

**COUNCIL ACTION FORM**

**SUBJECT:**        **HEALTHY LIFE CENTER UPDATE**

**BACKGROUND:**

At its April 9, 2019 meeting, Council was presented with over \$5.8 million in proposed savings to the original proposal for the Healthy Life Center (HLC). These cuts resulted in an estimated cost of \$44,808,155 for the revised project. Council discussed the proposed savings and felt changing the building method and materials may not represent the quality the City is striving for in this newly constructed building. There were also concerns regarding changing the building layout that was presented to the community and potential donors.

Council then directed staff to do the following:

1. Start with the original building proposal, include three high school regulation basketball courts, and determine if any savings can be obtained without sacrificing quality of the building.
2. Discuss the project contingency percentage with the City's consultants and determine if this could be reduced further.
3. 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.
4. Collect the signed financial pledges to verify the \$6,000,000 commitment from private donations.
5. Authorize \$7,500 from the Contingency Account to fund an informational campaign regarding the proposed HLC.

**THE ORIGINAL PROPOSAL VS. THE APRIL 9<sup>TH</sup> COUNCIL DIRECTED PROPOSAL:**

**Council 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**

As a reminder, the original total cost to construct the 125,619 square foot 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.**

- **New List Of Possible Savings**

On April 9<sup>th</sup> staff provided Council with a list of \$5,839,845 worth of reductions to the original project. In accordance with the Council's recent direction, staff has worked with RDG to identify a new list of potential savings that total \$2,028,552.

The specific list of potential reductions is shown below in 2020 dollars:

30% Reduction in Glazing	(\$ 224,640)
Three High School Regulation Courts	(\$ 160,588)
Reduce Contingency from 15% to 12%	(\$ 893,130)
Reduce Design Fees	(\$ 448,194)
Eliminate Land Purchase Cost	(\$ 312,000)
<b>Total Reduction in Project Cost</b>	<b>(\$2,038,552)</b>

RDG generally includes a 15-20% contingency at the outset of a project. As the project progresses, less of a contingency is needed. The original proposal for the HLC was 15% of \$36 million which included the construction cost (\$34.2 million) and a portion of the soft costs (\$1.8 million). The current proposal is 12% of approximately \$38 million and includes construction costs (\$33.85 million) and all of the site costs (\$4 million). The 12% is divided into 9% for design and 3% for construction. RDG is comfortable with this contingency and does not recommend going below 12%.

- **Reduction In Available Funding For Construction**

After increasing the project cost to \$50,648,000 to reflect 2020 numbers and subtracting the suggested \$2,038,552 savings in building costs, the new estimated cost for the project is \$48,609,448.

Based on the new estimated construction cost and the current commitments highlighted in Table 1, the City's Bond Issue would need to be \$28,109,448.

**Table 1**

	<b>Originally Planned</b>	<b>Current Commitments</b>
<b>Story County</b>	\$3,000,000	\$2,000,000
<b>Heartland Senior Services</b>	\$3,500,000	\$3,500,000
<b>Mary Greeley Medical Center</b>	\$7,000,000	\$7,000,000
<b>Donations</b>	\$18,200,000	\$6,000,000
<b>City of Ames (Available Balances)</b>	\$2,000,000	\$2,000,000
<b>City of Ames (Bond Issue)</b>	<b>\$15,000,000</b>	<b>\$28,109,448</b>
<b>Total</b>	<b>\$48,700,000</b>	<b>\$48,609,448</b>

- **Reduction In Operating Expenses**

City staff also reviewed the potential savings in annual operating expenses presented to Council on April 9<sup>th</sup>. Based on this review, staff believes the annual operating costs reflected in Table 2 can be reduced by \$118,008.

**Table 2**

	<b>Original Plan</b>	<b>Current Estimates</b>	<b>Proposed Reductions</b>
<b>Total Estimated Expenses In RDG Study</b>	<b>\$3,201,421</b>	<b>\$3,083,413</b>	<b>\$118,008</b>
<b>Expense Reductions:</b>			
Electrical Service	\$314,048	\$311,798	(\$2,250)
Natural Gas	\$188,429	\$187,106	(\$1,323)
Eliminate Maintenance Worker & Benefits	\$72,800	\$0	(\$72,800)
Reduce Life Guard Hours & Benefits	\$429,856	\$388,221	(\$41,635)

- **Less Deficit Support**

Table 3 shows the difference between the operating deficit support proposed in the original plan, as well as the current commitment level some Boards have agreed to.

**Table 3**

	<b>Original Plan</b>	<b>Current Commitment</b>
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 \$118,008 in operational savings identified by Staff, the first year estimated deficit for the HLC as shown on Table 4 is now projected to be reduced from \$422,569 to \$404,561.

**Table 4**

	<b>Original Plan</b>	<b>Current Plan</b>
Expenses	\$3,201,421	\$3,083,413
Revenue	\$2,527,557	\$2,527,557
<b>Deficit</b>	<b>\$673,864</b>	<b>\$555,856</b>
Story County	\$200,000	\$100,000
MGMC	\$50,318	\$50,318
Heartland	\$977	\$977
<b>City of Ames Property Taxes</b>	<b>\$422,569</b>	<b>\$404,561</b>

**PROPERTY TAX IMPACT:**

The estimated cost per every \$100,000 of assessed valuation to an Ames taxpayer for the proposed \$28,109,448 bond issue and the first year operating deficit of \$404,561 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 3.5% debt service interest rate, and the Residential Rollback Rate of 56.9180% for FY 2019/20. Please note that these numbers could be different in the future when the City bonds are actually bid!**

**Table 5**

	<b><u>Original Plan</u></b> \$15,000,000 Bond Issue + \$422,569 In Operations Deficit	<b><u>Current Plan</u></b> \$28,109,488 Bond Issue + \$404,561 In Operations Deficit
<b>For Residential Property Per \$100,000 Of Assessed Valuation:</b>		
Tax Rate Increase	47 cents	76 cents
Property Tax Increase In Dollars	\$27.02	\$43.49
Property Tax Increase in %	4.74%	7.62%
<b>For Commercial &amp; Industrial Property Per \$100,000 Of Assessed Valuation:</b>		
Tax Rate Increase	47 cents	76 cents
Property Tax Increase In Dollars	\$42.74	\$68.78
Property Tax Increase in %	4.74%	7.62%

## **RISKS ASSOCIATED WITH PROCEEDING AT THIS TIME WITH THE PROJECT:**

**Shown below is a review of the risks City Council must understand and be comfortable with before proceeding with this project!**

- **Three Year Pledges**

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.

As an update, there are still ten pledge forms totaling \$1,195,500 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 their share of 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.

- State Legislature Action To Cap The City's Ability To Raise Property Taxes

As you are all aware, both the State Senate and House are seriously considering bills that will inhibit a city's ability to raise property tax revenues each year. If passed in their current forms, the Staff cannot guarantee at this time that we will have the authority to raise sufficient property tax revenues to cover our on-going service expenses along with the projected operating deficit related to the new HLC facility. It is anticipated that we will know the outcome of this proposed property tax cap by your May 14<sup>th</sup> meeting.

#### **ALTERNATIVES:**

- 1) Approve moving forward with the Healthy Life Center project and direct Staff to prepare the necessary language for a \$28,109,488 bond referendum for an August 6, 2019 election.

**This language can be brought back to the City Council for the May 14, 2019 meeting for final direction on whether or not to proceed.**

- 2) Do not pursue the Healthy Life Center project at this time.
- 3) Refer this matter back to staff to identify further cost reductions.

#### **CITY MANAGER'S RECOMMENDED ACTION:**

This report is meant to respond to the direction Council provided to staff at its April 9, 2019 meeting. With the changes requested by Council, the required bond issue will have to be in the amount of \$28,109,488.

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 outweigh the potential risks. **Therefore, it is the recommendation of the City Manager that the City Council approve Alternative #1 as stated above.**

City Council should understand that a special election for the HLC in August is estimated to cost \$25,000. This cost could be charged to the Contingency Account at a later date.