



Town of Moraga	AGENDA ITEM
<b>UNFINISHED BUSINESS</b>	<b>X. A.</b>

Meeting Date: January 27, 2010

**TOWN OF MORAGA**

**STAFF REPORT**

**To: Honorable Mayor and Council Members**  
**From: D. Michael Segrest**  
**Subject: Acceptance of Contract for Purchase of 331 Rheem**

**Request**

Approve a resolution authorizing the Town Manager to proceed with the purchase of 331 Rheem and to secure the necessary financing for this purchase and the remodel of 329 Rheem. This request will accomplish several important goals of the Town:

1. Provide a suitable corporation yard for Town operations.
2. Free up space at the Hacienda for expanded community use.
3. Provide funds for remodel of 329 Rheem into a suitable Town Hall.
4. Include monetizing Town property for these and other critical needs.

**Background**

Town Council approved the purchase agreement for 331 Rheem at its December 9, 2009 meeting. The purchase agreement provides for a 60 day due diligence period for inspection of the property and securing an appraisal. Staff has received reports on the structural condition of the property, general condition of the property, mold test, and completed additional analysis of the suitability of the property for use as the Town's corporation yard. The Planning Commission has approved the Conditional Use Permit (CUP) to allow the Town to use the property as its corporation yard. The CUP requires review by the Design Review Board for landscaping and screening of the property from the scenic corridor.

The appraisal of the property indicates a value of \$1,150,000 (See Attachment A). The agreed purchase price of \$1,200,000 is \$50,000 more than the appraised value, but the purchase agreement does include no interest financing of \$500,000 for two years. The value of this interest-free financing would be \$50,000 assuming a 5% interest rate. If both of these values are considered the total purchase cost of \$1,200,000 is not unreasonable.

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2 The condition of the property is generally acceptable based upon the inspections and  
3 tests completed by staff and expert contractors. The primary item that needs to be  
4 corrected is the roof at an estimated cost of \$21,000. The total cost of all needed  
5 repairs is \$24,433.56 (See Attachment B). The owner has agreed to reduce the  
6 purchase price by \$25,000 to cover the cost of these repairs, which would be  
7 reflected in a reduction to the future payment amount from \$500,000 to \$475,000.

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9 In addition to the items needing repair staff has identified some other improvements  
10 that would be desirable. We anticipate some of the items, such as an automatic gate  
11 to screen off the parking area, and new landscaping in the front may be required by  
12 the Design Review Board. A list with associated costs for these items is also included  
13 in Attachment B. The cost estimate is broken down between things we need to do in  
14 order to move in which total \$26,296 and future items that we believe should be done  
15 over time which total \$69,085. The total cost of all of these items can be covered  
16 from the already budgeted funds for the Hacienda improvements which we anticipate  
17 will not be needed or can be funded from the energy grant and loan for which we  
18 have applied.

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20 **Discussion**

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22 From staff's evaluation of the property, this acquisition is deemed to be a very  
23 suitable location for the Town's corporation yard. As previously discussed, its  
24 proximity to 329 Rheem is a significant advantage for storage of files and other items  
25 easily accessible to staff at 329 Rheem. The building and the associated concrete  
26 paved parking area is very well suited to the Town's needs for a corporation yard and  
27 the cost is less than staff estimates for building a new facility on Town-owned land.

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29 If Town Council authorizes staff to proceed with this purchase, the required financing  
30 will be secured and closing will occur by March 10, 2010. Town Council approved the  
31 use of the Association of Bay Area Governments (ABAG) to serve as the Town's  
32 agent for the financing. This financing will also provide funds for the remodel of 329  
33 Rheem as the Town Hall to house all staff except Parks and Recreation which will  
34 remain at the Hacienda. The Town Hall remodel is projected to be completed by the  
35 end of 2011. Staff is also pursuing the sale of properties owned by the Town to  
36 provide funding for the balance that will be due for the purchase of 331 Rheem as  
37 well as other Town needs.

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39 We have been informed by the owner of 331 Rheem that the current tenant has  
40 given 60 days notice, so we will not have any offsetting rental income for the  
41 property. This change will, however, enhance the usability of the site for Town needs  
42 and eliminate any conflicts of use with a tenant.

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44 **Fiscal Impact**

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46 The total cost of the acquisition and improvements to 331 Rheem will be \$1,295,000.  
47 All of this cost could be included in the financing or we could cover the improvements  
48 from savings on the Hacienda project and only finance the \$1,200,000 for acquisition  
49 of 331 Rheem and remodel of 329 Rheem. The annual cost for the financing will be  
50 approximately \$130,000 per year. The annual operating costs will increase by

1 \$30,000 per year to maintain this new facility. The first payment for the loan will  
2 occur in the next fiscal year so it will not affect this year's budget, but it will impact  
3 next year's budget. At this point it is difficult to determine what we will not be able to  
4 fund next year due to this acquisition, but this will impact the Town's General Fund  
5 for the next 20 years by less than 3% per year.

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7 The financing can be structured to allow for an early call on the loan if the Town  
8 secures the resources to do so. The sale of Town properties could allow early  
9 payment of a significant portion of the loan, since these sales are expected to  
10 generate funds in excess of the amount required to pay the balance due for 331  
11 Rheem.

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13 The bottom line is that the cost of this acquisition is in line with what it will ultimately  
14 cost the Town to provide a suitable corporation yard. The Town's General Plan  
15 indicates that the Town should pursue an alternative location to the Hacienda for the  
16 corporation yard. Unless Town Council believes that the current location at the  
17 Hacienda is a suitable location for the Town's corporation yard, the Town will  
18 ultimately incur a substantial cost to relocate the yard, so it is really a question of  
19 whether we incur this cost now or later. Later will likely cost more and delay the full  
20 utilization of the Hacienda for community use.

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22 **Alternative(s)**

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24 1. Approve the resolution as presented.  
25 2. Disapprove the acquisition.  
26 3. Direct staff regarding further negotiations for the acquisition.

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28 **Recommendation(s)**

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30 Staff is very aware of the fiscal impacts of a decision to move forward with this  
31 acquisition and fully realizes it will mean that we will not be able to afford other  
32 important Town needs in the future. Even considering the fiscal impacts of this  
33 decision, staff believes this purchase is the right thing to do. It provides the Town with  
34 a permanent and suitable corporation yard, it frees up space at the Hacienda to  
35 realize the full potential for that facility to serve the community, it provides funding for  
36 the remodel of 329 Rheem into a suitable Town Hall to serve the community over the  
37 long term, and the sale of the surplus Town property monetizes these assets to the  
38 benefit of the Town for critical community needs. Therefore, staff recommends Town  
39 Council approve the acquisition of 331 Rheem and proceed with the associated steps  
40 to finance and implement the acquisition.

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42 **Report reviewed by: Town Manager**

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44 **Attachments:**

- 45 **A. Resolution**  
46 **B. Appraisal of 331 Rheem**  
47 **C. Summary of Repair and Improvement Costs**  
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