

**MINUTES/FINANCE COMMITTEE**

**Tuesday, February 25, 1997 - 3:45 p.m.**

Members present: Carpenter, Babinchak, Bakken, Hamerlik.

1. Request from Red River High School for City to reimburse portion of parking ticket revenue to pay for additional security officer hours at the School.

Daryl Bragg reported that they hire security people to do ticketing and have been authorized by the City to police the parking lots and are asking for portion of that revenue back to hire additional hours because not covering lots as well as they would like. Mr. Schmisek reported they don't separate fines from parking tickets by area, only item they keep track of is handi-apped parking. It was noted that fines go into general fund and if were to return any funds would have to do so with line item in the budget. Hamerlik stated that one of his concerns would be if there are other jurisdictions and this would set precedence. Committee asked if this would alleviate time police officers spend there; Mr. Bragg stated they are looking at prevention rather than apprehension (accidents, vandalism, parking viola- tions, etc.). After further discussion the Committee asked Mr. Schmisek to meet with police and city attorney to see what can do, system to accomplish, volume of tickets, etc. and report back to committee. Held for 2 weeks.

2. Application for abatement and settlement of taxes on South Forks Mall Properties, Inc., 1700 block of South Washington Street for years 1994, 1995 and 1996.

Thomas R. Will, Marvin F. Poer & Company, stated they have been engaged to represent the Mall for the assessments 1994 through 1996, and that he has been exchanging information with Mr. Carsen, and that Mr. Carsen has summarized their conclusions and has shared information with the committee. He stated there were two main differences in the analysis which fall into two categories, which are mainly in the income approach. He stated they used analysis prepared by Patchin & Associates and they came up with analysis which indicated market value of the property around \$3 million; that property assessed at little over \$10 million for all three years in question. He stated both analyses follow sound market value principals in developing an income approach; that the two key difference are: 1) the capitalization rate that is used by Patchin and by Mr. Carsen, that they are using a cap. rate of about 13% and Mr. Carsen using cap. rate of 10%; and 2) concerns adjustment made to Mr. Carsen's analysis for the

leasehold improvements made by K-Mart in 1991, \$1.5 million adjustment which is not included in their adjustment. He stated that there are a few other differences but not that material; that they both agree there are deferred maintenance issues that range from \$800,000 to \$1.2 million that need to be addressed by the current owner or new owner if this property is to be a functional and marketable property. He stated that this is an investment property and that an investor will look at the income stream and will require certain rate return to invest in the

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property; that it is their opinion that for a property of this nature that an appropriate cap. rate would be about 13% because property has deferred maintenance issues, it has some month to month tenants, needs some upgrading. He stated in support of that they put together as part of Patchin's analysis some comparable sales for comparable properties in the upper midwest, and distributed copies to the committee, as well as detailed income analysis that they prepared for 1994 and 1995, rent roll for South Forks Plaza as of December 15, 1996 and contract for sale, which he reviewed with the committee. He stated that the condition of the Mall, deferred maintenance issues have translated into a sale price that is quite a bit below the assessed value; that the property is currently involved in a pending sale for about \$2.5 million, and which will probably be completed later this spring. He reported that the other key factor to be considered is what is happening with income and expense, and experience with this Mall is a decline in revenue and an increase in expense.

Mr. Will stated that the second item re. income approach is re. adjustment for the K-Mart property, that K-Mart invested about \$1.5 million in 1991; they made leasehold improvements to the property, expanded the sq. footage by about 24,000 sq.ft. Mr. Carsen includes that \$1.5 million as an adjustment in his income approach analysis to the property; and they strongly disagree with that, in that they have a pending sale of the property that indicates property selling for \$2.5 million; that the interest K-Mart has in that improvement is the fee simple interest of the new owner, so that when the property sells the new owner will have the fee simple interest in the entire property, that the lease K-Mart is paying on covers both; and it is their opinion that the addition of that is not necessary because they have market indicators indicating what the property would be worth if you look at comparable properties in

the upper midwest. He stated that the new owner is aware that K-Mart made the improve- ment and that is part of the calculus in buying this property and that is part of the purchase price. He stated that within Mr. Carsen's exhibit #5 (Income Approach, South Forks Mall, excluding Sears), they adjusted the cap rate from 10% to 12% and removed the K-Mart leasehold interest and that the adjusted analysis using Mr. Carsen's variables and assumptions changes the number from \$7.2 million to about \$5 million in 1993, and in 1996 changes from \$5.7 million down to about \$3.4 million.

Mel Carsen, city assessor, stated he had furnished committee with copies of all exhibits and report; that there are some basic differences in their income approach that need to be addressed; 1) is the capitalization rate, that the rate used by Peter Patchin out of Minneapolis is developed from a growth of sales which are very distressed sales, that he is familiar with some of the sales, and reviewed with the committee. He discussed vacancy **MINUTES/FINANCE COMMITTEE**  
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rate which is about 19-20%, and this on Mall stores only between K-Mart and the pavilion (Sears, which has a separate owner, is not a part of this application). He reviewed information he had collected on comparable sales with the committee. He stated that malls have a very low capitalization rate compared to most investment properties, looking for growth. He stated that because of vacancy rate he is anticipating current value would be about \$5.9 million, income approach shows \$5.5 million, cost approach \$5.9. He stated that to take the income numbers and capitalize them and say that the portion that is not rented has no value would not be proper. He stated that his capitalization method is essentially the same as Mr. Will's except he is using a 10% starting cap. rate and Mr. Will using 13%.

Mr. Carsen stated that the other major difference was in the lease hold improvements K-Mart made; that K-Mart expanded from 72,000 sq.ft. to 96,000 sq.ft. in 1991 and rewrote lease, that K-Mart agreed to pay base rent, do the remodeling at their cost and pay no rent for the 24,000 sq.ft., that expansion has significant value and is not included in the income approach; that K-Mart has full control of the property for the terms of the lease (20 years plus 4 5-year options). In addition, K-Mart agreed to pay 1% of gross sales over and above a certain floor (\$17 million). He stated they have to value the leasehold interest, that K-Mart paid \$1.5 million for

remodeling and for the addition, and that is value they are assuming.

Mr. Carsen reported that in Exhibit #1 he has listed his assessed value and the requested abatement market value for the three years and recommending no reduction in value of the pavilion, and that there are three parcels not included in the abatement.

After further discussion the committee held the matter to review information and to make recommendation at their next meeting.

3. Matter of tax exemption for Longview Fibre Company.

Mr. Schmisek reported that he received letter from Economic Development Foundation requesting committee to withdraw the application for tax exemption from Longview Fibre Co. Moved by Hamerlik and Babinchak to receive and file letter to remove request from consideration. Motion carried. (comm. only).

4. Matter of boiler repair at civic auditorium.

Tim Manz, mechanical inspector, reported that he is working with Mr. Owens on this project and reviewed plans and specs.; that est. cost is \$6,000 to repair. It was noted that the boiler not working properly, shuts off and someone has to physically reset. Mr. Schmisek reported that funds would come from General Fund contingency account. Moved by Babinchak and Hamerlik to approve plans and specs. and authorize call for bids. Motion carried. (comm. only)

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5. Matter of review of sick leave transfer policy.

Dan Gordon, Human Resources, reported there's not too many options open, that decision committee handled at last meeting re. situation with two employee in following federal guidelines, that can be a policy; second option is to establish an unidentified leave bank, can call once a year for employees to donate unearned sick leave into a pool that would be monitored by the mayor's office and that would fall within the guidelines of the tax code because you cannot determine where the benefit goes and then it's non-taxable from the employee donating. He stated that the mayor's office would have to determine what is medical essential, and would have to determine guidelines as to what is long-term impairment or disability that would be eligible to receive it. He stated his recommendation would be to honor both programs; that if two

people want to come in and follow what is federally specified in the tax code, sees nothing wrong with that, as well as calling once year to establish an unidentified use pool. He stated he has nothing in writing but can draw something up. He would also suggest requiring medical certification from a physician.

There was some discussion re. whether there was some group or committee that could be used so don't thrust everything on the mayor's desk; and concern with employee being paid for accumulated sick leave and then requesting sick leave through this program, should be extraordinary situation.

Committee asked Mr. Gordon to put both options in writing and submit to committee for their review; and to place this item on the next committee agenda.

6. Budget amendments for various funds (prior year's outstanding purchase orders).

Mr. Schmisek reported they were requesting amendment of the 1997 budget for the prior year's encumbrance carry-overs for items that have been contracted; that amendment for all funds is in the amount of \$2,769,973.09; and requesting amendment of the 1997 budget for 1996 encumbrances (items not paid for in 1996). Hamerlik questioned whether carry-over monies in line item from which originally budgeted, or was there money saved in various items and then transferred. Mr. Schmisek reported that these are items that were in budgeted line item, and lot in area of capital project accounts where had contracts. Mr. Schmisek stated they watch that very closely. Mr. Schmisek also reported that they only hold books open until 6th or 7th of January, and these items may have been ordered in November, etc. and not received, and have to hold this money and get into next year's budget. Moved by Babinchak and Hamerlik to approve the budget transfer. Motion carried.

7. Matter of flood insurance for City-owned buildings.

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Mr. Schmisek reported that after last year's flood, they were informed that some of the City property didn't have flood insurance; that after 1979 flood carried insurance for several years and then dropped because of the premiums they were paying. He stated that with this year's potential for flooding asked for committee's direction in whether to pursue (that

buildings he is talking about are in the City Center Mall, City Hall, Police building, water treatment plant); that concern is premium.

Roxanne Fiala stated you can pick and choose dollar amount of insurance want to cover, doesn't cover furniture in basement levels, wouldn't cover anything in City Hall other than what's considered part of the building (heating system, air-conditioning), also based on formula of how many stories in the building, elevations, etc. She reported that Community Development doesn't think houses purchased for expansion of the water treatment plant need to be insured because going to demolish houses anyway. She stated they need direction or dollar amount to place on each of these facilities. She stated they checked on water treatment plant, and that if value of what's in the basement is more than 50% of value of the total building, can't carry insurance on it. It was also noted that flood insurance doesn't cover ground water seepage, sewage backup only if carry specific insurance; that extent of coverage question- able. Committee recommended not pursuing flood insurance coverage for City-owned buildings because of exceptions, not beneficial vs. the cost.

Moved by Hamerlik and Bakken to adjourn; meeting adjourned at 5:15 p.m.

Alice Fontaine  
City Clerk

Dated: 2/26/97