781.54 from other taxing authorities including \$43,640.79 for Cherry Creek Schools alone.
- 6) The City is not exempt from the Semsua fee and would pay \$1,291 annually.
- 7) The Staff Report notes “The net result of this analysis indicates that the City would break even in 10 years or less.” Using the staff rent projection, *principle only* would be recouped in 10 years. Using the Treasurer’s net rent projections, *principal only* would be recouped in 22 years. The building will be 30 years old.

Taking all these things into account, a new Fiscal Impact Analysis was prepared and compared to the one in the Staff Report - see attached. The true Annual Difference Rent vs Purchase is \$328,729 per year and not the \$18,667 in the Staff Report.

This analysis is being presented to you to correct the original impact statement and to aid you in making the best decision for the City of Centennial.

Page from Staff Report

3. Alternatives:

Deny the proposed ordinance and direct staff to pursue an extension of the existing lease and/or other office locations.

4. Recommendation:

Approve the ordinance authorizing the purchase of the Westerra Credit Union building, land and furnishings for \$3,770,000 and authorize the Mayor to sign all contracts and closing documents.

5. Fiscal Impact:

Current Facility Costs

<u>Description</u>	<u>Expenditure</u>
Rent	\$303,564
Common Area Maint	90,281
Utilities	11,220
Repairs	<u>5,849</u>
Total FY2008	\$410,914
Expected 2008 Costs with expanded area	\$457,914

Maintenance costs per square foot in the current facility on Euclid Avenue are \$2.88 per square foot. By comparison, maintenance costs, at the Westerra property are \$2.37 per square foot.

The following analysis has been prepared to provide an equivalent or "apples to apples" comparison of the cost to purchase the Westerra building compared to the anticipated rent costs for the current City offices located on Euclid Avenue. In order to do this, staff calculated annual payments on a lease-purchase loan at a 4.2 percent financing rate.

Assumptions:

Rent increase at Euclid of 7% for FY2009

<u>Description</u>	<u>Expenditure</u>	
FY2008 Euclid Rent	\$457,914	
FY2009 Increase	<u>32,053</u>	
Total FY 2009	\$489,967	
Deduct Util	15,000	
Deduct Maint	<u>100,800</u>	(35,000 sq/ft @2.88 sq/ft)
Total Rent 2009	\$374,167	
FY2009 Westerra	\$392,834	(Purchase price \$3.77, 10yr@4.2%) - \$469,446
Annual Difference Rent vs. Purchase	<u>-\$18,667</u>	— \$328,729
Cost of Annual Financing at 4.2%	<u>\$15,834</u>	— \$172,391

Fiscal Impact Analysis on General Fund

Westerra Building & 3.84 Acre Purchase

	<u>Staff Analysis</u>	<u>Treasurer Analysis</u>	
Purchase - Westerra Bldg	3,770,000	3,770,000	Purchase - Westerra Bldg
	0	334,540	Purchase - 3.84 acre expansion
Total Purchase Price	3,770,000	4,104,540	Total Purchase Price - GF Impact
2009 Rent per Staff Report	374,167	374,167	2009 Rent per Staff Report
	0	(185,936)	Interest earnings offset 4.53%*
Net Rent Expense	374,167	188,231	Net Rent Expense
Total Rent 2009	374,167	188,231	
Purchase price \$3.77, 10yr@4.2%	392,834	511,104	Purchase price \$4.10, 10yr@4.2%
	(18,667)	(322,873)	
	0	(4,565)	Loss of Property Tax 4.958 mill
	0	(1,291)	Semswa Fee
Annual Difference Rent vs Purch	(18,667)	(328,729)	
Cost of Annual Financing 4.2%	15,834	172,391	Total Price @ 4.2%

*This rate is an average of the ColoTrust Plus+ average annualized yield for the last 3 years.

Westerra Building

\$3,770,000.00 4.20% 10 years

	<u>Prin Bal</u>	<u>Pmt</u>	<u>Int</u>	<u>Prin</u>
2009	3,770,000.00	469,446.14	158,340.00	311,106.14
2010	3,458,893.86	469,446.14	145,273.54	324,172.60
2011	3,134,721.26	469,446.14	131,658.29	337,787.85
2012	2,796,933.42	469,446.14	117,471.20	351,974.94
2013	2,444,958.48	469,446.14	102,688.26	366,757.88
2014	2,078,200.59	469,446.14	87,284.42	382,161.72
2015	1,696,038.88	469,446.14	71,233.63	398,212.51
2016	1,297,826.37	469,446.14	54,508.71	414,937.43
2017	882,888.94	469,446.14	37,081.34	432,364.80
2018	450,524.14	469,446.14	18,922.01	450,524.13
		4,694,461.40	924,461.41	3,769,999.99

price 3,770,000.00
rate 4.20%
1st year int. 158,340.00

Westerra Building & 3.84 Acres

\$4,104,540.00 4.20% 10 years

	<u>Prin Bal</u>	<u>Pmt</u>	<u>Int</u>	<u>Prin</u>
2009	4,104,540.00	511,103.57	172,390.68	338,712.89
2010	3,765,827.11	511,103.57	158,164.74	352,938.83
2011	3,412,888.28	511,103.57	143,341.31	367,762.26
2012	3,045,126.02	511,103.57	127,895.29	383,208.28
2013	2,661,917.74	511,103.57	111,800.55	399,303.02
2014	2,262,614.71	511,103.57	95,029.82	416,073.75
2015	1,846,540.96	511,103.57	77,554.72	433,548.85
2016	1,412,992.11	511,103.57	59,345.67	451,757.90
2017	961,234.21	511,103.57	40,371.84	470,731.73
2018	490,502.48	511,103.58	20,601.10	490,502.48
		5,111,035.71	1,006,495.71	4,104,540.00

price 4,104,540.00
rate 4.20%
1st year int. 172,390.68

Annual Community Fiscal Impact
Conversion of Westerra Commercial to Government

	<u>Mill Levy</u>	<u>Lost Revenue</u>
Cherry Creek School District	47.397	43,640.79
Arapahoe County Govt	14.217	13,090.30
Developmental Disabilities	1	920.75
City of Centennial	4.958	4565.08
Arapahoe Cty Rec Dist	0.816	751.33
Arapahoe Library Dist	4.814	4432.49
Arapahoe Cty W&W PID	16.75	15422.56
South Metro Fire Rescue	9.377	8633.87
Cherry Creek Basin Auth.	0.398	366.46
Urban Drainage & Flood Control	0.507	466.82
Urban Drainage & Fld-S Platte	0.061	56.17
		<u>92,346.62</u>