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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR
SUBJECT: CONSIDERATION TO PURCHASE 1201 1ST STREET NE
DATE: APRIL 29, 2026

EXECUTIVE SUMMARY:

Following the 2023 Facilities Study, the City of New Prague identified a critical need to address aging infrastructure at City Hall. While the initial roadmap suggested a 5+ year wait for renovations due to the recent police station bonding, a unique opportunity emerged in April 2026 to acquire the property at 1201 1st Street NE. This report evaluates the fiscal and operational advantages of transitioning to this modern facility compared to the estimated \$1.2 million costs (2023) required to maintain the current, landlocked City Hall at 118 Central Avenue N.

The "Sunk Cost" of Status Quo: 118 Central Avenue N

The current City Hall serves basic needs but fails to meet modern "desires" for a welcoming, transparent, and efficient civic hub. The 2023 study identified \$1.2 million in mandatory maintenance (HVAC, roof, tuck-pointing, and water intrusion) required simply to keep the building functional. This investment is a "sunk cost" that does not resolve fundamental flaws including:

- **Accessibility & Layout:** A fragmented multi-floor layout with "half-floors" that are inaccessible to many residents except through specific side entrances.
- **Operational Inefficiency:** Residents must visit multiple counters for permits and licenses, requiring higher staffing levels and hindering a "One-Stop-Shop" experience.
- **Energy Liability:** High monthly energy costs (\$300–\$2,300 more than 1201 1st St NE) driven by deteriorating single-pane windows, a patchwork of aging HVAC units, and decades old building practices.

The Strategic Alternative: 1201 1st Street NE

Similar to the successful 2023 Parks Garage acquisition—which saved the City 65% over a new build—the 1201 1st St NE facility offers a modernized, forward looking solution:

- **Efficiency & Accessibility:** A single-story layout with no steps, featuring a geothermal HVAC system (pumps replaced in 2024) that reduces energy use by over 50%.
- **Operational Design:** An open-floor plan that allows for a centralized lobby and a modern Council Chambers with seamless hybrid meeting integration, efficient use of staff space, and 51 on-site parking stalls.
- **Cultural Alignment:** The building features traditional Czech architectural elements that pay respect to New Prague's heritage.

Financial Comparison & Funding Strategy

The transition is not only operationally superior but fiscally prudent.

- **Comparative Cost:** For an estimated total investment of \$2.2M–\$2.7M (purchase plus needed renovations), the City acquires a modernized, energy-efficient asset. This is only roughly double the cost of the \$1.2M in repairs required to continue operating the current, inefficient building.
- **Cash-Flow Strategy:** Through disciplined "City Facility" reserves, interest earnings, and higher than expected permit activity, the City has \$1.8M in available cash to make a full cash offer, avoiding new taxpayer debt.
- **Internal Financing:** Remaining renovation costs can be funded via an interfund loan from the Sanitary Sewer fund (\$8.2M balance). At a 4% interest rate, the City would essentially pay interest back to itself, keeping community funds local while matching market returns for the Sanitary Sewer fund.

Conclusion & Recommendation

Investing \$1.2+ million in the current City Hall leaves the City with the same outdated facility. Transitioning to 1201 1st St NE secures a professional, accessible, and energy-efficient headquarters that supports New Prague's future growth.

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Full Report:

In 2023, the City of New Prague completed a Facilities Study that was over a year in the making, outlining the condition of current City facilities and a recommendation with how to proceed. This was the first comprehensive facilities study done since 2005. Some of the major recommendations included rehousing the police department in a new facility, finding a new home for the Parks Department, major renovations for the Golf Pro Shop, and addressing long-overdue needs for City Hall. With the 2023 study in hand, the City Council voted to move forward with construction of a police station to start working on the list of needs.

While the planning of the new police station was taking place, a facility came up for sale Spring 2023 on the west side of Highway 21 near the Fire Station. With a new home for the Parks Department costing an estimated \$3,700,000, the City determined that it would be worth the diligence to at least explore the possibility that this facility would may fit the needs of the City as a Parks Garage. After a quick due diligence period, and with cash in reserves for future facility needs, the City purchased 412 5th Avenue NW for \$1,150,00. After spending about \$100,000 to renovate the property so that it would function exactly as we needed it to, the City was able to acquire a Parks Garage that should meet its needs long into the future at an estimated 65% discount from a new facility. On top of that, this was able to be done with reserves set aside for future City facilities and taxes did not have to be raised. Following this acquisition, attention once again shifted back to the primary focus coming out of the 2023 Facilities Study, the Police Station.

Much like the opportunity to meet the needs of the City at a fraction of the estimated cost arose in 2023 for the Parks Department, another opportunity may be before the City again. With the City tentatively looking 5+ years into the future at any major renovations and improvements to the current City Hall due to having just borrowed for the Police Station, in April 2026 the City became aware that a facility on the east side of town was for sale. This facility is located at 1201 1st Street NE. Built in 2001 as an office building, the property was purchased in 2009 by a local church and has operated as such since that time. Much the same as the property for sale three years ago, the City decided it was worth a quick due diligence to see if this building would be worth pursuing as an opportunity to unexpectedly meet a need as a potential City Hall.

Many considerations and thought processes should go into any move, especially one as large as considering a new location for City Hall. Thought should be given to what a City Hall needs to be as well as what a City Hall is desired to be, in addition to meeting the basic needs. Then, evaluations can be made on existing facilities and future facilities to see what space best meets the needs of a modern, growing City.

Traditionally, City Hall is a place where the public can visit to hear actions by the City Council and various boards as well as apply for permits and licenses needed to operate within the City. To that end, a City Hall must have a large area that can serve as the City Council Chambers, a place where people are able to observe the actions of the City Council and give testimony when appropriate. This place must have an area that the City Council can deliberate and an area for City staff and other experts to be seated while they wait to provide guidance to the City Councilmembers. A City Hall must also include a counterspace that allows residents to apply for permits and licenses. This would be an area where they are able to ask questions with space for being able to fill out the permit at the counter if need be. When not directly responding to residents, City staff must have a place they are able to complete their work. Parking is an important feature of City Halls, because the Council, staff, and residents who visit City Hall need a place to be able to park their vehicles. Finally, a City Hall must also have space for storing the numerous archives that Cities are required to store and keep. In Minnesota, Cities are required to retain vast amounts of information. There should be adequate space for this. All of these spaces should then be secure and safe.

While the "needs" of a City Hall focus on the mechanics of government—security, offices, and council chambers—the "desires" are what transform the building into a place the community actually loves and uses. It is in this shift from a utilitarian building to a more monumental structure that civic pride is born. In 2026, a City Hall is more than just an office building. In many ways, it also becomes a central hub for the City, balancing the need to efficiently meet the needs of an innovating and progressing City while also feeling

welcoming and transparent. It must be seen both as a source of local pride while also not being over the top and wasteful. While a utilitarian building provides counters for residents to visit, a more modern City Hall must be as much of a “One-Stop-Shop” as possible, where a resident can pay a utility bill, apply for a permit, or find a department without wandering through multiple floors or having to stop at multiple counters. It must have strategic digital integration, allowing residents to access forms, check meeting agendas, or receive general City announcements without the need to contact City staff while still providing the option for that face-to-face interaction if a resident desires. In a modern City Hall, the council chambers are not just a place to observe and give testimony. The council chambers and other spaces within City Hall must be flexible and allow for moving furniture and rearranging spaces so that they are able to double as community event space or training areas. Within that flexibility, those spaces must also be flexible with attendance of the uses, allowing seamless hybrid integration of meetings and public testimony. City Hall must be highly accessible. Not just ramps, but door openers, height varying counters, and digital assets that meet the needs of all residents. A modern City Hall should be a model for the community, incorporating energy-saving initiatives and building practices, with a design that seeks to reduce stress for visitors and staff. City Hall should then instill civic pride, using itself to tell a story instead of looking like another office building. This must all be done with both security and transparency in mind, keeping elected officials and staff safe without the building feeling like a fortress.

Once it is determined what is needed in a City Hall and what is desired, the next step would be to assess potential buildings as to their ability to meet those needs. The current City Hall at 118 Central Avenue N meets the basic needs of a City Hall. There is space on the second floor for the City Council and other boards to meet. That space has adequate seating for those who wish to attend and give testimony. The current City Hall also has counter space where the public is able to apply for permits and licenses, with space to fill out paperwork as needed. There is adequate parking, both for staff and for the general public. And City Hall has a large basement that is more than adequate for holding the many archived files the City is required by State Statute to maintain.

While 118 Central Avenue N is able to meet the needs of a City Hall, it does not meet the modern “desires” of a City Hall well. There are multiple counters within City Hall that residents and builders must visit to obtain the various licenses and permits that are needed. While those counters are close to each other, it is two separate stops that someone may have to make. It also means for staffing that two staff members are needed so that each counter has someone available. Digital integration of City Hall is done mostly through the website. There are no areas around City Hall that are currently wired and utilizing announcements or other digital needs. Moving into the City Council chambers, the space is certainly flexible, in that staff seating is done at folding tables that can be moved and the audience seating is with stackable chairs. Hybrid integration is less ideal. Off the Council dais, microphones are handled through three wireless mics that are movable. Video is also centered on the Council dais, so while audio is able to be more flexible, any digital video is not able to be used outside of formal meeting settings where the main body is seated at the dais. While there is an elevator that services three of the four floors at City Hall, City Hall could be far more accessible. One floor, which has the City’s lone conference room and some office space, is only accessible via the south entrance if a person is not able to use the stairs. Also, the two service counters are the same height, accessible only from a standing position by the public. While the current City Hall is in an older building that could be considered historic, and is certainly valued as an older structure by many, the City has not taken any initiatives within City Hall to use modern technology for energy efficiency or as a model for other building practices. More recently, the City has begun updating the security at City Hall, including installing carded door locks at many important locations to be able to secure City Hall better.

Looking at 1201 1st Street NE through those same lenses of needs and desires, the 1201 1st Street NE location does provide two large open areas that would be able to be used as City Council Chambers or as large meeting spaces for other events. Those spaces could be outfitted with furniture and designed in a way that makes the spaces easily flexible for the needs of the user, whether it is City Council meetings or election administration. There is also a front lobby area that, following some minor renovations to install desks and counter space, would be able to serve as a singular point of contact for all licenses, permits, and utility billing questions. The

building has more than adequate parking to meet the City's possible needs, with 51 spaces between two parking lots on the site. Finally, there is space in a small basement to be able to house City files as needs arise.

While the building does not currently have the counter space needed or the furniture needed for a City Hall, the 1201 1st Street NE building is fairly accessible in its existing layout, allowing it to be adaptable without large scale renovations. It does not currently have door openers, but the entire building is located on a single story without any steps, except for the basement that is primarily used to access the utilities of the building and would not be publicly accessible. Accessibility features would need to be part of the initial renovation process that adds counters and door accesses. Similarly, the building will need to be updated for the technological needs of the City and can be designed as needed. The building's HVAC system is centered around a geothermal unit, which are able to reduce energy use by over 50% in some cases, both reducing the use of energy and saving the user money in utility costs. Comparing month to month between the two structures over the last couple years, City Hall spends from \$300 to \$2,300 more on energy than 1201 1st Street NE. The building also has historical Czech architecture elements, with pay respects to New Prague's background. Security, similar to front counter and City Council Chambers layout, would need to be addressed. As a church, the building is more open to the public than what the City would desire. Keycard doors, strategically placed furniture, and other measures would likely need to be implemented.

In addition to looking at whether the two buildings are able to meet the needs and desires of a City Hall, the City also should consider the current conditions of the buildings. Coming out of the facilities study completed in 2023, maintenance needs were identified for City Hall. Some of the maintenance needs listed in the study include updating an HVAC system at the end of its life, replacing a roof that is near the end of its life, performing a tuck point on the brick exterior to shore up deteriorating mortar joints, fixing areas on the exterior walls that are showing water intrusion, and replacing the single pane windows that are deteriorating. These large needs are in addition to the accessibility and cosmetic needs. These upgrades would continue the building functioning as it is but performing needed maintenance on the building. It was also recommended that certain portions of the building be removed, in part due to their utility to the City versus the cost to maintain or repair. One such area would be the garage at the far east side of the structure. An estimate obtained by staff in the spring of 2026 estimated the removal to cost about \$100,000. The abatement of potential asbestos would be on top of that. The portion of the building that currently houses the police department would also need work, similar to the old portion of City Hall, both for maintenance and renovations for use.

In addition to the mechanical and structural needs of City Hall, as stated above, the building's age and layout also present a situation that isn't optimal. There are currently multiple counters, floors accessible only by using a different entrance, and one lone conference/meeting room. Using blueprints, staff estimates that of the 8,700 SF that makes up the two main floors of City Hall, only 5,380 SF of that is used for work and meeting space. Large amounts of floor area in City Hall are used for hallways, stairwells, etc. According to Wold Architects when performing the 2023 facilities study, expansion of office space will be needed in the future to accommodate future employee growth, up to an estimated 83% in building size to 18,519 SF of gross space. The City Hall site is fully built out, so any expansion of the building would require tear down of existing structure. These layout difficulties should be considered. But it isn't just layout difficulties. Taking the existing single pane windows and patchwork of finance/AC units that have been added over the years as the buildings needs have changed as a clue, it is very likely that City Hall would not score well on an energy efficiency rating.

While City Hall does have maintenance needs, floor plan challenges including accessibility, and is not highly energy efficient, it does have positives. First, City Hall is located downtown. While not always the case, City Halls and downtowns seem to be synonymous with each other. Downtown is generally thought of as the hub of business and City Hall is part of that hub. It is in a great location. City Hall is also located in an old, brick building that many consider to be historic by nature of its almost 90-year-old history. While it has maintenance needs and has been changed through previous renovations, targeted investment would be able to restore it to its former self while also modernizing it for today's municipal needs. City Hall also has more than enough

parking for present and future uses. Finally, City Hall is paid for. There is no debt outstanding on City Hall. The City owns it.

Now let's consider the condition of 1201 1st Street NE. The 1201 building is much newer, built in 2001. As such, the facility was built to a new building code and has many of those building practices built into. The HVAC system uses a geothermal pump, with the pumps replaced in the last couple years, extending the need to replace out about twenty years from now. Research states that the pipes used in the geothermal process are expected to last about fifty years before replacement is needed as well. The building was also designed around that system, meaning there is not a patchwork of furnaces and air conditioners feeding the building that have been added over the years. The roof material is copper, which has a life expectancy of over 60+ years, with some lasting twice that. On preliminary review, the brick exterior is in good shape, not needing any immediate major maintenance. If purchased, the City would likely want to consider painting and flooring to give that a refresh while the building is empty.

Beyond mechanical, the general layout of the building is conducive to a City Hall's needs. Overall, the space is utilized a little more efficiently than City Hall, with one primary hallway and no stairwells. A similar assessment of blueprints for 1201 shows about 6,900 SF of space used for work and meeting space, compared to an overall size of about 9,000 SF on the main level. A couple large rooms are available for Council meetings or training space and a large lobby area that could be used for permitting and licenses. There are a couple larger rooms for general staff, with four or five office-sized rooms for both department leads to have an office as well as smaller meeting room space. There is a large, modern conference room for larger meetings, and a modern kitchen that is large enough to be used as an employee breakroom. This building, like City Hall, is also smaller than the projected needs listed in the 2023 Facility Study, about half the size of the estimated gross floor space needed for future growth. Unlike City Hall though, there is space to expand on the lot as needed, without further demolition or acquisition of land necessarily needed. As stated, there would need to be some work done to the building, mostly in the Council space and lobby area. This work would consist of adding doors for security, building out the Council chambers with appropriate furniture, adding bathrooms that were removed, and building out the lobby area. There would also be a need to fully outfit the building with IT needs so that the meeting spaces and offices are fully accessible in a modern world where more meetings happen virtually than in person. The advantage 1201 has for installing IT equipment is that there is crawl space throughout the whole building, which allows for cable to be run anywhere any brought up through the floor, for a clean look that is fully wired.

When considering the \$1.2m estimate in 2023 to address City's maintenance needs against the \$1.7m to purchase 1201 plus an estimated \$500k to \$1m in renovation needs to modernize and equip, I believe that 1201 makes the most sense going forward for the City. If the City were to spend \$1.2m to offset the maintenance costs of City Hall, it would still be essentially the same facility that it is now but with new windows. There would still be multiple floors, one of which can only be accessed by the south entrance for those who are not able to use the stairs. There would still be a patchwork of HVAC units. Removing the western garages would still need to take place and removal or major renovation would likely need to happen to the old police station to modernize it and make it efficient, with an additional elevation change in that space to take into account that is, again, not accessible except by using a western entrance to the building. For a little over double the money to \$2.7m (using the high estimate on renovation costs at 1201), the City is receiving a building that is more modernized, has a better and more efficient layout with an increased amount of usable space, is more accessible, and has lower utility costs. It is also a building that uses traditional Czech architecture elements. Looking to the future the building is able to be expanded without acquiring additional land or knocking down large portions of the building and maintenance items like the roof will last long into the future, allowing the City to begin planning now so that future generations will be able to appreciate a well-maintained building.

Finances are a big part of this. With the police station bond coming online fully in 2027, how can the City afford a \$1.7m building with up to \$1m in renovations? For a number of years now, the City has been putting away small amounts of money each year for City Facility projects. This was the source of funds that allowed

the City to purchase the new Parks facility in 2023 without raising the levy, and is the same source that would be accessed now. At the end of 2025, the City had \$1,183,560 available in funds for City Facility projects. Due to factors such as high interest earnings, above expected building permit revenues, and below average labor spending due to staff turnover, the City also will have \$447,579 in additional funds to put towards City Facilities. With \$243,668 in a tax abatement clawback from a economic development project in 2017, the City has the required funds to make a full cash offer on 1201 1st Street NE.

But purchasing the building is not the full story. As I have already mentioned, there are renovations that need to be done. Paint and floor, building out the council chambers and lobby, outfitting for IT needs, and addressing small security and accessibility updates, the building will need some work before it is able to be fully utilized. Looking at what cash would remain available, there would be \$94,807 remaining in available cash mentioned previously. In addition, the City has pledge \$390,000 in cash to potential contingencies to the police station being built. To this point, there are still significant contingencies that have not been spent and there is a real possibility that the City's \$390,000 will not be needed and could be redirected back to City Hall. For available cash, the last available source is the 499 Capital Projects fund. This fund currently has \$268,967 available.

Should the need be, the City would be able to lend itself the funds needed from the Sanitary Sewer fund. This fund currently has a healthy fund balance of \$8,237,298. There are about \$3m in expected maintenance projects for the Wastewater Treatment Facility. With its fund balance, the Sanitary Sewer fund would be able to support an interfund loan of up to \$1m to the City for a 10-years. If the City were to set the interest rate for the loan at 4%, this loan rate would match or beat what it would be able to get on the open market for a loan, and would match or beat what the Sanitary Fund is able to get in return on investments, creating a win/win scenario for both the General Fund and the Sanitary Fund. If it needed to borrow the maximum \$1m over 10-years with a 4% interest rate, the annual repayment would be \$123,291. The fund for annual payments would come from interest earnings. Unlike bonds, the City would be able to repay itself early so as not to incur interest should it realize years of increased revenue such as 2025. Total interest, if paid over ten years, would be \$232,909 to the Sanitary Fund for the loan, keeping all interest payments in the community to be spent for community good.

Following a walkthrough of the property, the City Council met in closed session on April 20, 2026, to discuss the property and whether it would like to make a tentative offer. During closed session, the City Council discussed the needs of the City and whether 1201 would be worth investing in to meet those needs. Two days later, the seller of the property tentatively accepted the offer for the City to purchase 1201 1st Street NE. For the offers to be formal, the City Council will need to pass a resolution in an open meeting. This will be placed on the agenda for the May 18, 2026, City Council meeting for formal discussion and vote.

[Historic City Hall Report on Following Page]

Historic City Hall:

A separate, but equally important question that will need to be answered if the City decides to move forward with 1201 1st Street NE will be “what comes next for old City Hall?” This is an important question that should be wrestled with community-wide, because this building has been around since the late 1930s. While it has changed uses, housing everything from a Fire Hall to a jail and now City Hall, the building has been a downtown staple for almost 90 years. So what are the options for the building?

During the facility study that was wrapped up in 2023, it was determined that an estimated \$1.2m would be needed to perform deferred maintenance on the facility. This included a roof, HVAC, tuck pointing the bricks, and replacing the single-pane windows. This estimate did not include an internal renovation or the cost of demolition should any portions of the building be removed. An estimate from a contractor for demoing the old Parks Garage was recently received for \$100,000, not including any potential asbestos work. The estimate within the facility study was that the demolition would cost \$150,000. It is possible after asbestos abatement, if present, that the City spends more than the estimated \$100,000.

I speak to this because, as much as this building has been a staple in the downtown, a real conversation should be had about the value of the building to the City versus the amount of money needed to rehabilitate the building. Speaking to the architect who did the study, it was their opinion that if anything was to be saved, it would be the two-story structure on the east side of the property. The old police station and old parks garage did not have the same historic value, according to them, and was so far degraded, or had enough challenges with grade changes, that it was not worth considering that portion as savable in a usable context. But to even just consider the east portion of the property for saving while demoing the remainder still means that the City would need to pay for that demolition work and then exterior maintenance on the remainder. Taking the estimated costs for maintenance with the estimated cost for removal of the old parks garage means that costs would likely climb above \$1.5m, potentially much higher. Then updating the remaining facility internally would require additional funds. Would the City look at restoring the building to its current office-style use, but updated, or look to revert to the original use from almost 90 years ago?

I believe the City has two primary choices before it: 1) Sell or transfer the property to another entity for re-use, or 2) Demo the entire property to create a bare lot. In either instance, the City should reach out to a property value expert to help gauge the value of the property so that it is able to better determine the likely value.

Of note, should another entity own the property, there is grant money available for rehab use. The problem the City runs into for City Hall is that money isn't generally available for City Hall type uses. Commercial or housing re-use projects though have more options. Whether the property remains under City ownership or not, it is a very good location with access to both downtown and parking that would likely make the property valuable. How that value compares to cost of using the existing facility though remains to be seen.