

To: Derek Woodman, County Manager, Archuleta County
From: Troy Bernberg, Northland Public Finance
CC: Board of County Commissioners, Archuleta County
Date: March 29, 2022
Re: Prospective Sale of 449 San Juan Boulevard – analysis and findings

Northland Public Finance is assisting Archuleta County (the “County”) with an analysis of the sale of the existing County courthouse/administration/detention facility. This includes an analysis of each offer and the respective financial impact to the County.

The summary is separately enclosed and expands in detail from the initial table provided to the Board of Commissioners on March 1, 2022. Understanding that one bid included two price options, there are a total of six offers to consider. Five out of the six offers averaged \$530,000, with a \$150,000 differential between the low and high bid. The sixth offer (from the fifth bidder) deviates substantively from the others and exceeds the average of the first five by over \$300,000 and \$200,000 over the next highest offer price.

The summary table details areas of clarification and consideration for each offer. Below, high level observations and methodology for assumptions are outlined:

- Offer price is not indicative of the amount of proceeds the County should expect from the sale.
 - Only one offer contemplates commission fees; so it’s not particularly germane to the decision-making process. Consequently, focus turns to the impact of fee and tax waiver requests. Therefore, the financial impact analysis uses permit and dumping fees from the County to calculate these cost assumptions. The offer price is then shown net of these costs.
- Closing costs, aside from the commission, includes, but is not limited to appraisals, if required, as well as a title commitment. To the extent possible three bids should be solicited for each service to ensure the lowest cost is pursued. In a conservative approach, \$25,000 is assumed for each offer.
- Five of the six offers presented include provision for a triple-net lease back under which the County pays insurance, utilities, maintenance and in some instances taxes. With the exception of taxes, these items are common under a NNN lease-back and should be applied only to the square footage the County occupies. The County does not pay taxes as a tax-exempt organization. Subject to the County’s review and approval, it may elect to waive/credit property taxes as requested in some bids.
 - The County is expected to occupy 4,500 square feet of the building’s 19,200 total footprint, or 23.475%.
- As provided by the County, \$1,700 in permit fees is applied to the offers requesting such a waiver.
- The lease-back period is assumed to be up to three years. Discussions with County Manager Woodman suggests this provides enough time to investigate funding options for a proposed new administration building. Three years is used to calculate lease-back costs.

- The lease purchase financing currently encumbering the 449 San Juan building will have to be addressed. Potential impacts to the tax-exemption of the lease purchase financing should be investigated with the County attorney.
 - Northland discussed the option of asset substitution with the previous County Manager and Finance Director and believes the lender is open to such a solution.
 - Substitute collateral must be equivalent in value to the remaining principal amount, currently \$854,081.
- Per County information, dumping fees are calculated at \$17/cubic yard. Northland is not aware of the exact dimensions to the unoccupied portion of the building; however, a rule-of-thumb formula is provided below for the County's consideration and use for those offers requesting waiver of such fees.

Multiply the area's length in feet, by its width in feet, and its height in feet. This number is then multiplied by one-third to account for air space, and divided by 27 to convert into cubic yards:

$$(\text{Length (ft)} \times \text{Width (ft)} \times \text{Height (ft)} \times 1/3) / 27$$

Size of the Area: Know the dimensions of the space in feet.

Airspace: Multiplying by one-third accounts for the airspace of the room or rooms. One-third is a simplified number that takes this airspace into account.

Cubic Yards: So far, all our calculations have been in cubic feet, but most dumpster measurements are in cubic yards. To account for this, we divide the entire calculation by 27 because there are 27 cubic feet in one cubic yard.

- Property tax waivers, where requested, are calculated by applying the 76.5625% (offeror's occupied square footage) to information from the County assessor for taxable and assessed values as well as the County's 17.411 mill levy.
- Some offers mention the benefit of future sales tax revenues; however, projections for these revenues rely on a number of factors that are best analyzed in a third – party market study.
- Only one offer presented banking institution qualifications for access to financing to complete its prospective purchase. Similar qualifications should be presented by the County's selected offeror before finalizing award.
- Only one offer presented a timeline for next steps. This is another area of clarification for the other offers to the extent they are pursued.

Findings:

Understanding the dynamics discussed above and keeping in mind there are matters of clarification outstanding, the County received six competitive offers – four standalone offers and one offer with two options. It is important to have received offers from locals who understand and appreciate the Pagosa Springs/Archuleta County community, particularly its needs for growth and development. Each offer provided flexibility for the County to re-lease its current occupancy following a sale, although at varying terms and costs. Each offer, save one, waived commissions, another positive sign to the attractiveness of the property and the willingness of the offerors to negotiate. However, such buyer concessions must be balanced with those requested of the County. It's on this topic that offers really differentiate themselves.

Indeed, gross offer price did not dictate or point to the most attractive offer for the County's evaluation. Each offer is analyzed on a "net" basis considering the cost of each offeror request. These requests represent a "concession" by the County, or a cost. The fifth offer is the highest received, yet the associated lease-back cost accounted for 25% of the offer price. Across all offers, lease-back costs are the largest concessions requested of the County, followed by waiver of property taxes, and then waiver of permit fees, etc. As previously discussed, dumping fees could not be calculated for this analysis.

Evaluating net offers shows the net benefit (i.e., sales price) to the County accounting for all costs related to the real estate transaction as well as the County's occupancy of its current footprint until a new administration building is available. On this basis, the first offer listed amongst consideration stands out. Aside from calculating the cost of the dumping fee waiver, this offeror provides the most attractive terms to the County. Primarily, the County may occupy its current building footprint for up to five years at no cost (the only offer to provide this flexibility). Moreover, there is no request for property tax relief. Consequently, this offer provides the highest "net" benefit to the County, due in part to the lack of requested concessions, but also when accounting for the airport property conveyance and 6-acre property sale. Specifically, the airport property aligns with the County's strategic planning.

Before final acceptance of the first offer, there are a few clarifications identified in the evaluation table to resolve. Specifically, "The County will agree to waive all fees and charges associated with the current building..." must be clarified to identify specific line items. Second, it's not entirely clear how the "closing bonus of \$50,000" factors into the net offer; so, it is not part of the net offer price. Thirdly, this offer includes "Free Rent" as a \$80,000 benefit. Since the \$0.00 monthly lease-back costs already reflect this benefit in the net offer price, including this dollar amount to net offer price is not equitable to the evaluation of other proposals.

Lastly, before proceeding with an offer and sale of 449 San Juan Boulevard, the County must decide how to release the encumbrance of the outstanding lease purchase financing. There are two options for the County to explore.

1. As suggested earlier, the County may elect to substitute the collateral (property) securing the lease purchase. This option has been initially explored; it has been discussed with and is deemed acceptable to the lender (BOKF,NA). So, this option is actionable and can be completed relatively quickly at minor cost to the County. The current estimate for legal/documentation work is \$15,000.
2. Alternatively, the County can pay the lease purchase financing off. In public finance, this payoff can occur one of two ways. The County may elect to pay off the remaining debt service due - \$875,651 plus some accrued interest. In public finance this is called a "gross defeasance". "Gross" states the total amount due is paid from cash on hand and "defeasance" means its legally paid off and no longer an obligation. In public finance, the County may also have the option to defease the lease purchase on a "net" basis. This means that the County invests a smaller dollar amount, into an escrow account which is invested in interest bearing securities (issued by the US government). For example, the County would deposit approximately \$764,000 into an escrow. This deposit earns interest in amounts necessary, that when added to the deposit, equal the payments due through November 1, 2023 (the last payment). If allowed by BOKF, this allows the County to save on the upfront costs of paying off the lease purchase.

Looking Ahead:

As the County deliberates and eventually completes the sale of 449 San Juan Boulevard, it needs to keep in mind its option for a new administration building. Whether County pays off the financing in advance or over the original term, once the lease purchase is paid off approximately \$500,000 is freed up in cash flow. Office space leasing for the district attorney represents another area to free up cash flow. If a permanent County office is provided, another \$19,200 is freed up annually. If County administration offices are to be consolidated, perhaps there's an opportunity to sell the 398 Lewis Street building and raise funds to pay for or reimburse the cost of a new building. Cash-on-hand is always an option and if the County elects to assign available monies to go towards a new building it can plan ahead and take advantage of rising interest rates on the investment of such monies.