

Office of School Facilities
Jaime G. Torrens, Chief Facilities Officer

SUBJECT: THAT THE SCHOOL BOARD:

A. EXERCISE ITS OPTION TO PURCHASE THE YOUNG WOMEN'S PREPARATORY ACADEMY, LOCATED AT 1150 S.W. 1 STREET, MIAMI, FLORIDA 33130 ("PROPERTY"), FOR \$15,000,000, PLUS CLOSING COSTS, AS PROVIDED FOR UNDER THE FEBRUARY 13, 2006 LEASE AGREEMENT BETWEEN 1150 ASSOCIATES, LTD ("LANDLORD") AND THE BOARD, BY EXTRAORDINARY VOTE; AND

B. AUTHORIZE THE SUPERINTENDENT TO:

- 1) ISSUE AN OPTION NOTICE TO THE LANDLORD, EXERCISING THE PURCHASE OPTION, ACCOMPANIED BY A GOOD FAITH DEPOSIT PAYABLE TO THE LANDLORD IN THE AMOUNT OF \$1,500,000; AND**
- 2) FINALIZE NEGOTIATIONS AND EXECUTE A PURCHASE AND SALE AGREEMENT FOR THE ACQUISITION OF THE PROPERTY; AND**
- 3) FINALIZE NEGOTIATIONS AND EXECUTE ANY OTHER DOCUMENTS OR AGREEMENTS NECESSARY TO EFFECTUATE THE CLOSING ON THE PROPERTY**

COMMITTEE: FACILITIES AND CONSTRUCTION

LINK TO STRATEGIC BLUEPRINT: EFFECTIVE AND SUSTAINABLE BUSINESS PRACTICES

Introduction

Since October 2006, the Board has leased a building and grounds located at 1150 S.W. 1 Street, Miami 33130, from 1150 Associates, LTD, to operate the Young Women's Preparatory Academy ("School"). The facility was formerly utilized as an office building, and was retrofitted for School use, with all building systems replaced or upgraded, at a cost to the District of approximately \$6.2M. The facility consists of a three-story building

containing 37,587 square feet, and 136 parking spaces on a 1.33 acre parcel. A 40-year recertification was satisfactorily completed on the building in April 2016.

In addition to an annual rental rate, under the terms of the Lease Agreement, the District is responsible for all ownership, operating and occupancy expenses (i.e. utilities, maintenance, janitorial, building system upgrades and repair, and ad valorem taxes for the property). From lease inception (October 6, 2006) through October 5, 2016, the District will have spent approximately \$5.8M in rent, and an estimated \$1,014,833 in ad valorem taxes. Continuation of the lease through the remaining 40 years would represent an approximate additional expenditure of \$74.5M combined, for rent and property taxes (see attached Lease/Purchase Analysis); lease payments increase by 4% annually. The pre-established \$15M purchase price, if not exercised by August 12, 2016 will increase by 10% annually thereafter.

Background Information

As noted above, under the current Lease Agreement, the Board has the option to purchase the facility at a fixed price of \$15,000,000, provided the Board exercises this option by August 12, 2016. In anticipation of the present recommendation, staff conducted due diligence, including securing appraisals and presenting pertinent information to the School Site Planning and Construction Committee ("SSPCC"). Additionally, Treasury Management explored issuance of a Certificate of Participation ("COP") to fund the purchase price, and secured a recommendation to that effect from the Treasury Advisory Committee at its April 20, 2016 meeting.

The SSPCC met twice on this matter, and at its final meeting of June 29, 2016, the SSPCC recommended as a consensus of a Committee of the Whole, that the School Board approve proceeding with the acquisition at the pre-established purchase price of \$15M. This was based on a thorough analysis of the value of the property to the School Board, as expressed in the Value-in-Use appraisals (see table below), and a full review and discussion of other options, as more fully described in the next section of this report.

<u>Appraiser</u>	<u>Appraised Value</u>
Joseph Hatzell, Joseph J. Blake and associates, Inc.	\$13,700,000 Appraisal 1
Thomas Magenheimer, Quinlivan Appraisal	\$13,836,000 Appraisal 2
Lee H. Waronker, Waronker & Associates, Inc.	\$13,800,000 Review Appraisal

Analysis

As part of the review process by the SSPCC, the possibility of relocating the School to another suitable, cost-effective alternate site in the proximate area was studied. Staff provided information on a possible site near the School, listed for sale at a price of \$12M, developed with 79 residential units on 94,134 square feet of land (2.16 acres).

Construction of a similarly sized school, at the current FDOE published cost per student station of \$30,976, would result in a replacement construction cost for the School of \$13,846,272 (or a combined land/construction cost of approximately \$25,846,272). In addition, the District could be responsible for the relocation of all tenants, an undetermined additional cost. This option was found to not be economically feasible.

In discussion, the SSPCC expressed support for the proposed purchase at an amount 8.69% higher than the value established by the review appraisal, based on a host of business and operational considerations, including:

- the Office of the Treasurer's economic analysis substantiating the long term cost savings of issuing short term debt (COP) in the full amount of the purchase price, compared to continued leasing, with an anticipated net cost savings to the District of \$52,674,912 over the remaining 40-year life (through October 2056) of the Lease Agreement (attached);
- the strong business case presented in said analysis (reflecting a breakeven return on investment in approximately seven years, assuming the issuance of a COP at the full purchase price);
- the inherent value of the facility to the School Board given its current operations and the considerably higher cost of duplicating the School elsewhere;
- the desirability of "locking-in" the purchase price now at the amount established in the Lease Agreement rather than exercising the option in future years at much higher values; and
- the fact that the market value of the property can be expected to rise over time given the underlying high density zoning of the parcel.

The Board Policy governing site acquisitions for willing sales requires an extraordinary vote from the Board (defined as a majority vote plus one additional vote of the Members present) when the purchase price exceeds the value established in the review appraisal. As noted above, the purchase price is 8.69% over the review appraisal value.

Additional Information

While funding for the purchase can be secured via issuance of a COP, District staff is pursuing a possible transaction that would fund all or a portion of the proposed acquisition. The District, Florida Department of Education ("DOE"), Florida Department of Environmental Protection and CEMEX, are discussing a possible land exchange between CEMEX and the State (environmentally sensitive lands owned by CEMEX, for State-owned lands able to be mined). Under Florida Statute, excess funds generated by such an exchange are to be made available to the local School District for capital projects. If successful, the above exchange would generate funds able to be applied towards the acquisition of the School facility.

The amount of funding that might be made available to the District will be determined once all aspects of the transaction are satisfactorily resolved. It is anticipated that a substantial portion of the \$15,000,000 purchase price could be covered. The District will continue to pursue this funding avenue given the potential financial benefits to the Board, and given that closing on the School property will not occur until June of 2017.

A copy of completed due diligence records for the School site, including all presentations made to the SSPCC on this proposed acquisition, will be submitted to the Board as supplemental information. Due to its voluminous nature, this information will be submitted in CD format, and a hard copy placed with Citizen's Information and the Board Recording Secretary, prior to the meeting of August 10, 2016.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida:

- A. exercise its Option to Purchase the Young Women's Preparatory Academy, located at 1150 S.W. 1 Street, Miami, Florida 33130 ("Property"), for \$15,000,000, plus closing costs, as provided for under the February 13, 2006 Lease Agreement between 1150 Associates, LTD ("Landlord") and the Board, by extraordinary vote; and
- B. authorize the Superintendent to:
 - 1) issue an Option Notice to the Landlord, exercising the Purchase Option, accompanied by a good faith deposit payable to the Landlord in the amount of \$1,500,000; and
 - 2) finalize negotiations and execute a Purchase and Sale Agreement for the acquisition of the Property; and
 - 3) finalize negotiations and execute any other documents or agreements necessary to effectuate the closing on the Property.

MAL:

YOUNG WOMEN'S PREPARATORY ACADEMY LEASE/PURCHASE ANALYSIS

LEASE YEAR	ANNUAL LEASE PAYMENTS (1)	ESTIMATED ANNUAL AD VALOREM TAXES (2)	ESTIMATED TOTAL CURRENT PAYMENTS	DEBT SERVICE PAYMENTS ON NEW COP (3)	SAVINGS	CUMULATIVE SAVINGS
2017	710,857.00	102,956.00	813,813.00		(813,813.00)	
2018	739,291.28	105,529.90	844,821.18	1,186,637.50	(341,816.32)	
2019	768,862.93	108,168.15	877,031.08	999,825.00	(122,793.92)	
2020	799,617.45	110,872.35	910,489.80	1,002,075.00	(91,585.20)	
2021	831,602.15	113,644.16	945,246.31	999,475.00	(54,228.69)	
2022	864,866.23	116,485.26	981,351.50	1,001,275.00	(19,923.50)	
2023	899,460.88	119,397.40	1,018,858.28	1,002,275.00	16,583.28	
2024	935,439.32	122,382.33	1,057,821.65	997,475.00	60,346.65	
2025	972,856.89	125,441.89	1,098,298.78	999,525.00	98,773.78	
2026	1,011,771.17	128,577.94	1,140,349.10	1,000,450.00	139,899.10	
2027	1,052,242.01	131,792.38	1,184,034.40	1,000,250.00	183,784.40	
2028	1,094,331.69	135,087.19	1,229,418.89	1,001,000.00	228,418.89	
2029	1,138,104.96	138,464.37	1,276,569.33	1,000,250.00	276,319.33	
2030	1,183,629.16	141,925.98	1,325,555.14	998,000.00	327,555.14	
2031	1,230,974.32	145,474.13	1,376,448.46	999,250.00	377,198.46	
2032	1,280,213.30	149,110.99	1,429,324.28	998,750.00	430,574.28	
2033	1,331,421.83	152,838.76	1,484,260.59	1,001,500.00	482,760.59	
2034	1,384,678.70	156,659.73	1,541,338.43	1,002,250.00	539,088.43	
2035	1,440,065.85	160,576.22	1,600,642.07	1,001,000.00	599,642.07	
2036	1,497,668.48	164,590.63	1,662,259.11	997,750.00	664,509.11	
2037	1,557,575.22	168,705.39	1,726,280.62	997,500.00	728,780.62	3,710,073.49
2038	1,619,878.23	172,923.03	1,792,801.26		1,792,801.26	
2039	1,684,673.36	177,246.10	1,861,919.47		1,861,919.47	
2040	1,752,060.30	181,677.26	1,933,737.55		1,933,737.55	
2041	1,822,142.71	186,219.19	2,008,361.90		2,008,361.90	
2042	1,895,028.42	190,874.67	2,085,903.09		2,085,903.09	
2043	1,970,829.55	195,646.54	2,166,476.09		2,166,476.09	
2044	2,049,662.74	200,537.70	2,250,200.43		2,250,200.43	
2045	2,131,649.25	205,551.14	2,337,200.39		2,337,200.39	
2046	2,216,915.22	210,689.92	2,427,605.13		2,427,605.13	
2047	2,305,591.82	215,957.17	2,521,548.99		2,521,548.99	
2048	2,397,815.50	221,356.10	2,619,171.59		2,619,171.59	
2049	2,493,728.12	226,890.00	2,720,618.12		2,720,618.12	
2050	2,593,477.24	232,562.25	2,826,039.49		2,826,039.49	
2051	2,697,216.33	238,376.31	2,935,592.64		2,935,592.64	
2052	2,805,104.98	244,335.71	3,049,440.70		3,049,440.70	
2053	2,917,309.18	250,444.11	3,167,753.29		3,167,753.29	
2054	3,034,001.55	256,705.21	3,290,706.76		3,290,706.76	
2055	3,155,361.61	263,122.84	3,418,484.45		3,418,484.45	
2056 End of Lease	3,281,576.08	269,700.91	3,551,276.99		3,551,276.99	
	\$ 67,549,553.01	\$ 6,939,497.30	\$ 74,489,050.31	\$ 20,186,512.50	\$ 52,674,911.81	\$ 52,674,911.81

(1) 4% increase per year as required by lease agreement

(2) Assumes a property tax increase of 2.5% per year, paid by the District as part of the lease agreement

(3) Estimated debt service on \$15,000,000 COP issued in 2017 with debt payments starting in FY 2018