

HEALTHY LIFE CENTER

Item 27

April 9, 2019

BACKGROUND:

It was approximately three years ago that staff members from the City of Ames, Story County, Mary Greeley Medical Center, Heartland Senior Services, Iowa State University, and the Des Moines Area Community College came together as a Steering Team to create the concept for a one of a kind center that would make the life-long goal of healthy living accessible and enjoyable to people of all ages and socio-economic status.

In addition to the health related benefits derived from this type of unique center, the Steering Team members stressed that the Healthy Life Center (HLC) would 1) serve as a quality of life amenity that would help the employers in Story County recruit and retain employees in the face of record low unemployment, 2) offer applied learning experiences for ISU and DMACC students, 3) improve the health of our citizens, 4) reduce health care costs for those employers that offer this benefit to its employees and 5) replace the Municipal Pool which is scheduled to be demolished in 2022.

The City of Ames financed the HLC Planning Study which was prepared by RDG Planning & Design. After reviewing other facilities throughout the country and receiving input from various users groups, the Steering Team provided direction to RDG as to what elements to include in the HLC.

The Study reflected the total square footage for the proposed facility as well as the estimated costs related to the construction of the facility, the financing amounts and sources needed to cover the construction costs for the facility, the annual expenditures to operate the facility, the annual revenues generated by the facility, and long-term capital replacement costs to maintain the facility.

DIFFERENCE BETWEEN ORIGINAL PROPOSAL AND CURRENT PROPOSAL:

It was always understood that the RDG/Steering Team recommendations had not yet been approved by their respective governing bodies. As anticipated, in March 2019 the City staff received the official positions of these boards in regards to building and operating the HLC.

You will note in Table 1 that there is a substantial difference between the original financial plan for the HLC and the current proposal that the City Council is being asked to consider. Summarized below are the differences.

- **Cost Of The Healthy Life Center**

The original total cost to construct the 125,619 square feet suggested for the HLC was estimated to be \$48,700,000 based on 2019 dollars. Given the requirement to first pass a bond referendum and then complete the design work, the project will likely be bid in 2020. **Hence, the estimated project cost has been increased by 4% to \$50,648,000 to reflect 2020 dollars.**

- **Savings Realized By Modifying Square Footage and Building Design/Materials**

As promised, the Steering Team has worked with RDG to identify savings that will reduce the overall cost of the project without jeopardizing the overriding concept of the HLC. This effort has resulted in the following savings (in 2020 dollars):

Building Construction Methods/Materials	(\$2,491,607)
Reduced Court Size for 3 Courts	(\$ 687,854)
Eliminate Arts & Crafts Room	(\$ 250,823)
Reduce Contingency from 15% to 13%	(\$1,436,215)
Reduce Design Fees	(\$ 661,346)
Eliminate Land Purchase Cost	(\$ 312,000)
Total Reduction In Project Cost	(\$5,839,845)

- **Reduction In Available Funding For Construction**

After increasing the project cost to \$50,648,000 to reflect 2020 numbers and subtracting the suggested \$5,839,845 savings in building costs, the new estimated cost for the project is \$44,808,155.

Originally, the Steering Team had hoped to obtain commitments of \$30,500,000 from the City, Story County, Heartland, MGMC and \$18,200,000 from private donations. Rather than \$3,000,000 as originally planned, Story County has committed to \$2,000,000, while \$6,000,000 has been committed from private donations rather than the \$18,200,000 original fund raising goal. **These current commitments have resulted in \$13,200,000 less revenue to finance the construction of the HLC than what was originally planned by the Steering Team. Therefore, taking into account the \$5,839,845 in identified savings, the bond referendum will have to be increased from \$15,000,000 to \$24,308,155 should the City Council choose to move ahead with the HLC.**

Table 1

	Originally Planned	Current Commitments
Story County	\$3,000,000	\$2,000,000
Heartland Senior Services	\$3,500,000	\$3,500,000
Mary Greeley Medical Center	\$7,000,000	\$7,000,000
Donations	\$18,200,000	\$6,000,000
City of Ames (Available Balances)	\$2,000,000	\$2,000,000
City of Ames (Bond Issue)	\$15,000,000	\$24,308,155
Total	\$48,700,000	\$44,808,155

- **Reduction In Operating Expenses**

The City staff more closely scrutinized the annual operating expenses projected by RDG for the HLC. Based on this analysis, the staff believes the operating costs reflected in Table 2 can be reduced by \$137,200.

Table 2

	Original Plan	Current Estimates	Proposed Reductions
Total Estimated Expenses In RDG Study	\$3,201,421	\$3,064,221	\$137,200
Expense Reductions:			
Electrical Service	\$314,048	\$299,820	(\$14,228)
Natural Gas	\$188,429	\$179,892	(\$8,537)
Eliminate Maintenance Worker & Benefits	\$72,800	\$0	(\$72,800)
Reduce Life Guard Hours & Benefits	\$429,856	\$388,221	(\$41,635)

- **Less Deficit Support**

The original plan called for Heartland and MGMC to pay the operating costs for their dedicated tenant spaces along with certain percentages to help the City offset the estimated \$673,864 annual operating deficit. **As shown in Table 3, some Boards have agreed to a different commitment level for the operating deficit support.**

MGMC has agreed to cap their contribution to the facility operations to \$105,000 each year for their 3,221 square feet of dedicated tenant space as well as for their contribution to the facility deficit, with an annual 3% inflator. In addition, the Story County Board of Supervisors has agreed to cap their contribution to \$100,000 annually towards the operating revenue of the HLC with an annual 3% inflator. As originally planned, Heartland's Board has agreed to pay for the operating costs associated with their 10,257 square feet of dedicated tenant space plus 10% of the annual operating deficit of the Dry Side (non-aquatics) space in the HLC.

Table 3

	Original Plan	Current Commitment
MGMC	10% of Aquatics Space & 40% of Dry Side Space plus 100% of their tenant space	\$105,000 annually towards the deficit <u>and</u> their tenant space, inflated 3% per year
Heartland	10% on Dry Side Space plus 100% of their tenant space	10% of Dry Side Space plus 100% of their tenant space
Story County	\$200,000 per year	\$100,000 annually inflated 3% each year
City of Ames	90% of Aquatics Space & 50% of Dry Side Space	Will be responsible for the total facility deficit minus the above revenues

DEFICIT IMPACT ON CITY OF AMES TAXES:

Taking into account that Story County will contribute \$100,000 less than originally planned and the \$137,200 in operational savings identified by Staff, the first year estimated deficit for the HLC is now projected to be reduced from \$422,569 to \$385,369.

Table 4

	Original Plan	Current Plan
Expenses	\$3,201,421	\$3,064,221
Revenue	\$2,527,557	\$2,527,557
Deficit	\$673,864	\$536,664
Story County	\$200,000	\$100,000
MGMC	\$50,318	\$50,318
Heartland	\$977	\$977
City of Ames Property Taxes	\$422,569	\$385,369

PROPERTY TAX IMPACT:

The estimated cost per every \$100,000 of assessed valuation to an Ames taxpayer for the proposed \$24,308,155 bond referendum and estimated first year operating deficit of \$385,369 is highlighted below in Table 5.

The information provided in Table 5 is based on a 20-year bond issue, the City's tax rate for FY 2019/20, a property located within the Ames School District, a 3.5% debt service interest rate, and a Residential Rollback Rate of 56.9180%. Please note that these numbers could be different in the future when the City bonds are actually bid!

Table 5

	Original Plan \$15,000,000 Bond Issue + \$422,569 In Operations Deficit	Current Plan \$24,308,155 Bond Issue + \$385,369 In Operations Deficit
For Residential Property Per \$100,000 Of Assessed Valuation:		
Tax Rate Increase	47 cents	67 cents
Property Tax Increase In Dollars	\$27.02	\$38.26
Property Tax Increase in %	4.74%	6.70%
For Commercial & Industrial Property Per \$100,000 Of Assessed Valuation:		
Tax Rate Increase	47 cents	67 cents
Property Tax Increase In Dollars	\$42.74	\$60.51
Property Tax Increase in %	4.74%	6.71%

RISKS ASSOCIATED WITH PROCEEDING AT THIS TIME WITH THE PROJECT:

To proceed with this project, the City Council must understand and be comfortable with the following risks.

- Three Year Pledges

In dealing with previous projects, the City did not proceed to incur costs for a major capital improvement until after receiving the actual donations. This was the case for the Furman Aquatics Center and Ames Public Library renovation. Under the current scenario, many of the major contributions are pledged over a three-year period. Therefore, the City Council will be asked to incur debt and obligate funds for design and construction contracts prior to receiving all of the donations. While we have the utmost confidence that the individuals who have made the pledges will follow through with their promises, there is no guarantee that the City will receive 100% of the pledged amounts.

In addition, staff has been informed that eleven pledge forms totaling \$4,295,500 have not yet been signed. These signatures must be secured prior to the Council approving of the bond referendum language and giving formal approval to proceed with the HLC project.

- Deficit

With MGMC and Story County decisions to cap their annual contributions, only Heartland (with a 10% obligation for the Dry Side) remains responsible, along with the City, to finance any operational deficit that might occur in excess of the RDG estimates.

- Contract Duration

The City staff agreed to the Steering Team's request to consider assuming the responsibility for the City to own and operate the HLC based on the assumption

that the two original partners, MGMC and Heartland, would continue their financial support for the projected operating deficit for as long as the facility was in operation. We have been informed that the MGMC Board has indicated its willingness to guarantee financial support for the operating expenses of the HLC only for the initial 15 years of the operation. After this time period, it will be up to MGMC whether or not to continue participating in the facility.

Should MGMC decide to leave the partnership after 15 years, the loss of their contribution will impact the Ames taxpayer who will be responsible for covering the deficit.

- Future Capital Improvements

Rather than go back to each of the funders in the future to secure additional funding when major capital improvements are needed to replace deteriorated infrastructure/major equipment (windows, doors, roof, HVAC, etc.), a replacement account will be established as an annual operating expense to cover these costs. It is possible that sufficient funds will not have been accumulated in this replacement account to pay for a needed replacement if some unplanned event occurs. In this instance, the City will have to pay for the improvement out of other city funds or we will have to delay a much needed improvement.

- House File 165

As you are all aware, a bill has been introduced in the State Legislature that would establish a cap on the amount a city can increase property tax revenue each year. If passed in its current form, the staff cannot guarantee that we will be able to finance the incremental costs associated with our existing services along with the projected deficit for the HLC.

The State law requires that the Story County Auditor be notified of a requested bond election by June 21, 2019 if we intend to schedule a referendum on August 6, 2019. Hopefully, a final decision will be made by the State Legislature regarding this property tax bill prior to this deadline.

CITY MANAGER'S RECOMMENDED ACTION:

First, it is important to thank the Mary Greeley Board of Trustees, the Heartland Board of Directors, the Story County Board of Supervisors, Iowa State University President Wendy Wintersteen, the 70 plus individuals/businesses who have made a substantial financial commitment to the HLC; along with the members of the Campaign Cabinet led by Bev Madden, Warren Madden, and Ann Campbell, and the HLC Steering team for their countless volunteer hours dedicated to bringing this project to fruition.

This rather lengthy report is meant to provide clarity to the issues that have evolved since we last discussed the HLC concept with the funder groups. While there are several risks associated with moving ahead with this project at this time, the Staff believes the benefits of the Healthy Life Center identified earlier in the report outweigh the potential risks. **Therefore, it is the recommendation of the City Manager that the City Council continue to pursue the HLC project.**

If the City Council concurs with this recommendation, the following next steps are in order:

- 1) Request that the City staff prepare the necessary language for a \$24,308,155 bond referendum for an August 6, 2019 election.
- 2) Direct staff to finalize agreements with Story County, MGMC, and Heartland stipulating the financial responsibilities for the construction and on-going operations of the HLC as well as an agreement with ISU for the HLC site.
- 3) Collect the signed financial pledges to verify the \$6,000,000 commitment from private donations.
- 4) Authorize \$7,500 from the Contingency Account for the City's bond election informational campaign.

NOTE: Steps 1, 2, 3, and 4 above should be brought back at the May 14, 2019 City Council meeting.

- 5) While no action is required immediately, the City Council should understand that a special election for the HLC in August is estimated to cost \$25,000. Here again, this cost could be charged to the Contingency Account.