



# MEMORANDUM

Date: May 8, 2018

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator *CHH*

Re: **Financial Analysis of Golden Pin Lanes Acquisition**

On Friday, May 4, 2018, I sent the Board a cover memorandum regarding an acquisition agreement that will be on the Agenda for May 15, 2018 for Golden Pin Lanes. In that memorandum, I indicated the business reasons for acquiring the property and consolidating a number of County service delivery agencies in one location in the Northwest. In this communication I am providing the Board the financial rationale for the acquisition as it relates to facility cost and the actual acquisition cost of the building.

## Fiscal Analysis for Purchase and Remodeling

The County has for years leased various locations around the County for service delivery by a number of County agencies varying from the Health Department to Adult Probation. In the table below, I provide the agency, address of the present leased facility, the annual payment made for leasing and occupying the facility, the year the lease was first initiated, and total lease payments that have been made from inception of lease to this year.

Department / Agency	Address	Present Annual Lease Amount	Lease Since Year	Total Lease Payments
Health Department – North Clinic	3550 N. 1 <sup>st</sup> Avenue	\$145,796	July 1991 to June 2019	\$2,483,853
Health Department – Flowing Wells Office	4550 N. Old Romero Road	(Average) \$20,000 Operating 3,242 square feet in three portable facilities.	No lease – Built 2005	\$260,000
Adult Probation Westside Office	3781 N. Highway Drive	\$174,457 (average annual cost current lease)	January 2007 to December 2023	\$1,536,296
Juvenile Court Northwest	4955 N. Shamrock	\$230,954	May 2012 to April 2022	\$2,764,209
Community Services, Employment & Training	320 Commerce Park Loop	\$102,828	June 2017 to May 2022	\$591,603
Community Services, Employment & Training	340 Commerce Park Loop	\$209,378	April 2016 to March 2021	\$1,046,889
	<b>Sum Totals</b>	<b>\$883,413</b>		<b>\$8,682,850</b>

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As you can see, the sum of the lease payments for these various County agencies and functions is substantial and nearly \$9 million in total and \$883,413 annually. For County functions that are long-standing and not likely to be substantially altered or lessened, I have always preferred County acquisition over leasing, as I believe it is the most financially prudent alternative for the taxpayer in the long run. Such is the primary driver of our acquisition of Golden Pin Lanes and conversion of the facility to a Northwest County Service Center over the next 24 months. Most of the leases above have relatively short-term lease periods. Its activation of a Northwest County Service Center is realistic with the next two years.

#### Building Modification Required

Substantial building modification and remodeling, including different entrances for some of the County functions, will be necessary to make the facility adaptable to the various public uses that will be included. The building size at 50,000 square feet and a rough remodeling cost of \$80 per square foot means that remodeling of the facility will cost approximately \$4 million. In addition, it should be considered that the large property area of 4.665 acres or 293,207 square feet means that building expansion to accommodate all of the County departments and agencies can occur fairly easily and still provide significant and ample parking for public service users.

The acquisition cost of \$2.85 million and remodeling cost of approximately \$4 million totals approximately \$6.85 million. This total cost amortized over a 15-year period at an interest rate of three percent yields an annual expense per year \$595,613, as compared to the existing annual lease payments of \$883,413 for the County agencies expected to be relocated to the facility. After operating and maintenance cost of approximately \$250,000 are deducted, we will be able to pay the annual expense of remodeling, however, there are two significant differences. First, the amortized costs are fixed, while the lease payments will increase over time. Assuming annual rent increases of three percent, in the first year amortization costs will be less than the existing lease payments. Second, at the end of 15 years the County will own free and clear a facility with an estimated market value of at least \$10 million, as opposed to having no asset and continuing to pay rent indefinitely. As a result, the acquisition and remodeling the facility for a Northwest County Service Center is the fiscally prudent action of the County on behalf of its taxpayers.

#### Purchase Justification in Excess of Appraised Value

The appraisal prepared by Craig Johnson, MAI, of Valbridge Property Advisors, for Pima County, yielded a market value of \$2.2 million for the real estate. The appraiser made an extraordinary assumption not to consider the value of any furniture, fixtures and equipment contained within the property because it was assumed they would not be used by a purchaser. The owner, Golden Pins, LLC, recently invested approximately \$500,000 in improvements, which included a newly completed and expanded commercial kitchen at the facility. The recent renovations can and will be used by the County for a variety of public health purposes, including not only active training programs for our Community Health and Food Services, but can provide commercial kitchen capacity for County food programs or

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other activities associated with food security services provided by nonprofit agencies. Because the County can use the improvements in their as is condition, they provide additional value and it is appropriate to add the cost of improvements to the appraised value, which results in a value of \$2.7 million.

This is a voluntary acquisition and the purchase price was arrived at through an arm's length negotiation with the property owner. The Seller wanted \$3 million for the property, and, based on the foregoing discussion, the value to the County is \$2.7 million. A negotiated purchase price in the amount of \$2,850,000 was arrived at.

After Board of Supervisors approval of the purchase contract the County has 45 days from the date the contract is signed to perform inspections to include, asbestos, Phase I Environmental Studies, and other due diligence required to determine final suitability for purchase at the value stated. If any objectionable condition is found in this due diligence process, the County is not bound to acquire the property unless the Seller is willing to cure the condition.

CHH/lab

- c: Jan Leshar, Chief Deputy County Administrator
- Tom Burke, Deputy County Administrator for Administration
- Dr. Francisco Garcia, Assistant County Administrator for Community and Health Services
- Lisa Josker, Director, Facilities Management
- Neil Konigsberg, Manager, Real Property Services