STAFF REPORT
City of Lancaster

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02/08/11	
MVB	

Date: February 8, 2011

To: Mayor Parris and City Council Members

From: Jason Caudle, Deputy City Manager

Subject: **Purchase Agreement for Property at Division and Avenue K**

Recommendation:
Authorize the City Manager to approve the Purchase Agreement with Mr. Fred Bahari (Seller) and the City of Lancaster for the purchase of 19.21 gross acres of commercially zoned property on the corner of Division and Avenue K in exchange for impact fee credits in the amount of $2.2 million.

Fiscal Impact:
The City's current impact fee per equivalent three bedroom single family residential unit is $11,034. This agreement is equivalent to 199 three bedroom homes being built. We currently permit approximately 250 homes per year. In essence the city will acquire a $2.2 million asset in exchange for future revenue. The purchase price has been based on a negotiated agreement using two independent appraisals; one valued the property at $1.51 million, while the other valued the property at $2.5 million.

Background:
The City of Lancaster has the opportunity to acquire property on the corner of Division and Avenue K in exchange for $2.2 million in impact fee credits. The use of impact fee credits allows the City to acquire the property without depleting the City's cash reserves. The property is 19.21 gross acres located on the corner of Division and Avenue K, just north of the Lancaster Business Park. It is commercially zoned and completely developed with the necessary infrastructure for development. The property provides for a number of different opportunities which may arise as development continues in east Lancaster. The property's proximity to drainage, transportation, and residential properties allows for many possible public uses. In addition, its proximity to the Lancaster Business Park provides for future economic development activities as they arise.

The City has used impact fees for the acquisition of property on a number of occasions. This method has provided the City with a unique method of acquiring property without the use of cash. The key to this type of transaction is that the property must be used for purposes in which the original fee was approved. For instance, if drainage funds are used to acquire the property, the property must be used for drainage facilities. If not used for that purpose, the funds used to purchase the property must be reimbursed to their respective accounts. As part of the exchange, the seller will be provided a "Fee Credit" in the amount of $2.2 million. The owner of this fee credit can then offset the cost of future construction, or remarket the credit to another development partner to offset their respective development costs. The process of re-marketing the fees usually results in a significant discount from the owner of the fee. This risk is born by the fee credit owner, not the city. Also note that the fund balances below will not be impacted by this transaction. However, future fees derived from the seller's credits will not be deposited into these funds until the seller's entire fee credits are absorbed in the market place. The City's current fee balances in each of our funds are as follows:

Developer Fee Available Fund Balances, 12/15/10		
Fund Number	Description	Funds Available
213	Parks Development	428,587.48
217	Signals - Development	1,314,460.06
220	Drainage - Development	1,892,078.74
224	Biological Impact	32,559.88
226	USP - Operations	(2,566.24)
227	USP - Parks	816,612.49
228	USP - Administration	109,414.52
229	USP - Corporate Yard	124,685.47
230	Mariposa Lily Fund	53,267.47
232	Traffic Impact Fund	1,827,606.79
Total Available		**6,596,706.66**