Report of the Community Development Authority of the City of Stevens Point

Tuesday, May 21, 2013, 4:00 PM
City Conference Room
1515 Strongs Avenue, Stevens Point, WI 54481

PRESENT: Chairperson Halverson, Alderperson Randy Stroik, Commissioner Adamski, Commissioner Molski, Commissioner Cooper, Commissioner Hanson, and Commissioner Onstad.

ALSO PRESENT: Executive Director Michael Ostrowski, City Attorney Logan Beveridge, Alderperson Mike Phillips, Stuntion Tomas, Philip Parkinson, Tom Ludwig, Jacob Mathies, John Niebalski, Julie Mouw, Krista Mendyke, Mary Ann Laszewski, Patricia Cornwell, and Barb Jacob.

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1. Roll call.
2. Financial projections regarding the sale and retention of Edgewater Manor.
3. Motion to adjourn into closed session pursuant to Section 19.85(1)(e) of the Wisconsin Statutes for the purpose of deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session, specifically relating to the sale of Edgewater Manor.
4. Reconvene into open session for possible action relating to the above.
5. Adjourn.

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1. Roll call.

   Present: Halverson, Stroik, Adamski, Molski, Cooper, and Onstad.

   Not Present: Hanson.

   Chairperson Halverson pointed out that a quorum is present

2. Financial projections regarding the sale and retention of Edgewater Manor.

   Director Ostrowski provided a summary the option to sell the property and invest the proceeds. With selling Edgewater Manor for $1,550,000 and investing those funds at 3% interest rate, as well as putting the property in a TIF district, with a tax rate increase of 2% per year would result in approximately $484,323.93 over 10 years and approximately $1,015,103.73 over 20 years. With selling Edgewater Manor for $1,550,000 and investing those funds at 3% interest, not putting the property in a TIF district, and a tax rate increase of 2% per year would result in approximately $221,712.10 over 10 years and approximately $436,689.97 over 20 years.

   Director Ostrowski continued stating we also looked at what would happen if the CDA kept it and did a remodel ourselves.

   Commissioner Hanson arrived 4:11 pm.

Keeping Edgewater Manor and doing a remodel at $1.8 million with a 3.5% interest rate over 20 years, with a 1% increase in rents per year would result in approximately $587,928.55 over 10 years and approximately $1,164,893.43 over 20 years. Keeping Edgewater Manor and doing a remodel at $1.8 million with a 3.5% interest rate over 20 years, with a 2% increase in rents per year would result in approximately $783,093.02 over 10 years and approximately $2,078,529.81 over 20 years.

Commissioner Adamski stated the biggest factor in any kind of rental cash flow analysis is the vacancy ratio, and pointed out the calculations for the 1% and 2 % projections at 25 % vacancy during the first year, 15 % vacancy in 2015, and finally a consistent vacancy rate at 5% the rest of the years. In his experience, 5% is low and that would suggest that the net income is substantially different than what it would be. He then asked what the historical vacancy ratio has been at Edgewater and at the Hi-Rise. Director Ostrowski answered Edgewater prior to us not renewing the contract was about 5% vacant and the Hi-Rise is consistently full.

Commissioner Molski asked for clarification of the vacancy rate at Edgewater. Director Ostrowski explained that it was prior to the CDA not renewing the agreement with HUD in 2008-2009, it was around 5%.

Chairperson Halverson added that the introduction of 81 vouchers into the community is a more solid approach to public housing, but it hurt us at Edgewater when no further subsidy was available. He continued stating the issue with Edgewater was that the former Executive Director made it very clear that selling it and being able to accomplish two different priorities at the same time with the principal addition to the trust funds and the preservation of the 81 vouchers through the whole community. This was the reason those decisions were made.

Alderperson Stroik appreciated the effort put into the projections. He pointed out that in the first option of selling Edgewater for the $1.5 million and putting it into the TID seems decent, if we never used the principal and just used the interest. However, once the district expires, the property tax revenue would drop and we would then start to lose some money. Chairperson Halverson added the other taxing jurisdictions would see the benefit of that coming back out of the TIF. Alderperson Stroik continued stating that the other jurisdictions would need to approve putting this into the TID, and the reason for doing so. Chairperson Halverson stated it would be for the acceleration of the pay back of the mall expenditures. There is a period at the end of the TIF district that you can no longer use the increment to expand the expenditures, so the likelihood of a fund balance remaining for the underlying taxing jurisdictions gets much higher if we include projects that will generate increment.

Alderperson Stroik said that keeping it could give us $600,000-$700,000 dollars every 10 years, and we could use those funds for other projects. In 20 years, we start to significantly lose money, so is 20 years short term or long term. In his eyes, if our goals are to be stewards of the city and keep handing it off to the next generation. These options give us money to do things that we want to do. Chairperson Halverson pointed out there are some fairly aggressive hold backs, non-additional borrowing for capital maintenance as well. Alderperson Stroik continued stating there are a lot of residents in the building who are not interested in granite and fancy upgrades. They want to live comfortably, but they don't need to live extravagantly.

Chairperson Halverson asked when do we ask ourselves what the role of government should be, and should we then subsidized the rent and drop it even further so there is no positive margin revolving around this building. The real question then becomes if we want to look at this as a socialized project or as a revenue generator. We can do that, but is this something that we should be doing.

Commissioner Adamski added that in relation to the remodeling and renting, the risk factors that are inputted into the cash flows are far harder to actually quantify than they would be in the first two scenarios. He continued assuming that you are going to earn 3% interest on the investment and property taxes are 2 % which is a much cleaner less guessing question than what will our vacancy ratios really be, and what will our public utility be. Also, if we sell the property and take the $1.55 million to put in the trust account, it gives us more funds to help people buy other houses in the city.

Alderperson Stroik added if we started using the $1.5 million then we are not earning the interest either, to which Director Ostrowski explained the investment would keep the 1.5 principal intact, and spend the interest. Alderperson Stroik stated this is the same reason the city has a reserve fund and we don't lower our taxes to give us a larger reserve; it is a conversation that we have to have but would not want to marginalize this down to no profit. This may get us into trouble.

Commissioner Hanson asked if the city manages the property, what is the cost to the city, to which Director Ostrowski stated approximately 7% of the rents collected. We could do it the same way as we have with public housing.

Commissioner Adamski added there is also the factor in the remodeling costs that is difficult to understand, and that is, are our estimates correct. Director Ostrowski stated he feels our estimates are in line with what needs to take place. Our estimate falls in between the two proposals that were submitted, in which would renovate the building. However, if we go ahead with remodeling, we would want to firm them up by doing a needs analysis for the building. Commissioner Adamski added that he is not in favor of the remodeling, and no matter how hard you try to firm up the estimates if all of a sudden you are off by $100-$200 thousand dollars, that changes everything. Commissioner Hanson added that a good example would be the former Holiday Inn and Ramada Inn. Those are people who came in and wanted to remodel and gave up because the estimate was short by $4-$5 million dollars, so that is one of his concerns with the remodeling.

Chairperson Halverson asked the Comptroller to explain what would happen if we were to borrow $1.8- $2 million dollars. Mr. Ladick stated we would issue a general obligation bond and would be pledging the full faith in credit of the Stevens Point taxpayer. Right now we are about $34 million in total debt, and our limit is $50, which is 60% of our statutorily borrowing authority. He continued stating we are about 2/3s to the 60%, and have about $15-$16 million left to play with. We have a lot of projects coming up including Business 51 and that is a consideration as far as other borrowing needs. Commissioner Adamski asked if anyone has done a per capita calculation on our bonding, to which Chairperson Halverson stated it is very low. Mr. Ladick added that right now we are in a good situation with our bond rating.

Chairperson Halverson gave his perspective from the mayor and the chairperson. Selling the building allows us to put those dollars in the trust funds. This would give us an annual collection of about $100,000 in total interest revenue. While the PILOT gets lost, the qualifier is that we put the property into the TID, which helps reduce the debt. While from an operational perspective, losing the PILOT hurts use, the gain in the TID provides for a greater amplification due to the smaller base. In his opinion, we should sell it and put it into the TID. He feels this is the option that creates the most opportunities for the whole community.

3. Motion to adjourn into closed session pursuant to Section 19.85(1)(e) of the Wisconsin Statutes for the purpose of deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session, specifically relating to the sale of Edgewater Manor.

   Motion by Commissioner Molski to enter into closed session for the purpose of deliberating or negotiating the purchase of public properties, the investing of public funds, or conduction other specified public business, whenever competitive or bargaining reasons require a closed session, specifically relating to the sale of Edgewater Manor; seconded by Alderperson R. Stroik.

Roll call:

- **Ayes – Halverson, Stroik, Adamski, Hansen, Molski, Cooper, and Onstad.**
- **Nays – None.**

Motion carried 7-0.

Commissioner Adamski left the meeting.

4. Reconvene into open session for possible action relating to the above

Motion by Commissioner Molski to reconvene into open session; seconded by Commissioner Hansen.

Roll call:

- **Ayes – Halverson, Stroik, Hansen, Molski, Cooper, and Onstad.**
- **Nays – None.**

Motion carried 6-0.

Chairperson Halverson indicated that we did receive a revised proposal from one of the bidders.

Motion by Commissioner Cooper to reject the revised submitted proposal and to continue the negotiating process with the selected bidder; seconded by Commissioner Molski.

Roll call:

- **Ayes – Halverson, Stroik, Hansen, Molski, Cooper, and Onstad.**
- **Nays – None.**

Motion carried 6-0.

5. Adjourn.

Meeting adjourned at 5:03 PM.

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Chairperson Date

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Secretary Date