



Grand Forks Growth Fund, A Jobs Development Authority Staff Report

Growth Fund Committee – June 17, 2019
JDA – July 1, 2019

APPROVED

Agenda Item: Lease Extension and Purchase Offer from Centre, Inc., for 201 S. 4th Street

Submitted by: Meredith Richards, Community Development Director

Staff Recommended Action: Provide direction regarding the offers described herein and authorize execution of appropriate lease and purchase agreements, and a six-month extension of the existing lease with Centre, subject to attorney review

Committee Recommended Action:

1. Authorize execution of extension of JDA lease with Centre through 12/31/19;
 2. Authorize sale of property to Centre for \$690,000 subject to a 15-year lease at \$1/year for social detox space (terms comparable to current lease) with one three-year renewal at \$1/year and, should Centre continue to own the building, up to 3 five-year renewals at a rate of rent to be negotiated in good faith but no more than fair market value, with all other terms and conditions of the renewals to be the same. [This secures space for social detox for up to 33 years.] Purchase and lease documents subject to review by legal counsel of all parties. Note: This is contingent on 1) concurrence by Centre's board with above sale and social detox lease terms, 2) concurrence by City Council with above social detox lease terms.
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JDA Action: Motion by Dachtler, second by Mock to approve. Motion carried unanimously.

BACKGROUND:

The subject property was acquired by the JDA post-flood; Centre has been a tenant since 2002, providing mental health and substance abuse services. Grants which funded initial building fit-up for those services required a 15-year lease to Centre. Centre currently occupies all but ±1700 s.f. of the building (excluding the unfinished basement). Since Spring 2016, the social detox facility has operated in that 1700 s.f., which is located in the one-story section on the south side of the building (207 S. 4th Street).

Centre's original 15-year lease period ran through June 30, 2017. The JDA extended it through June 30, 2019, to give City and Centre staff time to develop and finalize long-term options to allow Centre to remain in the building, either through a market-based rent structure or purchase of the building. In terms of purchase, the Growth Fund Committee agreed to a condo arrangement that would allow the JDA to retain the space as a condo unit for social detox rather than selling the entire building. Debbie Swanson, Public Health Director, has stated social detox does not have funding to support a lease payment, and this approach was meant to provide long-term security in that regard. Centre also agreed to this, and in February submitted an offer to purchase a condo unit comprising the remainder of the building for \$750,000. The offer included a right of first refusal on the social detox unit, closing on or before September 30, 2019,

and routine contingencies regarding financing, appraisal, environmental hazards, etc. The Growth Fund Committee recommended approval on March 4; however, when it was presented to the JDA on March 17, the City Attorney recommended tabling action because of concerns related to crafting an appropriate condominium agreement.

As a result, the approach has reverted to a conventional building sale with Centre assuming a long-term lease with social detox. (The existing JDA lease with social detox provides the space at \$1/year through April 2021.) There have since been numerous conversations attempting to find the appropriate balance between purchase price (cash to the JDA) vs the length of the no-cost lease to be assumed by Centre (value to social detox/liability to Centre). Centre has proposed two alternate offers for the Committee's consideration in finding that balance:

1. Purchase price of \$720,000 with a 10-year lease
2. Purchase price of \$690,000 with a 15-year lease

The terms shown are meant to represent leases extending 10 years or 15 years from the date that Centre takes ownership. With the 15-year lease, Centre proposes a 3-year renewal option at no additional rent cost if all terms of the lease are met during the original term. With the 10-year lease, Centre proposes a 3-year renewal option at \$835 per month or \$10,020 per year.

These offers also include the previously referenced contingencies.

FINDINGS & ANALYSIS:

- Centre, Inc., is a non-profit agency providing behavioral health services in North Dakota. Local operations are funded primarily by Northeast Human Service Center (NEHSC) and Dept. of Corrections. Social detox is funded in partnership with the City, County, NEHSC and Altru.
- The building appraised for \$1 million last October under the hypothetical condition that the property was vacant and marketed in as-is condition; however, Centre's offer of \$750,000 for a "majority" condo unit was found reasonable by the City Assessor since, for many reasons, this was not the condition under which the property was marketed.
- The terms proposed are meant to balance the interests of the social detox facility, the Growth Fund, and Centre, Inc.
- The routine contingencies associated with Centre's condo purchase offer still apply. Closing is targeted for September 30, 2019; however, the lease extension through the end of the year is requested should more time be needed.