Municipality of Anchorage

Presentation to the Municipal Assembly

Worksession Re: AO 2022-104, Acquisition of 716 West 4th Ave

March 10, 2023
Agenda

Discussion Agenda

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Section 1

Current Circumstances
Current Circumstances

Background

The Municipality’s CFO financed the purchase of the property located at 716 West 4th Avenue (the “716 Building” or the “Facility”) for ACDA in 2018 using a lease/leaseback financing. This can be thought of as a type of “mortgage”.

A lease/leaseback is a financing alternative commonly used by state and local governments to acquire capital assets.

ACDA then leased the Facility to the Anchorage Police Department (“APD”) and uses APD’s lease payments to service the debt of the lease with the lender.
Current Circumstances

- ACDA currently has a Lease/Leaseback agreement with KeyBank on their balance sheet with a remaining principal balance of $12,988,360. The annualized fixed level debt service paid by ACDA attributed to the lease with KeyBank is $1,228,474 until August 1, 2033, at which time the interest rate resets to a five-year rate and the lease ends on August 1, 2038.

- To pay the debt service, ACDA executed a lease with the Anchorage Police Department (APD) to occupy the 716 Building. The current lease between APD and ACDA includes the following:
  - Lease began October 23, 2018
  - One year lease with annual renewable options for nineteen years
  - Lease Payment is annually increased by CPI-U (the Consumer Price Index for All Urban Consumers)
    - Monthly Lease Payment Began at $132,325 ($1,587,900 annualized)
    - Monthly Lease Payment as of October 23, 2022, is $154,152 ($1,849,824 annualized)
  - APD pays all utilities, services, District 1SD97 Special Assessment District and MESA
  - The escalating lease payment tied to the CPI-U (inflation) is an unusual term in a lease agreement and in this case works to the detriment of the Municipality’s taxpayers
  - This condition creates a loan payment similar to an adjustable-rate mortgage where the payment amount has no cap
Section 2

Proposed Transaction
Proposed Transaction

The Ordinance

MUNICIPALITY OF ANCHORAGE, ALASKA
ORDINANCE No. 2022-104

AN ORDINANCE OF THE MUNICIPALITY OF ANCHORAGE, ALASKA, AUTHORIZING THE NEGOTIATION BY THE MUNICIPAL MANAGER AND THE EXECUTION AND DELIVERY BY THE MUNICIPALITY OF AN ACQUISITION AGREEMENT FOR A FACILITY LOCATED AT 716 WEST 4TH AVENUE, AND A GROUND LEASE AND A FACILITY LEASEBACK, AUTHORIZING THE CHIEF FISCAL OFFICER TO DETERMINE THE TERMS AND CONDITIONS, INCLUDING FINANCING TERMS, RELATING TO THE GROUND LEASE AND THE FACILITY LEASEBACK, AND APPROPRIATING THE PROCEEDS OF SUCH GROUND LEASE.

The ordinance was introduced on November 9, 2022.

The ordinance authorizes the Municipality to purchase the 716 Building from ACDA.

The original ordinance has been amended and we have a proposed S-Version.

The original memorandum (No. AM 666-2022) has been amended and we have a proposed A-Version.

The original SEE has been updated with current numbers.
Proposed Transaction

The proposed transaction has two concepts

The First Concept is the negotiation of a Purchase and Sale Agreement ("PSA") between the Municipality and ACDA for the Municipality’s purchase of the Facility.

• This negotiation has been completed and a PSA is in near final form ready to be signed by the parties upon passage of the ordinance. No further action is required by the Mayor or the Municipal Manager or Acting Municipal Manager regarding the purchase price or PSA. The Municipality is entering into a contract with a third-party real estate consultant who will review the PSA and verify that the terms and conditions therein are in the best interests of the Municipality and will make such modifications that may be necessary. Additionally, the Municipality will submit by Assembly Information Memorandum (AIM) the third-party real estate consultants analysis.

• Purchase Price for the Facility is $18,000,000.
Proposed Transaction

The proposed transaction has two concepts

The Second Concept is the financing of the acquisition of the Facility by the Municipality.

Expertise to Execute the Financing of the Acquisition

- CFO Grant Yutrzenka, Bond Counsel Cynthia Weed, Public Finance Division Staff, KeyBank Bankers, Legal Counsel to KeyBank, Risk Manager, Department of Law, and US Bank Staff as Trustee have the expertise to complete the financing of the acquisition of the Facility. These are the professionals that will execute the financing of the Facility, most of whom were involved in the execution of the existing lease leaseback transaction for ACDA’s original purchase of the Facility.
- Cynthia Weed is responsible for writing the financing documents along with KeyBank’s Counsel.
Proposed Transaction

The proposed transaction has two concepts

The Second concept is the financing of the acquisition of the Facility by the Municipality.

The following five sections have been added to the Ordinance S-Version for clarification purposes.

Section 6. Purchase Price for the Facility.
Notwithstanding prior sections of this ordinance, the purchase price for the Facility shall be Eighteen Million Dollars ($18,000,000).

Section 7. Financing Costs.
Notwithstanding prior sections of this ordinance, the financing costs shall be paid for with the proceeds of the ground lease, net of the purchase price of Eighteen Million Dollars ($18,000,000).
Proposed Transaction

The proposed transaction has two concepts

The Second concept is the financing of the acquisition of the Facility by the Municipality.

Section 8. Responsibility.

Notwithstanding prior sections of this ordinance, the sole responsibility of managing the process to acquire the Facility is delegated to the Municipal Manager. The Municipal Manager is hereby authorized to sign all documents on behalf of the Municipality for the acquisition of the Facility, except any document that requires the signature of the Municipal Attorney (or Acting Municipal Attorney) or the Risk Manager (or the Acting Risk Manager).

Section 9. Report to the Municipal Assembly.

Notwithstanding prior sections of this ordinance, within 60 days of the closing of the acquisition of the Facility by the Municipality, the CFO shall report to the Municipal Assembly via Assembly Information Memorandum (AIM) the final terms of the acquisition.

Section 10. Authorization to Sell Real Property.

Notwithstanding prior sections of this ordinance, Anchorage Municipal Code (AMC) Section 25.35.060 requires Municipal Assembly approval for ACDA to sell real property with a value over Six Million Dollars ($6,000,000). The Municipal Assembly hereby authorizes ACDA to sell the Facility to the Municipality.
Proposed Transaction

Impact on Municipal Departments

Upon completion of the proposed transaction there will be very little if any impact on municipal departments. The Anchorage Police Department (APD) is already responsible for the operations & maintenance costs of the facility to include; utilities, janitorial and maintenance of the building. APD will pay the insurance premium directly to the insurer rather than reimbursing ACDA for the payment.
Proposed Transaction

The Municipality will borrow $18.3 million from KeyBank. The forecasted closing date is on or prior to August 31, 2023. The proceeds from the borrowing will be used on the closing date as follows.

1. Municipality will purchase the 716 Building from ACDA
   - A PSA is in near final form (Sales Price is $18 Million)

2. Municipality will use the 716 Building as collateral for a Lease/Leaseback Transaction with KeyBank
   - Terms and Conditions to be negotiated

3. ACDA’s Current Lease/Leaseback Transaction
   - Loan to be prepaid in full using proceeds from the Municipality’s proposed Lease/Leaseback Transaction with KeyBank
   - Existing Prepayment Penalty in ACDA’s lease – To be waived by KeyBank
   - Pledged collateral under the 2018 Lease/Leaseback Transaction will be released back to ACDA (Parking Lot & Parking Garage)
Section 3

Conclusion
Conclusion

**BENEFITS TO THE MUNICIPALITY**

In conclusion, we believe that the Municipality’s purchase of the 716 Building from ACDA will be in the best interests of the Municipality’s taxpayers.

- MOA eliminates a lease payment to ACDA that has no cap on the payment amount to be paid by the Municipality
- MOA will have an annual fixed payment to the lender for the use of the 716 Bldg for APD’s headquarters
- The loan payment will be based upon tax-exempt current market rates
- MOA will have annual savings for the taxpayers for the next fifteen years
- MOA will own the 716 Building at the end of the lease

The financing transaction

- Closing Date will be on or prior to August 31, 2023
Questions?