



# CITY OF RAPID CITY

## RAPID CITY, SOUTH DAKOTA 57701-2724

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November 14, 2017

Rapid City Common Council  
300 Sixth Street  
Rapid City, SD 57701

*Re: //CONFIDENTIAL// City School Administration Center Building Use //CONFIDENTIAL//*

Dear Council Member:

In July of last year, I wrote to you regarding the most recent CSAC building appraisal. At that time, I provided you with the appraisal for informational purposes only with the promise of updating you if any discussions with the Rapid City Area School District led to proposed changes in our building use agreement. Sixteen months later, discussions with the School District have led to such a proposed adjustment in our joint building use agreement, and it is time for me to formally update you.

As you are aware, our location at 300 6<sup>th</sup> Street has been continuously occupied over the last 30 years by both the City and School Administrations. Over the course of 30 years, the space needs of both administrations have surpassed our joint location. The initial building plan did not take into account projected growth, and over the last few years both the City and School have been in need of additional space that simply does not exist. The City has already commissioned an initial space study and in order to accommodate both the city and school staff into the future would require significant structural work to the building, including the likely completion of the third floor. We have creatively pursued temporary solutions to house necessary staff members such as creating offices out of hallways, storage spaces and meeting rooms. The next casualty if more space is not found will be the Community Meeting Room which will be converted into additional work space. Both administrations have exceeded the building's capacity, and we are running out of creative solutions to remedy this quandary.

As a result, the School Administration has advised they are pursuing a new location recently made available by Black Hills Energy at 625 9<sup>th</sup> Street. The YMCA will be purchasing the building from Black Hills Energy, and the School Administration wishes to purchase space at this location from the YMCA. In order to make this happen, the School is asking for the City to buy them out of their current agreement and ownership rights for 300 6<sup>th</sup> Street. All four mentioned parties – Black Hills Energy, the YMCA, Rapid City Area Schools Administration, and the City Administration - have been collaborating on this joint effort for several months, and we all find it to be mutually beneficial for our organizations and the community.



EQUAL OPPORTUNITY EMPLOYER

A move from the School Administration to 625 9<sup>th</sup> Street will fill vacant space created by Black Hills Energy's move to their new headquarters on Highway 16. Occupying space adjacent to the YMCA, and owned by the YMCA, will further foster the relationship between early childhood education and Rapid City's School Administration. In addition, this move will provide the much-needed space requirements to the School Administration for present use, as well as accounting for projected future growth. At the same time, having the School Administration vacate 300 6<sup>th</sup> Street will also allow the City to have enough space for present and future needs.

The space made available by the School Administration's departure will allow the City to consolidate additional staff to 300 6<sup>th</sup> Street. At present, we have eight employees from Code Enforcement, Community Development and RSVP housed at the Milo Barber Center. In addition, we are preparing for future Human Resources FTE's, which were approved in the 2018 budget process. Relocating the School staff will free up 46 work stations for such a consolidation, while also allowing plenty of room to grow. Such a consolidation will free up approximately 2,000 square feet at the Milo Barber Center, which the City would lease out for additional revenue. On the same note, a total of 60 allocated leased parking places are currently dedicated to the School. These leased parking places rent for \$34/month, and have an annualized revenue potential of \$24,480 for the City.

Per the original joint use contract between the City and the School Administration, the divided use/ownership of 300 6<sup>th</sup> Street equates to 65.83% to the City, and 34.17% to the School. A 2016 appraisal, which included deferred maintenance, was prepared by Simpson & Associates providing an "as is" value-in-use opinion for the building at \$9,255,000. This value included \$2,635,000 for land and \$205,000 for site improvements. When these figures are subtracted from the overall value, the figure \$6,415,000 remains for the building value.

In 2009, a similar appraisal was prepared by Simpson & Associates, but deferred maintenance was not taken into account. This appraisal for the building was categorized at "as is" condition – excluding furniture, fixtures and equipment, which came to \$14,995,000. This value included \$2,830,000 for land and \$175,000 for site improvements. When these figures are subtracted from the overall value, the figure \$11,990,000 remains for the building value.

The average building value figure for the 2016 & 2009 appraisals equates to \$9,202,500. Deducted from this figure are costs for deferred maintenance, or maintenance projects that have yet to be completed, such as air handling, boiler system repairs and lighting improvements. After said deductions, the agreed upon value of the CSAC Building is \$8,500,000. Therefore, the ownership breakdown to the City at 65.83% equates to \$5,595,550, and the School's ownership at 34.17% equates to \$2,904,450.

The City and School Administration have agreed the School Administration will sell their ownership interest to the City for \$2,904,450. Multiple funding options for this proposed buyout have been prepared by the staff with a combination of available funding sources listed to include:

1. Vision Account

\$692,957	Unused ATTA PowWow Facility
\$1,707,527	Unused Downtown Parking Ramp
\$599,516	Undesignated Cash
<i>Total = \$3,000,000</i>	
  
2. CIP Account

\$1,700,000	Undesignated Cash
\$1,300,000	Annual Payments of \$260,000
<i>Total = \$3,000,000</i>	

3. Joint Vision/CIP Fund (multiple combinations available)

\$1,500,000 Undesignated Cash CIP

\$1,500,000 Unused Downtown Parking Ramp

Total = \$3,000,000

Of these three funding options, my preference is the combination of joint Vision/CIP funding. I believe CIP funds are the most appropriate funding source for the purchase of this building. Furthermore, the combination of funding with partial Vision Funds will be appropriate since this portion was once designated for parking infrastructure, now making these specific monies undesignated. This is my recommendation; however, I understand your funding preference might alter from mine to include a different combination of funds.

In the event you approve of purchasing the School's ownership interest of the CSAC building, there will be additional operational expenses. Utilities, insurance, maintenance, and janitorial costs will total approximately \$217,025 annually. These expenses will be shared among the building resident departments on a square footage calculation.

Finally, once the School Administration has moved, our CSAC space study can be completed. The first phase of this study focuses on remodeling to accommodate both the City and School Administrations. The second phase of the study would focus on fitting City staff into the building in order to account for current and future space needs. More importantly, we would focus the study on rearranging City staff to better accommodate our customers.

I realize this letter contains a great deal of information for you to digest, but I want to provide you with as much detail as possible to assist you in reviewing this business decision. A lot has changed since the City School Administration Center was created in 1987, and this decision to separate organizations will allow us to usher in another three decades. I can assure you the City staff, the School, and I all believe now is the appropriate time for such a buyout and transition to occur, and we have all approached this matter in a diligent fashion over the last several months.

I hope we are able to garner your support for this endeavor, and I request that you keep this matter confidential until the afternoon of November 21<sup>st</sup>. At such time, a joint press conference will take place at the YMCA with all parties mentioned in this letter.

Please let me know if there are any questions I can answer in the meantime.

Sincerely,



Steve Allender, Mayor  
Rapid City, South Dakota

cc: Rapid City Common Council  
Dr. Lori Simon, RCAS Superintendent  
Val Simpson, Black Hills Energy  
Roger Gallimore, YMCA