COON CREEK WATERSHED DISTRICT
Request for Board Action

MEETING DATE: January 11, 2016
AGENDA NUMBER: 29
ITEM: Foundation: Need for New Office Building and Lease versus Build Analysis

AGENDA: Policy Discussion Information

REQUEST
Review and discuss analysis

BACKGROUND
The Coon Creek Watershed District is a public body established in 1959. The District directly or indirectly manages all water and related resources within the 107 square mile legal boundary of the District. The primary legislative purposes of the District are:

1. To protect the health and safety of the present and future people that live, and will live, within the watershed.

2. To provide for opportunities and uses of the water and related natural resources of the watershed which are demanded and appropriate for the area.

3. To prevent unacceptable damage to the water and related natural resources of the watershed.

4. To develop and implement a uniform program for water and related land management within the watershed of Coon Creek.

Office Space Requirement
“If public facilities are not available for a watershed district’s principal place of business within the watershed district, the board shall determine and designate the nearest suitable public facility as the watershed’s principal place of business” (M.S. 103D.321 Subd 1)

DEFINITIONS
Appropriate means the ability of the water and related resources to perform and function on their own or with a minimum subsidy or cost to the public at large.

Internal Rate of Return (IRR): Is a calculated rate of return that does not incorporate external factors such as interest rate or the rate of inflation. It is used in capital budgeting to measure, compare and evaluate profitability and desirability of investment options. It is not a good or useful for measuring the value or comparing investments in various physical assets.
**Net Present Value** is the sum of the present values (PVs) of cash flows over a period of time. NPV is a useful tool to determine whether a project is beneficial or to compare between two or more projects or options.

**Unacceptable** means the decreasing or diminished ability of the water and related resources to continue to provide the beneficial uses demanded within the watershed district.

**ISSUES/CONCERNS**

**Paying Rent:**
The District has leased meeting and office space for the past 25 years and paid $569,474 in rent since 1990.

**Scope of Analysis:**
A present value analysis was conducted of five options or scenarios:

- **Build**
  1. Build and pay lump sum
  2. Build and finance construction through loan

- **Buy**
  3. Buy existing building and pay lump sum
  4. Buy and finance purchase through loan (Bond, Mortgage, loan)

- **Rent**
  5. Lease

1. This analysis only addressed the costs of obtaining 10,920 sf of space for office and storage. It does not address parking, snow storage, etc. or stormwater demonstration features

2. Each scenario was evaluated and is presented as a range.

**Assumptions/Model Inputs**

<table>
<thead>
<tr>
<th>Building/Space Size (sf)</th>
<th>10,920</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time Period (Yrs)</td>
<td>20</td>
</tr>
<tr>
<td>Interest Rate:</td>
<td>5%</td>
</tr>
<tr>
<td>Down payment Required for any Loans</td>
<td>1/3 (.33333)</td>
</tr>
<tr>
<td>Estimated Construction Cost/sf</td>
<td><strong>High</strong> $175.00</td>
</tr>
<tr>
<td>Estimated Purchase Cost/sf</td>
<td>$215.46</td>
</tr>
<tr>
<td>Base Rent (rsf)</td>
<td>$ 25.00</td>
</tr>
</tbody>
</table>

**Internal Rate of Return (IRR):**
During recent discussion of the budget, levy and office building, cost, present value and the IRR were requested as ways of determining the most sound economic option for
District office space. Internal Rate of Return was not conducted because of the nature of the problem (Investment in physical capital vs investment in a financial tool or instrument).

RESULTS
Present Value Analysis:

<table>
<thead>
<tr>
<th></th>
<th>Build Lump Sum</th>
<th>Build Finance</th>
<th>Buy Lump Sum</th>
<th>Buy Finance</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>$1,911,040</td>
<td>$1,973,520</td>
<td>$1,327,681</td>
<td>$2,211,958</td>
<td>$3,142,269</td>
</tr>
<tr>
<td>Low</td>
<td>$1,365,028</td>
<td>$1,409,657</td>
<td>$2,352,872</td>
<td>$2,429,798</td>
<td>$3,442,255</td>
</tr>
<tr>
<td>Avg</td>
<td>$1,638,034</td>
<td>$1,691,588</td>
<td>$1,840,277</td>
<td>$2,320,878</td>
<td>$3,292,262</td>
</tr>
</tbody>
</table>

FINDINGS
1. Lump sum is the most economical method of obtaining space.
2. Renting is the least economical method of obtaining space.
3. Economical methods for obtaining space can be ranked most (a) to least (e) as follows:
   a) Build and pay lump sum
   b) Build and finance purchase
   c) Buy existing building and pay lump sum
   d) Buy and finance purchase
   e) Rent/Lease
4. The net economic benefit to the tax payers of the District, based on this analysis, would be between $1.8 and $2 million dollars over a 20 year period.

**NOTE**: Purchase of an existing building by the District (A government/non-profit entity) would ultimately result in removal of that property from local tax roles.

**CONCLUSION**
There is economic justification for the District pursuing construction or purchasing of office space.