

**SUMMER VILLAGE OF NORGLLENWOLD  
SPECIAL MEETING AGENDA  
OCTOBER 27, 2020 @ 9:00 A.M.**

- A. CALL TO ORDER**
- B. ADOPTION OF AGENDA**
- C. REQUEST FOR DECISION**
  - 1. COUNCIL & LEGISLATIVE
    - a. New Building Agreement
- D. ADJOURNMENT**

## **Summer Village of Norglenwold**

### **Council and Legislation**

#### **Request for Decision**

#### **Agenda Item: *Building Purchase Agreement***

#### **Background:**

In 2018 discussions started at the Joint Service Committee (JSC) about the need for potential renovations to the existing administration building or a potential purchase or construction of a new building as the current space does not serve the needs of the public. A subcommittee of the JSC was struck with the directive to research available options. This subcommittee eventually recommended that the five Summer Villages purchase the building at #2 Erickson Drive in Sylvan Lake. The Summer Village of Jarvis Bay offered to purchase the building using 100% MSI funding, subject to agreement that the proceeds from the sale of the current administration office be rolled into the new office project. A motion was given from the 4 other Council's in support of this, with a new building ownership agreement to be created.

Attached is a memo and proposed financial plan for the new administration office from the Summer Village of Jarvis Bay. This memo outlines the current and potential complications, along with a financial and contractual project proposal that will be used to create the new building ownership agreement.

#### **Options for Consideration:**

- 1) Direct administration to move forward with writing the new building ownership agreement based on the proposed financial plan.
- 2) Direct administration to move forward with writing the new building ownership agreement based on amendments to the proposed financial plan.

#### **Administrative Recommendations:**

- 3) That Council direct administration to move forward with writing the new building ownership agreement based on the proposed financial plan.

#### **Authorities:**

MGA 207(c) "advises and informs the council on the operation and affairs of the municipality"



# Memo

**To:** Tanner Evans (Summer Village Administration)  
**Copy:** Jeff Ludwig (SV of Norglenwold)  
**From:** Bob Thomlinson **Version/Date:** Version 1.0 October 12, 2020  
**Subject:** **Proposed Financial Plan for a New Administration Office**

In 2018 discussions started at the Joint Services Committee about needs and potential renovations to the current Administration office space. Purchasing a new office and expansion into another condo bay in the condominium complex were also options. SV Jarvis Bay agreed to fund the renovation/expansion costs using MSI grant funding that was at risk of expiring. In May 2019 SV Jarvis Bay approved a motion to purchase and renovate another condo bay in the current complex to confirm our commitment. A rough cost estimate was put forward based on the original costs for the current Administration office (\$500,000). Approval of the motion established a funding base so that Administration could conduct formal discussions with other condo bay owners and renovation contractors. Various options were considered and eventually this proposal was determined to be too expensive while not really meeting the identified needs of Administration.

The Joint Services sub-committee on building expansion recently recommended that the five Summer Villages purchase and renovate the former Regency Flooring building (2 Erickson Drive) in Sylvan Lake. This building includes one acre of land. In a special meeting of Jarvis Bay's Council on July 28, 2020, a motion was approved to fund the purchase and renovations for this building subject to agreement that the proceeds from the sale of the current Administration office be rolled into the new office project too. This motion was passed based on the rough budget estimate presented by Administration. The estimates included \$850,000 for the purchase of 2 Erickson Drive, \$350,000 for improvements to the land and building and approximately \$300,000 as sale proceeds from the current office condo bay.

This memo outlines the various complications to be considered and proposes a financial and contractual plan by which we could proceed with this project, subject to agreement by all five Summer Village Councils and Administration.

## 1. Current and Potential Complications:

- a) The current office condo bay, including renovations, was budgeted at \$500,000 but completed for a total of \$479,060 all in. SV Norglenwold provided \$379,060 using 75% MSI funds that were surplus to their projected requirements and at risk of expiring. Each of the other four Summer Villages contributed \$25,000 which was also eligible for 75% MSI funding. The office is jointly owned by all five Summer Villages in equal 20% shares and all five are listed on the title. This means that each Summer Village has a \$95,812 asset on its books, even though SV Norglenwold paid \$283,248 more than their \$95,812 share of the asset value. The other Summer Villages paid \$70,812 less than their \$95,812 share of the asset value.
- b) A separate co-ownership agreement executed between the five Summer Villages specifies that if the property were ever sold, the proceeds would be split 20% to each Summer Village and SV Norglenwold would be paid back for their \$283,248 over contribution. Each of the other four



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Summer Villages has a liability recorded on their financial statements and due to SV Norglenwold, in the amount of \$70,812 to pay their share of the \$283,248 over contribution provided by SV Norglenwold.

- c) The rationale for the current Administration office agreement was that all five Summer Villages had an equal stake in the property and would share equally in any future profit (or loss) after the investments of each party were equalized. This means that any risk or reward is shared equally and equitably and that no individual partner would gain an advantage by forcing a sale or breaking up the partnership. In the early discussion leading to the expansion funding offer by SV Jarvis Bay it was assumed that the same terms and conditions on the shared ownership of any expanded or replacement property would apply.
- d) Based on the current market situation Administration has provided an estimate of \$300,000 in proceeds from the sale of the current office condo bay. If this estimate was correct, each Summer Village would receive \$60,000 in direct proceeds from the sale and four of the Summer Villages would then be required to pay back their \$70,812 owing to SV Norglenwold. This would result in a net financial (paper) loss of \$35,812 for each Summer Village. Having received \$60,000 each from the sale proceeds, four Summer Villages have to add \$10,812 from current financial assets or reserves to pay out the full \$70,812 they each owe to SV Norglenwold.
- e) The motion approved by SV Jarvis Bay Council on July 28, 2020 stipulates that SV Jarvis Bay will provide funding for the new building subject to agreement that the proceeds from the old building be rolled into the new building acquisition and improvements. Although it is possible to create an amending agreement that would carry forward the original financial obligations between the partners, this could get messy. By executing the current agreement on the sale of the present office condo bay, SV Norglenwold would recover back \$343,248 of their original \$379,060 investment (incurring the same \$35,765 net financial loss as all other partners). Since the current building has been owned for more than 5 years, there is no repayment of MSI funds required. SV Norglenwold has indicated that they also have MSI funds available which they might prefer to contribute instead of just rolling over the sale proceeds from the current office condo bay.
- f) Since the purchase and improvements to any proposed new Administration office must be completed before the current office can be vacated and sold, we will require some type of bridge financing to carry both properties until the current office condo bay has been sold and the proceeds distributed.
- g) The Summer Villages of Birchcliff, Sunbreaker Cove and Half Moon Bay all have significant recent or identified future capital needs and they have indicated they could not contribute to any Administration office expansion project. SV Jarvis Bay's Council is aware of this condition and has accepted it.
- h) Jarvis Bay owns the bare lot directly north of the current Administration office. There has been recent discussion about selling this property to the condominium corporation to provide parking and storage space for the condo bay owners. Such a sale would require a capital contribution from each condo bay owner, including for our condo bay. The acquisition of additional land for parking and storage is expected to significantly increase the value and marketability of these light industrial bays (although that is obviously not guaranteed).
- i) Although all owners of the current Administration office condo bay should be prepared for a financial loss (currently estimated at \$35,765), there should be an agreement on how and when



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any specific offer(s) would be accepted. It is especially true if we get offers resulting in lower net proceeds than estimated here. A protracted delay in the sale is not in the best interests of SV Norglenwold since they must wait to recover their funds advanced for the original purchase. A protracted delay in the sale could also be perceived as an advantage for the other four Summer Villages since payment of their \$70,812 obligation to Norglenwold would be delayed. In addition, all partners will continue to incur shared costs of approximately \$9,000 per year for the empty building (includes basic utilities and condo fees) until it is sold.

- j) **RISK WARNING:** The proposed purchase price for 2 Erickson Drive, the cost of improvements and the sale proceeds from the current office condo bay are best guess estimates. Actual costs and proceeds may differ considerably, and all partners need to be aware of this risk. Further refining of the potential sale proceeds will require market appraisals on the current office condo bay. Further refining of the improvement cost estimates would require completion of a detailed list of requirements and discussion with potential contractors. This activity might affect the purchase price for 2 Erickson Drive because it would alert the current owner of the seriousness of our intentions.

### 2. Financial and Contractual Project Proposal:

The following steps would address the various complications listed above and, if approved by all five Councils, should allow us to proceed with this project.

- a) Jarvis Bay would pay the full purchase cost of ~\$850,000 for 2 Erickson Drive with up to 100% MSI funding. Note that there is no longer a 75% cap on MSI funded projects.
- b) Norglenwold would pay the full cost for required capital improvements of ~\$350,000 with up to 100% MSI funding. SV Jarvis Bay accepts that SV Norglenwold paying for the improvement costs is roughly equivalent to rolling over the sale proceeds from the sale of the condo bay. SV Norglenwold will put new money into the new building and will get most of their investment in the current office condo bay back.
- c) The five Summer Villages would own the new property in equal 20% shares and would sign a new agreement covering any future sale of the new property. This new agreement would be structured the same as the current agreement for the existing office condo bay. The new agreement would include the same liabilities for the future equalization of the original investment except that three Summer Village would have no original investment contribution. Liabilities from those three would be booked to both SV Jarvis Bay and SV Norglenwold according to their actual capital funding contributed. There would be a similar but smaller liability booked from SV Norglenwold to SV Jarvis Bay since the expected purchase cost (paid by Jarvis Bay) will exceed the cost of improvements (paid by Norglenwold).
- d) Norglenwold could use up to 100% MSI funds up front for the improvement costs. Following the later sale of the current office condo bay, SV Norglenwold would recover their 20% share of the sale proceeds plus the return of their \$283,248 over contribution paid by the other four Summer Villages (\$70,812 each). SV Norglenwold would effectively be providing the required bridge financing of the improvements until the sale of the current office condo bay closes. SV Norglenwold would benefit for providing this bridge financing by being able to use MSI funds, that could potentially expire, and then recover a similar amount, in unrestricted cash later.



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- e) The current office condo bay would later be sold, the sale proceeds would be distributed, and SV Norglenwold would be paid back to equalize the original investments as described in the current agreement. Based on the estimated sale proceeds of \$300,000 this would result in a net \$10,812 additional cash cost to four of the Summer Villages (excluding Norglenwold). This \$10,812 payment would not be eligible for MSI funds because there is no new capital asset being acquired. This payment could also NOT be included as a contribution to the new property.
- f) This proposal uses \$300,000 as the estimated net proceeds from the sale of the current office condo bay. To get a better estimate, Administration will engage a professional commercial appraisal firm to provide an appraisal of the current market value of our condo bay. The appraised value will be used to establish a listing price at 10% higher than appraised value (subject to the advice of our Realtor). All five Summer Villages will also agree to an automatic acceptance of any offer that meets or exceeds 95% of the appraised value.
- g) The partners agree that forcing a rapid sale of the existing office building in a down market risks further losses and is not a preferred solution. If an opportunity arises to lease the space out, we will get our ongoing operating costs covered, earn some revenue and potentially delay any sale until market conditions are better. It is assumed that all partners would agree to this point provided they are in the same financial situation. However, Norglenwold has agreed to defer repayment of their original over contribution of \$283,248 until the building is sold. This means the partners are not all in the same financial situation. To compensate Norglenwold, the four Summer Villages of Birchcliff, Sunbreaker Cove, Half Moon Bay and Jarvis Bay agree to pay monthly interest to Norglenwold on the over contribution amount of \$283,248 from the time the building is vacated until it's sale closes. The interest rate will be set at the applicable ATB Bank Prime rate (2.45% at this writing). The four Summer Villages will share the Norglenwold over contribution interest expense using the same equalized assessment formula used for all shared costs (except with Norglenwold removed). Any revenue resulting from a rental or lease of the existing office space will be credited against shared costs. All five Summer Villages will share the offsetting reduction in total shared costs using the same equalized assessment formula used for all shared costs.
- h) If no acceptable offer has been received after 18 months from the original listing date, based on the criteria for automatic acceptance as described above, SV Norglenwold will have the right to force the acceptance of an offer at less than 90% of the appraised value by agreeing to contribute 50% of any additional shortfall in sale price below 90% of the appraised value. This effectively gives SV Norglenwold additional rights, at a cost, to ensure they will recover their over contribution for the original office condo bay in some timely manner. The other four Summer Villages agree to accept their share of the additional net loss in the form of reduced sales proceeds after Realtor and closing costs. Note that this does not change the four Summer Villages obligation to repay SV Norglenwold in the amount of \$70,812 each.
- i) To ensure that the numbers in the current co-ownership agreement reflect the actual costs incurred and obligations created, rather than the original budgeted costs for the current office condo bay, an amending agreement will be executed. This amending agreement will correct the costs and amounts due to SV Norglenwold to match the actual numbers in our financial records, as indicated in this document.
- j) To ensure the timely payout of monies owed, the amending agreement to the co-ownership agreement will also include a clause directing our lawyer for the sale to payout the sale proceeds of up to \$70,812 for each of SV Jarvis Bay, SV Birchcliff, SV Sunbreaker Cove and SV Half



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Moon Bay directly to SV Norglenwold. Any surplus above \$70,812 will be paid directly to the four named Summer Villages. Any shortfall below \$70,812 in sale proceeds will determine the additional net cash payment to be made to SV Norglenwold by the four named Summer Villages. The four named Summer Villages agree that final adjusted payments to SV Norglenwold payments will be made within 45 days after the distribution of sale proceeds. This 45-day period recognises the normal monthly cycle of Council meetings and cheque signing.

- k) The condominium corporation for our current shared office condo bay may agree to purchase the adjoining lot from SV Jarvis Bay before our current shared condo bay is sold. This would result in a cash call of 12.5% of the purchase and improvement costs from each of the eight condo bay owners. For our office condo bay the cash call would amount to an individual cash call of 2.5% of the purchase and improvement costs from each of the five Summer Villages.
- l) If the purchase of the adjacent SV Jarvis Bay lot occurs prior to the sale of our current shared office condo bay, SV Jarvis Bay agrees to provide a loan at 0% interest for our shared condo bay's cash call. This loan would be subject to agreement that SV Jarvis Bay would be paid out of the sale proceeds from our shared condo bay BEFORE any further distributions.