

TO: Members of the Board of Education

FROM: Kelly Ruppel, Chief Financial Officer and Chad Wiese, Executive Director of Building and Administrative Services

DATE: January 8, 2019

SUBJECT: Dohm Farm Property/Acacia Ridge Land Purchase

Introduction:

In December 2017, the Board approved an ‘Offer to Purchase’ (OTP) contract for an eight-acre site in the future Acacia Ridge subdivision on Madison’s far west side, from the seller, Veridian Homes. The Offer to Purchase contract included two due diligence review periods allowing MMSD to fully investigate the site itself and review the final Acacia Ridge development plan which was recently approved by the City of Madison.

The due diligence reviews have been successfully completed and no concerns about the site or the final development plan were identified. We are ready to recommend a final vote to purchase the site. In preparation for a final vote, this memo will address board member questions about the how the contract was negotiated between MMSD and Veridian Homes, and how the site would interact with the nearby Olson elementary attendance area.

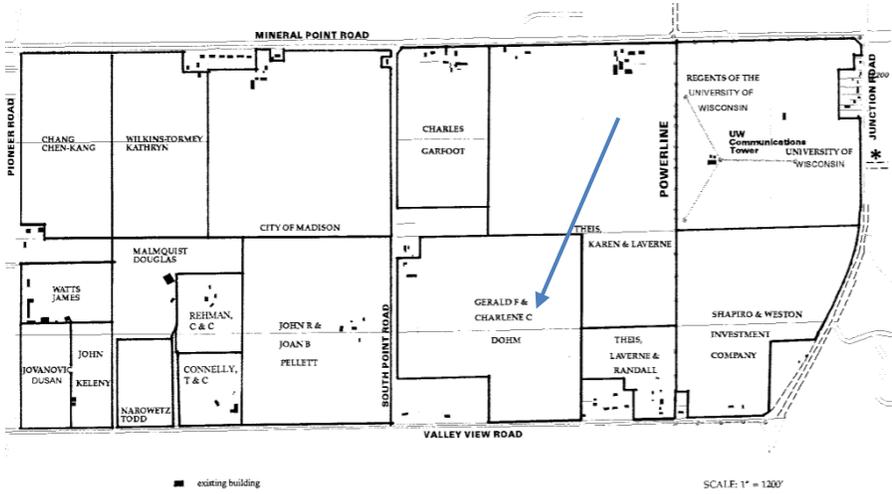
We begin with the site selection and price negotiation process, with the intent of demonstrating that it was MMSD, not Veridian Homes, which held a significant bargaining advantage throughout this transaction, and that MMSD leveraged that advantage to gain a favorable outcome for the school district.

Background:

Acacia Ridge is part of the City of Madison’s expansive Elderberry/Pioneer/Junction neighborhood development plan, formerly referred to as the city’s Northwest Neighborhood. The property discussed in this memo is located in the [Pioneer Neighborhood](#).

The MMSD staff recommendation is to buy and hold an eight-acre site on the Dohm farm (when developed, it will be called Acacia Ridge subdivision) for an elementary school when future MMSD enrollment growth requires it. The price is \$2,050,000 for the fully improved site (includes all utilities, roads, stormwater management, etc.). MMSD’s 2018-19 Original Budget (adopted October 2018) includes the land purchase, subject to Board final approval. The seller in this transaction is Veridian Homes, the largest residential developer in the Madison area. Veridian Homes is the developer for the Acacia Ridge subdivision.

Graphic # 1: The Dohm Farm is a Key Parcel within the Westside Neighborhood:



Graphic # 2: An Eight Acre Site within the Future Acacia Ridge Development:



MMSD’s Negotiating Leverage:

Since at least 2004, the City of Madison has an adopted neighborhood development plan on record for the far west side. The development plan establishes in detail all the requirements the developer(s) must meet. These requirements identify, with limited flexibility, the mix of commercial and residential spaces, the character and density of the development, the roadway system, sidewalks, stormwater management, land set-asides for public parks, and any other public amenities its residents might require.

Among the requirements of the Elderberry/Pioneer/Junction neighborhood development plan was land to be set-aside for a public school. Based on the size of the planning area and the required density of residential development, City planners anticipated that a future MMSD school site might be needed within the plan area. The City requirement for a public school site provided MMSD with a distinct advantage in subsequent negotiations with Veridian Homes. In effect, by requiring a school site in the development plan, the City granted to MMSD all the leverage it would need to strike a favorable bargain with the developer.

For the developer, City approval of their proposed development plan would hinge on creation of a suitable school site, the specifics of which were to be negotiated between MMSD and Veridian Homes, with input from

City planning staff. Without a suitable school site, Veridian proposed development simply could not proceed. These circumstances provided MMSD with maximum negotiating leverage.

MMSD was free to waive the school site requirement if, for any reason, the school district concluded that a land set-aside was unnecessary. However, MMSD's 2017 and subsequent analysis concluded that it was highly probable that a school site within the planning area would be needed, since nearby Olson Elementary lacks capacity to accommodate the future enrollment growth expected with the new development.

Positive Outcomes for MMSD:

For MMSD, the objective was to acquire not just any marginally acceptable school site, but the very best school site available. MMSD site requirements included: (a) a clean Phase 1 environmental report, (b) absence of railways, high power lines, or any other potential safety risk, (c) favorable adjacencies, in this case putting the school site adjacent to an approximately ten-acre city park to maximize available green space, (d) ensuring roadway access from multiple sides to separate car traffic, bus traffic, and service delivery traffic, (e) location at least one street removed from the major arterials (Valley View Rd., Mineral Point Rd.), (f) high ground with excellent drainage, free of any stormwater or other civil engineering concerns.

With assistance from our architects, MMSD moved the potential school site three times until we were satisfied that we had found the best site. After several rounds of discussions between MMSD, Veridian Homes, and the City of Madison, the preferred site was identified in the development plan as a future MMSD school site.

To determine fair market value, MMSD engaged its real estate advisor, D.L. Evans Company, to conduct a market analysis (July 2017). From that analysis, we conclude that the price MMSD negotiated is approximately ten percent (-10%) below fair market value, perhaps more given the favorable characteristics of the specific eight-acre parcel.

MMSD had an appraisal done which established that the price of \$2.050 million is approximately ten percent below market value. As a financial matter, MMSD does not pay property taxes while holding property, nor capital gains taxes if property appreciates in value and is sold in the future. This recommended purchase would be paid from existing MMSD General Fund Balance.

If in the future MMSD decides that the school site is not needed, the land should hold its value and probably appreciate over time. After four years, MMSD could sell the property. Those sales could then be used to purchase any other future identified plots of land, if any more preferable lots should become available. Land values are always subject to market risk, but since this parcel projects as an ideal residential infill opportunity, it should at least hold its value.

Impact on Olson Elementary:

MMSD does not have enough school capacity to accommodate the student enrollment which will be generated by the Westside Neighborhood. Our projections show that MMSD's nearest school, Olson Elementary, would be over capacity by approximately fifty percent (50%) if left to accommodate all the growth in the future Westside Neighborhood. Additionally, our analysis shows that even with attendance boundary changes under consideration for other schools, we would still need a new school to accommodate the growth.

Attached is an analysis on the impact this new subdivision will have through the 2036-37 school year, which is the time frame covered by the [2017-37 Student Enrollment Projections](#) report. Starting with this report and taking recent development proposals into account, Olson Elementary School's enrollment is projected to exceed its capacity based on current room use in 6 to 8 years (by around 2025-26). Olson is then projected to exceed its maximum capacity about 5 years after that (by around 2030-31). This would mean that even after every allowable space has been converted to conventional classroom space, Olson would still be over capacity. The projection shows Olson's enrollment exceeding 135% of its maximum capacity, meaning all allowable spaces would be classrooms and Olson would be overcrowded by more than a third.

Without providing another location for the residents of this emerging neighborhood and other growing neighborhoods in the area, MMSD is at risk of these future students open enrolling out of the district or using other available choice options. This land purchase is meant to be used as a tool for a future Board about six to ten years from now to work with the community to help solve a capacity challenge in the future.

Conclusion and Recommendation:

While the Board is not voting to build a school on this property today, it will provide a future MMSD Board and Administration, perhaps just six years from now, with a tool to resolve future over-capacity issues at Olson. The Board may choose in the future to build a school on this site, or it may choose (after four years from closing per the agreement) to sell the site and reinvest the proceeds for some other purpose. However, given the probability of future need and the scarcity of adequate school sites, this is the current best course of action.

In this transaction, MMSD took full advantage of the negotiating leverage provided by the City's development plan requirements. As a result, the proposed land acquisition combines the best possible school site with below market pricing. Once acquired, MMSD will incur minimal holding costs since MMSD-owned property is exempt from property taxes. Based on these factors, we continue to recommend support for buying this site to protect MMSD's long-term interests.

As of December 28, 2018, the seller has concluded its approval process with the City of Madison, thus initiating a 30-day window for closing the sale with MMSD. The Board is calendared to take final action in the January Regular Board Meeting. We believe this land purchase is a necessary and responsible stewardship action that future MMSD students and families will benefit from. We would be happy to answer any questions regarding this matter.