

**September 13, 2022**

## **Building Needs Assessment Workgroup (BNAW)**

### **Summary of the Building Project and the Lakeland University Property at 1650 Pankratz St, Madison**

#### **History**

In November 2018, with the support and participation of the SCLS Board of Trustees, The Building Needs Assessment Workgroup (BNAW) was formed to assess the building needs for the system.

#### **Who is in BNAW?**

The coordinator of each department, Jesse Stewart, SCLS fleet manager, and 2 board members. The SCLS Board President also joined BNAW in 2022.

#### **What is the charge of BNAW?**

To research and recommend to the SCLS Board of Trustees, SCLS staff and member libraries the most efficient and cost effective facility/facilities to best serve all departments and customers of the future SCLS organization.

Currently SCLS rents two facilities with leases that expire in May 2023 and November 2023. The cost of our leases combined exceeds \$30,000 per month. It is the goal of the BNAW to find a more cost effective facility plan and to complete a recommendation that allows implementation of its facilities plan before the leases expire.

#### **What are BNAW's Goals?**

- 1) Design a building that operationally meets our needs better.
- 2) Achieve savings.
- 3) Facilitate more team work and unite culture between administration and delivery.

#### **What Has BNAW Done So Far?**

**2018:** Spent the year outlining our goals, charge, budget, financing options and evaluating the SCLS building needs. Utilizing meetings, focus groups and surveys, compiled a master list of building needs and wants and a must have, nice to have, pie in the sky list.

Determined that buying or building a property that SCLS will own, instead of continuing to lease, is the most fiscally prudent path forward.

**2019:** Spent the year selecting a builder. Through a process of inviting builders to do presentations, followed up by a request for information, evaluated using a scored evaluation matrix, and followed up with site visits, selected the design-build firm Keller, Inc. Keller is a design-build firm that will assist SCLS through all phases of design and construction, to include site selection and evaluation, budgeting and the public bidding process.

**2020:** Worked with Keller to create a Discovery Booklet, created by having discovery meetings with all SCLS staff and departments, to outline building needs/wants. Keller created this booklet that outlines

space needs, square footage and estimated budgets for the project. Then the pandemic started. This impacted the process, meetings, planning, space considerations and budget.

**2021:** Worked with Keller and Lighthouse Realty on site selection. Criteria used in site selection included location (near major highway systems for Delivery), on MUFN (broadband internet) map, cost, cellular service, on bus route, other services/amenities available in the area, walkable neighborhood.

BNAW considered existing buildings to remodel as well as land for new construction. Cost projections at the time showed new construction to be more cost effective than purchasing and remodeling an existing building. Therefore the workgroup proceeded with a plan for new construction and the final site selected that met all criteria was at 2801 Walton Commons Drive, on the east side of Madison.

A purchase and sale agreement was drafted and signed with the City of Madison, with the goal to close on the sale of the property by June 2022. Secured financing for the project through the Board of Commissioners of Public Lands. Also spent the year drawing up floor plans and construction documents.

The pandemic began to affect the cost and availability of labor, construction materials and construction timelines. BNAW revised its construction documents several times to meet these new demands.

**2022:** Finalized construction documents and plans went out to bid in April 2022. The public bid opening was May 12, 2022. The goal was to break ground in July 2022.

However, the bid opening did not go as planned. With the aforementioned challenges caused by the pandemic and lack of availability of sub-contractors to attend the bid opening, SCLS only received qualifying bids for half of the bid units. With the bids received and estimates for the remaining bid units, the projected cost of the new building came in at \$9 million, which was \$2 million over budget. So now what do we do?

The group was forced to pause this plan, re-evaluate its options and pivot in a new direction. Several options were considered, including the following:

- Keller co-owning 25% of the \$9 million building, with SCLS owning 75%
- Reducing the footprint of the building in an effort to get the budget back to \$7 million
- Looking again at options to purchase and renovate an existing building

The first 2 options were evaluated thoroughly and were determined to not be financially viable options for SCLS.

Therefore BNAW, Keller and Lighthouse Realty revisited the option to purchase an existing building to renovate. As mentioned, back in 2020 and 2021 when BNAW and Keller evaluated existing buildings vs. new construction, it was more cost effective to build new than to remodel an existing building. Therefore buildings such as Lakeland were not considered any further at that time. Now, with the effects of the pandemic on the cost and availability of construction materials, the group has found that it's far more cost effective to purchase and remodel an existing building. The climate has changed. We can now buy much more building for our money than by building new.

After another extensive search, looking at properties that would meet all of our criteria, are within budget, have the proper amount of square footage and mix of office/warehouse space and/or enough land for a Delivery warehouse addition, the Lakeland University property at 1650 Pankratz Street in Madison, WI was selected. This 14,600 sf building is only 10 years old, is well-constructed, is in the ideal

location for Delivery, on the MUFN fiber network map and is within budget. It also has enough space on the lot to add the Delivery facility. See this link for photos and a description:  
<https://www.loopnet.com/Listing/1650-Pankratz-St-Madison-WI/18125716/>

BNAW, in conjunction with the SCLS Board of Trustees, negotiated an offer of \$2,050,000 that was accepted by the seller on 6/29/2022. The goal was to “lock in” this property, so no other interested parties could purchase it, giving SCLS 90 days to do its due diligence and evaluate every aspect of this facility to determine if it will meet its needs. David Haug, our commercial realtor with Lighthouse Realty performed an extensive evaluation of the fair market value of this property, including the fact that it’s on a ground lease, and determined that this is a good price. Keller estimated that if they built this building today, it would cost \$4-\$5 million.

Within these 90 days, BNAW has also worked with Keller to draft plans to remodel the existing building to meet the needs of the HQ operations as well as plans for a Delivery addition that fits on the site. The cost for the interior remodel is capped at \$1 million. With the purchase price of the building, the total cost for the HQ facility is projected at \$3 million. The cost for the Delivery addition is projected at \$3.5 million. Funds already spent on the Walton Commons project and previous design work are \$500,000. Total budget is \$7 million. **See attached plans and budget.**

The following contingencies were included in the offer to purchase the Lakeland property:

- Proper zoning
  - Suburban Employment (SE) zoning. Appropriate for HQ office operations. Delivery operations also accepted with a conditional use permit.
- Verification of easements and restrictions
  - SCLS Attorney Lawton has reviewed all easements
    - Cross-easement for parking will allow SCLS to use any parking stalls in the development
    - SCLS is able to remove parking stalls with seller’s approval. City of Madison has no requirements for the number of parking stalls with SE zoning
    - Cross easements provide an agreement for property owners in this development to share costs of all snow removal and lawn care.
- Approvals of all applicable governmental permits, approvals, licenses and proposed use
  - Dane County Regional Airport has given approval of SCLS’s planned use, site map, elevations and Delivery addition.
  - City of Madison Design Assistance Team is working with SCLS to meet all requirements for Delivery addition
- Land use approvals
  - Airport group and City of Madison have indicated approval for SCLS’s proposed use and Delivery addition

- ALTA survey to verify land, easements, boundaries and encroachments
  - In process as of 9/1/22
- Document review to include lease, service and utility agreements
  - All documents have been reviewed by SCLS Attorney Lawton
- Property inspection
  - Property inspection complete. Any recommended repairs will be sent to seller for completion or request for reduction in price.
- Ground lease assignment approval
  - Working with Attorney Ussher from the Airport group to complete all phases of ground lease assignment. The County Board will approve the assignment, which will then get referred to the Airport Commission, the Public Works and Transportation Committee, and their Personnel and Finance Committee. Projected completion date 11/17/22.
  - This property has a primary ground lease with 27 years remaining on it, with the option of 2 25-year extensions. A total of 77 years. Attorney Ussher affirmed that SCLS would have the sole authority to exercise the options for the extensions and is guaranteed the 77 years. **See attached email from Attorney Adam Ussher.**
- Environmental assessment
  - Phase 1 ESA being completed
- Title work review
  - Attorney Lawton has review all title documents
- Estoppel letters for both leases
  - These letters indicate the end date for the Lakeland lease and the Airport ground lease. Attorney Lawton has drafted these letters and they will be completed at closing.
- Financing
  - BCPL loan of \$5.5 million was secured in 2021
  - BCPL 2<sup>nd</sup> loan of \$1 million - application has been requested
  - \$500,000 SCLS general contingency funds – use approved by SCLS Board of Trustees
- SCLS Board approval
  - Discussion and action item on the agenda for the 9/22/22 Board of Trustees meeting.

All contingencies, with the exception of the ground lease, have been addressed and approved and/or are currently in progress with a goal of completion of 9/22/22. The due diligence period ends 9/27/22.

The ground lease assignment will take until 11/17/22 to complete. Approved by seller. Projected closing date is 11/18/22.

Financial analyses (pro-formas) have been compiled for the purchase, renovation of and addition to the Lakeland facility for both the HQ and the Delivery operations. These are based on the total project budget of \$7 million. Costs of renting vs. owning have been calculated and evaluated for both a HQ only plan as well as a HQ and Delivery plan. They illustrate that over the life of the building and the 77 year ground lease, the option to own will save the system up to \$20,000,000 over continuing to rent. **See the attached pro-formas.**

In summary, the BNAW group has performed an extensive and exhaustive examination of the Lakeland property from a functional perspective as well as a financial perspective. The goals of BNAW again are to build a facility that functions better than the facilities we have now, achieve savings and build synergy and economies of scale with our Delivery operation by uniting them with HQ. The Lakeland property and proposed plans meet all of these goals.

It's vital for our system, its member libraries, our staff and our community to ensure that SCLS remains operationally and financially sound not only in the short term, but well into the future. It's important to use our public funding efficiently and effectively and to demonstrate fiscal responsibility. Continuing to lease 2 facilities is not a viable long-range plan for SCLS. Eventually our rent will exceed our state aid's capacity to pay for the annual increases. Purchasing the Lakeland building ensures a set mortgage payment that does not change annually. Our 2023 budget has been prepared, incorporating the purchase and renovation of the Lakeland building, as well as the Delivery addition. The budget is balanced. In 20 years, when the mortgages are paid off, SCLS will save as much as \$400,000 per year. Those funds can be reinvested back into our libraries, staff and system operations.

The success of this project does depend on the cost of construction coming in within budget. Therefore BNAW is recommending a 2 phase approval process to the SCLS Board of Trustees. Phase 1: BNAW recommends the purchase of the Lakeland building and interior remodeling costs of up to \$1 million. This will house HQ operations. Phase 2: Approval of the Delivery addition, providing the bids come back within budget for the addition.