



MEMORANDUM

P.O. Box 4100 ♦ FRISCO, COLORADO 80443

TO: MAYOR AND TOWN COUNCIL

FROM: DON REIMER, COMMUNITY DEVELOPMENT DIRECTOR
DANELLE COOK, HOUSING PROGRAM MANAGER

RE: CONTRACT FOR PURCHASE OF PROPERTY KNOWN AS 602 GALENA

DATE: SEPTEMBER 27, 2022

Summary and Background: Since August 2021, Town and County staff, and staff from the Colorado Division of Labor and Employment (CDLE), have been meeting to discuss the potential redevelopment of the property located at 602 Galena for workforce housing. This property is owned by the State of Colorado, Division of Labor and Employment, and since 1984 has been the home of the Colorado Workforce Center. Over the past several months, Town and State staff have negotiated terms of the sale agreement, which include property purchase, lease back to CDLE during project development design, CDLE temporary office space during construction, and permanent CDLE office space in the new project buildings. The attached contract includes a final purchase price of \$2,491,080.71. In August 2022, Summit County entered into an IGA with the Town of Frisco to provide \$1.5 million to the cost of the purchase.

Analysis: In the 2021 legislative session, the Colorado State legislature passed a number of pieces of legislation designed to facilitate development of affordable and workforce housing in Colorado. One of these, HB21-274, encourages sale of excess or under-utilized State properties to local jurisdictions for beneficial community uses, including affordable housing development.

The State owns a 0.72-acre parcel located at 602 Galena. Since 1984, this has been utilized by CDLE as the home of the Colorado Workforce Center, and includes a 4,153 square-foot building, which has office space for approximately 11 employees. In order to facilitate this project, CDLE requires assistance from the Town and County to find temporary office space for the Workforce Center employees, and inclusion of permanent office space in the new development on the property. At this time, a potential development program for the property has not been created, however with a parcel of this size, up to 40 dwelling units could be constructed by utilizing bonus density. At the outset of the project in December 2021, staff prepared a memo outlining aspects of a potential project, which is included as Attachment 2.

Because this is a State-owned property, specific appraisal requirements apply. CDLE arranged for an appraisal, which was completed in October 2021 and is valid for up to one year, and establishes the property value at \$3,000,000. The purchase contract includes a number of provisions which result in decreasing the purchase price from the appraised value, including a lease back of the property while development is pending, and a right of first refusal for occupancy of tenant space in the future buildings:

Appraised value: \$3,000,000.00
less
Demolition costs: 28,033.00
Term lease savings: \$125,747.27
Right of first refusal NPV: \$205,139.02
Tenant Finish: \$150,000.00

Total sale price: \$2,491,080.71

Term lease savings is the difference between the lease being undertaken at a market rate (currently \$32/sq.ft./yr) and the negotiated rate (\$21.00/sq.ft./yr) over the life of the initial obligation.

Right of first refusal net present value was calculated using a discount rate of 6.5% with a probability calculation of 90%. $\$227,932.24 * 0.9 = \$205,139.02$

Pursuant to an IGA approved at the August 9, 2022 Town Council meeting, Summit County has agreed to assist the Town in the purchase of the property by contributing half of the appraised value (\$1,500,000), at the time of closing of the property purchase, subject to conditions regarding future affordability of the project.

The purchase contract includes provisions that apply to the future development of the property, specifically, Section 29.2, relating to affordability of the housing units created in the future development. This provision is fully consistent with the Town's stated desire for affordability of the future project, and with the IGA with the County:

The following deed restriction is an additional provision to this Contract: Unless terminated in writing by Buyer and Seller, this Deed Restriction shall remain in effect for a period of 100 years from the Closing date (the "Termination Date"). 29.2.1. Notwithstanding and without limiting any other provision of this Contract, Buyer acknowledges and agrees that any housing units built on the Property shall be available only to individuals or households whose gross annual household income does not exceed 125% of the area median income (adjusted for household size) for Summit County.

If the contract to purchase the property is approved by Town Council, closing of the purchase is set for October 28, 2022.

Financial Impact: The total cost of the project is to be determined, but based on preliminary estimates, the project could cost between \$16 and \$25 million to develop. Funds for this purchase have been approved by Town Council in the Supplemental Budget Appropriation, Ordinance 22-09. Town Council also approved Resolution 22-28 at the August 23, 2022 meeting, which will allow the purchase cost to be included in a financing mechanism, if and when project financing is pursued. Staff is proposing inclusion of \$600,000 in the upcoming 2023 budget for project design costs.

Alignment with Strategic Plan: Having an adequate supply of affordable workforce housing available to local businesses is essential to supporting each of Town Council's Strategic Plan priorities.

Staff Recommendation: Staff recommends approval of the purchase contract.

Approved By:

Leslie Edwards, Finance Director
Tom Fisher, Town Manager

Attachments:

Attachment 1 – Contract to Purchase Real Estate
Attachment 2 – December 14, 2021 Staff Report on Project