



118 Central Avenue North, New Prague, MN 56071
phone: 952-758-4401 fax: 952-758-1149

MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR
SUBJECT: CONSIDERATION OF PURCHASING 1201 1ST STREET NE
DATE: MAY 14, 2026

Two weeks ago, I presented the thought process that the City has gone through as it considered submitting an offer to purchase 1201 1st Street NE after the owner put the property on the real estate market. Ultimately, an offer of \$1.7m was made to the New Day Church to purchase their building and that offer was tentatively accepted with a contingency period ending on May 25th. Part of that contingency was the City having an appraisal performed, having an environmental assessment done (otherwise known as a Phase 1) on the property, and performing a building inspection on the property.

The City contracted with HPS Appraisal Services to perform the appraisal on the facility and to get an estimated market value. Within that agreement, HPS agreed to have an appraisal completed by the time the City Council met on 5/18. The City contracted with Landmark Environmental to perform the Phase 1 environmental assessment on the property. Turn around was guaranteed by 5/20, with the hope to get a final product sooner. This was dependent on how quickly the MPCA was able to complete their portion of the assessment. Finally, City staff performed the building inspection, using their professional opinions to inspect the property so that we are aware of any conditions that need improvement.

City staff did not have the appraisal report or the environmental report in hand at the time this memo was released. Those will be shared with the Council once they are received. For the building inspection, a short presentation has been provided by the Building Official, which has been included in the packet as Attachment A. In whole, there were no glaring issues found with the facility. The Building Official does recommend that an HVAC Specialist perform a tune-up of the geothermal system and if possible, explain some general maintenance measures that city staff can take to continued care of the system. Other items were smaller, house keeping items that were found. Also, as part of the due diligence, staff reviewed the facility to get a better idea of estimated renovations that would need to take place. A write-up of estimates has been included as part of the packet (Attachment B), and includes everything from the potential renovation costs and mechanical tune-ups to fees for an architect to draw-up building plans and help the City best layout the front lobby and City Council chambers for efficient use and flow for years to come.

In total, staff is estimating \$647,450 in renovation costs, which includes a 15% contingency. Previously, I shared a roadmap of the financing for this project and I have included an updated copy of that (Attachment C). Within this road map, I lay out a path to not only pay for the new facility with reserves, but to also pay for the renovations with reserves. In addition to this, I show that interest will be able to meet the amounts that we budgeted for 2026, even with the reduced capital earning interest, and that budgeted interest will not need to drastically change in the future to account for lost reserves. Finally, I show that if the City needs to borrow from the Sanitary Sewer fund to finance up to \$1m in renovations, which would be a 50% increase in projected

spending, the annual repayment would be about \$37k at a 4% interest rate after factoring in the ability to use the \$390k that was set aside for contingency on the new Police Station. Unlike borrowing through bonded projects, this would allow the City to prepay without penalty during years when revenues would be higher than expected. It would also allow the City to borrow at a very competitive rate and for the Sanitary Sewer to receive a very competitive return on its reserves.

An advantage the City has going forward is that all renovation work can take place at a time that is convenient for the City because there is not a need to immediately move into 1201 1st Street NE. The City would be able to choose what can be contracted out and what is able to be done by staff. This gives the City flexibility that I hope can help us save money.

If approved, the next step in this process would be engaging an architect to help design the front lobby and City Council space. While staff may have the ability to complete some of the renovation work, an architect would be better in-tune with how to design the spaces appropriately. After working to develop the layout of the front lobby and City Council chambers, staff would determine the portions that we are able to complete and what would need to be contracted. Staff may then use the architect to help coordinate purchases of any IT equipment or furniture that would be needed above and beyond what we are able to use from the existing City Hall. The intent would be to transfer as much furniture and equipment as possible from the existing City Hall to 1201 1st Street.

I have included a resolution (Attachment D) drafted by City Attorney Scott Riggs for the formal approval of the Purchase Agreement (Attachment E). I have also attached a resolution (Attachment F) that is a reimbursement resolution for this project. While the City has no intentions of bonding for this project, passing a reimbursement resolution covers the City if, down the road, a decision is made that bonding for the project is needed. The City generally passes reimbursement resolutions for all major projects it does so that it is able to use bonding to cover pre-project costs that have already been incurred.

Recommendation

- 1) Staff recommends approval of Resolution #CC-26-05-18-03, formalizing the purchase of 1201 1st Street NE.
- 2) Staff recommends approval of Resolution #CC-26-05-18-04, a resolution that allows the City to reimburse itself for project related costs in the future, should it choose.
- 3) Finally, staff recommends directing staff to pursue quotes for design work on the new space.