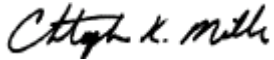


**ROSEVILLE**  
**REQUEST FOR COUNCIL ACTION**

Date: 3/14/2016  
Item No.: 15.a

Department Approval



City Manager Approval



Item Description: Discuss Long-Term Facility Options for the Roseville License Center

**BACKGROUND**

Since 1999, the Roseville License Center has been located in the Lexington Shopping Center just north of the City Hall Main Campus. The current lease includes 3,332 square feet and expires on January 31, 2017.

Over the past decade there have been several discussions regarding the location of the License Center and whether it's more advantageous to continue leasing or secure space in a city-owned facility. The upcoming expiration of the existing lease necessitates that we revisit this discussion once-again.

From Staff's perspective, there are three primary considerations when contemplating this decision. They include:

- 1) Operational Considerations
- 2) Financial Considerations
- 3) Business Risk & Other Considerations

Each of these primary categories are discussed in greater detail below.

Operational Considerations

The License Center's operational needs include:

- Current and future space needs for customers and staff
- Functionality of the current office design
- Overall condition and general aesthetics of the facility

These needs are briefly addressed below.

The current layout was originally designed in 2000 and modified in 2005 to accommodate passports. Since that time, the License Center has experienced significant growth in all service categories resulting in less functionality and some overcrowding in customer service and staffed areas.

Over the next several years, customer transaction volumes are projected to increase and when coupled with State and Federal *in-person* customer requirements, the diminished functionality and overcrowding will only worsen.

35 In addition, the general condition and aesthetics of the facility has steadily declined reflecting the  
36 decision to delay many capital improvements until the License Center’s Strategic Plan was completed  
37 and a long-term location had been determined. The facility is in need of new carpeting, painting,  
38 furniture, and office redesign. These leasehold improvements will be needed to transform the License  
39 Center from its current dated and institutional feel, to a warm inviting space for customers.

40  
41 To accommodate this growth and create a more functional and welcoming environment, it is suggested  
42 that 4,500-5,500 square feet of overall space be secured – an increase from the current 3,332 square feet  
43 of space.

44  
45 Financial Considerations

46 In contemplating the decision on whether to continue leasing or move into a city-owned facility, there  
47 are a number of financial factors that should also be considered including:

- 48  
49  The current lease amount is \$63,775 per year and if renewed, is projected to rise 3-4% annually  
50 over the next several years.
- 51  An additional 1,170–2,170 in leased space would likely require \$20,000-40,000 in additional  
52 rent bringing the total to \$85,000-105,000 annually plus inflation.
- 53  An estimated \$100,000 in leasehold improvements would be recommended to return the License  
54 Center to a more customer-friendly and functional workspace.

55  
56 As an alternative to paying higher rents and incurring significant leasehold improvements, the City  
57 could dedicate these funds to pay off financing costs associated with the expansion or construction of a  
58 city-owned facility that could accommodate the License Center.

59  
60 For example, a \$100,000 annual commitment (in lieu of rent) would be sufficient to pay the annual debt  
61 service on a \$1.3 million bond issue over a 15-year period. If we coupled the bond proceeds with  
62 \$200,000-300,000 in cash reserves from the License Center Fund, there should be enough monies to  
63 construct a 5,000 square foot facility. The License Center’s cash reserves are projected to be  
64 approximately \$550,000 by the end of 2016 so it could easily accommodate a spend-down of reserves  
65 for this purpose. It should be noted however, that the License Center continues to provide significant  
66 financial support for police, fire, streets, information technology, and other programs. That level of  
67 support may need to be adjusted to accommodate the financing of a new facility.

68  
69 Based on these preliminary estimates, the License Center’s future space needs could be accommodated  
70 with a new city-owned facility for the same financial commitment as it could with leasing. The major  
71 difference is that the City would own the new facility outright after 15 years. This obviously would not  
72 be the case with the leasing option.

73  
74 When you factor in suggested leasehold improvements and rising lease rates, the financial commitment  
75 for city-owned space becomes even less. This is depicted in the charts below using a 15-year  
76 timeframe.

77

78  
79  
80

City of Roseville License Center Location Analysis  
Lease vs. Purchase Option (a)

	Lease Option				Purchase Option			
	Debt	Capital			Debt	Capital		
	Rent	Financing	Improv.	Total	Rent	Financing	Improv.	Total
2017	\$ 95,000	\$ -	\$ 100,000	\$ 195,000	\$ -	\$ 91,532	\$ -	\$ 91,532
2018	97,850	-	-	97,850	-	91,532	-	91,532
2019	100,786	-	-	100,786	-	91,532	-	91,532
2020	103,809	-	-	103,809	-	91,532	-	91,532
2021	106,923	-	-	106,923	-	91,532	-	91,532
2022	110,131	-	-	110,131	-	91,532	-	91,532
2023	113,435	-	-	113,435	-	91,532	-	91,532
2024	116,838	-	-	116,838	-	91,532	-	91,532
2025	120,343	-	-	120,343	-	91,532	-	91,532
2026	123,953	-	-	123,953	-	91,532	-	91,532
2027	127,672	-	50,000	177,672	-	91,532	50,000	141,532
2028	131,502	-	-	131,502	-	91,532	-	91,532
2029	135,447	-	-	135,447	-	91,532	-	91,532
2030	139,511	-	-	139,511	-	91,532	-	91,532
2031	143,696	-	-	143,696	-	91,532	-	91,532
				\$ 1,916,897				\$ 1,422,980

81  
82

(a) Based on an estimated 15-year Lease vs. Purchase financial comparison and the utilization of 5,000 square feet.

83

84  
85 As shown in the table, over the next 15 years the purchase option (new construction) is approximately  
86 \$493,000 less expensive compared to leasing. This does not include any land acquisition or building  
87 demolition costs that might be associated with a new city-owned facility.

88

89 Business Risk & Other Considerations

90 Finally, when assessing the decision on whether to renew the lease or seek a city-owned facility option,  
91 there are a number of other considerations including business risk to measure.

92

93 In this context, business risk can perhaps be defined as a decline in space needs or revenue generation  
94 due to lower transaction volumes such as those that might result from increased competition or a loss in  
95 the City’s ability to function as a Deputy of the State of Minnesota or as a Passport Acceptance Agency  
96 on behalf of the U.S. Department of Homeland Security.

97

98 These are legitimate concerns, but they are not vastly different that those associated with other City  
99 programs or functions which also must compete for customers. In the case of the License Center, it has  
100 consistently remained one of the highest volume and highest rated licensing facilities in the entire state.  
101 Roseville’s reputation is strong in both the State and Federal government’s eyes.

102

103 If it’s determined in the future that a License Center is no longer viable or desirable, an expanded or  
104 new city-owned facility could be re-purposed or sold.

105

106 There are a number of other *general* considerations that might be a factor in this decision including:  
107

- 108  The License Center generates approximately 150,000 walk-in customers annually which  
109 presents an opportunity to create greater synergy and awareness of other City programs and  
110 services if it is located in or near other city-owned facilities.
- 111  Any potential location should consider the synergies that could be created within the main  
112 campus or other city facilities.
- 113  It may be impractical or ill-advised to construct a stand-alone 5,000 square foot facility unless it  
114 is designed and scaled to accommodate future additions that could serve other purposes.
- 115  Beyond the License Center, there may be office-type space needs for other city purposes.
- 116  Partnership opportunities may exist with area quasi-government or non-profits that may be  
117 interested in leasing space from a new city-owned facility.

118  
119 Staff will be available at the Council meeting to provide additional information and address any  
120 inquiries.

121 **POLICY OBJECTIVE**

122 Not applicable.

123 **FINANCIAL IMPACTS**

124 Not applicable.

125 **STAFF RECOMMENDATION**

126 Not applicable.

127 **REQUESTED COUNCIL ACTION**

128 General direction on whether to pursue lease extension negotiations for the License Center with the  
129 Lexington Shopping Center or explore other options.

130  
Prepared by: Chris Miller, Finance Director  
Attachments: A: Not applicable