

FINANCE COMMITTEE

In City Council September  
9, 2013

MEMBERS

*Councillor Marjorie C.  
Decker, Chair  
Councillor Leland Cheung  
Mayor Henrietta Davis  
Councillor Craig A. Kelley  
Councillor David P. Maher  
Councillor Kenneth E.  
Reeves  
Vice Mayor E. Denise  
Simmons  
Councillor Timothy J.  
Toomey  
Councillor Minka  
vanBeuzekom*

**MEETING TYPE**

Public meeting

**MEETING PURPOSE**

To examine the finances of various proposals for the future of the Foundry Building

**MEETING DETAILS**

**Date and Time:** July 31, 2013 at 4:35 PM

**Location:** Sullivan Chamber

**ATTENDEES**

**Present**

Councillor Marjorie Decker, Chair, Mayor Henrietta Davis, Councillor Craig Kelley, Vice Mayor E. Denise Simmons, Councillor Minka vanBeuzekom, Councillor Leland Cheung, Richard C. Rossi, City Manager, Lisa Peterson, Deputy City Manager, Robert Reardon, Director of Assessing, Brian Murphy, Assistant City Manager for Community Development Department (CDD), Stuart Dash, Director of Community Planning, CDD, Lisa Hemmerle, Director, Economic Development, CDD, Jeff Roberts, Project Planner, CDD, Jason Weeks, Executive Director, Arts Council and Donna P. Lopez, City Clerk.

**OTHER ATTENDEES**

Trudi Goodman, 1221 Cambridge Street, Joy Liu, Mark Jaquith, 213 Hurley Street, Caroline Jones, 22 Meadow Way, Rozann Kraus, 91 Chilton Street, Ilan Levy, 148 Spring Street, Nadeem Mazen, 73A Magazine Street, James Williamson, 1000 Jackson Place, Michael Devney, 502 Green Street and Carole Bellew, 257 Charles Street.

## **MINUTES**

Councillor Decker opened the meeting and explained the purpose. She acknowledged that this was the first Finance Committee meeting with the new City Manager Richard Rossi and the new Deputy City Manager Lisa Peterson. Ms. Peterson is the first female Deputy City Manager. She will be having an additional meeting on this topic in September. She asked city staff to walk through the acquisition of this building, why this building is the topic of conversation, what is the City's relation to this building, what are the financial obstacle, challenges and opportunities the facility faces if the City decides to keep the building, to look at creative opportunities for partnerships, the legal and financial challenges for this building and the Dover amendment in relation to this building. What are the next steps? There is a joint meeting scheduled between the Neighborhood and Long Term Planning, Economic Development, Training and Employment and the Public Facilities, Arts and Celebrations Committees scheduled for August 5, 2013 to look at more cultural perspectives. The mission tonight is the challenges of this building and where does the City go from here.

City Manager Rossi explained that the building came to the City through the zoning process. He asked Mr. Murphy to give an overview.

Mr. Murphy stated that In February of 2009 with the Alexandria zoning this was one of the community benefits pieces. It was to be used for open space. It was anticipated that funding be provided for the study of open space at Triangle and Rogers Street Parks through a contribution to open space in general and the Foundry building would be transferred to the City and would be used for municipal or community uses. Ten thousand square feet (10,000) would be used for community purposes.

City Manager Rossi stated that there was an order in the spring that asked the administration to take a look at what the cost would be to bring the building up to a condition where it could be utilized. An architectural consultant firm was hired for this purpose. HMFH Architects did an analysis of the building to tell us what they believed the cost would be to bring the building up

to code focusing on issues of the envelope of the building, the windows, the systems in the building and other code compliance issues. There is a difficult situation with the elevator. HMFH did their study. The study had a range of \$9.5 - \$11.2 million depending on the type of use that would be contemplated being allowed in the building. The lower range would be for office and research and development space might be one cost. If a day care is provided the cost requirements would be more. This is why the range is \$9-11 million. He stated that the Administration makes no assumption that the City sell or lease the building. This process is about getting a reading from the City Council about what they want to do with the building. He asked Mr. Reardon to go through a series of scenarios for the building, including sale or lease. This information may cause more questions or clear up some issues. This is a publicly owned building and if the City leased the building any alterations or repairs to the building would need to be done under the public statutes. There is an increased cost when there is a public project. There is a process that must be followed and this is another reason why costs could rise. The Anti-Aide amendment has restrictions and cautions that the City has to adhere to. The Anti-Aide amendment talks about taking a building such as the Foundry and providing free space to non-profits. The Inspector General has regulation as to what municipalities can and cannot do as it relates to the lease or renting space to public interests. You cannot create a "sweetheart deal" to help someone out at the expense of the public interest. These are the types of considerations in the process. The building is funky. It is a relatively solid building; all the systems need to be dealt with before permanent occupancy of the building. The handicapped accessibility is an issue, particularly if there is community and public use of the building.

Deputy City Manager Peterson stated that after the HMFH study, the City was surprised that all the systems in the building were at the end of their useful life. Everything will need to be replaced in the building in the future including the envelope structure, the roof, the mechanical systems and the handicapped accessibility issue. Mr. Rossi stated that the consultant will be at the August 5th meeting and there can be more in depth discussions at that time. He asked Mr. Reardon to review all the scenarios he has looked at to date to create use for this building.

Mr. Reardon stated that the economic evaluation of the building was done. In assuming if the building were brought up to code and leased at a market rate and subtracting the cost of the renovations the cost to complete the building is \$12.3 million. He is trying to come up with realistic numbers. This information is

contained in **(ATTACHMENT A)**.

There are six scenarios; these are the options:

**Option 1**

Sell the Foundry Building with no contingencies to a potential developer. If a developer purchased the building the estimated current value to the City is \$5.5 - 6.5 million for the building as it is today.

**Option 2**

Sell the Foundry to private entity but require 10,000 square feet for community space. The private owner would be required to do all the renovation. The community space used or leased by the City or a non-profit would pay operating expenses of \$12.50 per square foot which is \$125,000 per year with the remaining space to be leased at market value. The developer would pay between \$2.5-3.5 million. There will no rent from the 10,000 square feet which is about 20% of the entire building.

**Option 3**

Sell the Foundry to a private entity requiring 10,000 square feet for community space. The private owner would be required to do all the renovations. The community space would pay nothing toward the operating expenses with the remaining area to be leased at market value. The value estimate in this option is \$1.5 - \$2.1 million.

Mr. Reardon explained that retention and leasing of the building was evaluated. Options 4 and 5 are evaluations based on a ground lease for fifty years. At the end of the fifty years the City would get the land back.

**Option 4**

Lease the Foundry site with no contingencies to a private entity to be leased at market value. The private party would be required to do all the renovations and the City would retain a 50 year ground lease and at the end of the ground lease the City would retain all rights to the land and the building. The annual rental estimate in this option would be \$300,000 - \$450,000.

**Option 5**

Lease the Foundry to a private entity and require 10,000 square feet for community space. The private party

would be required to do all the renovations and the City would retain a 50 year ground lease. At the conclusion of the ground lease the City would retain all rights to the land and the building. The community space would pay operating expenses of \$12.50 per square foot for a total of \$125,000 per year with the remaining area to be leased at market value. The annual rental estimate in this option would be \$150,000 - \$200,000.

### **Option 6**

Lease the Foundry to a private entity requiring 10,000 square feet for community space. The private party would be required to do all renovations and the City would retain a 50 year ground lease. The City would retain all rights to the land and the building at the conclusion of the ground lease. The community space would pay nothing toward the operating expenses with the remaining area to be leased at market value. The annual rental estimate would be \$75,000-\$125,000.

Mr. Reardon stated that typically at the end of the ground lease there is an escalator and could be tied to the rate of inflation.

These assumptions are preliminary at this time. This building is not suitable for lab space. An estimate market rent of \$42.50 per square foot is being used. There is not a lot of space coming on line now. A project like this estimating out into the future the rents could be higher or lower. This is being estimated on current fixed economic conditions. Outright sale without the 10,000 square feet or lease will be higher than projected because of contingency without the community space.

Mr. Rossi stated that anything done to the building is subject to state law in terms of leasing the building. There is a significant amount of work for whoever purchases the building. These are rough estimation for discussion and it is unknown what the real numbers would be.

Mr. Murphy stated that one of the options given by Mr. Reardon about the 10,000 square feet for community space is in conflict with the zoning ordinance in section 13.59.10. This section states that the community space shall be used for educational, cultural or institutional use.

Mr. Rossi commented that nowhere in the City financial plans does the renovation of this building exist. If the City contemplates this project the City may have to revisit the financial plan. There is always a way to work things out, but this will take a lot of maneuvering to figure this out. This information has not been provided to the

financial institutions. Councillor Decker added that this is a financial commitment to the City and it is a matter of priority where this building fits in with other capital projects such as the schools.

## **PUBLIC COMMENT**

Councillor Decker opened public comment at 5 PM.

Trudi Goodman, 1221 Cambridge Street, stated that she is a professional activist. There are places in the City where the arts are being done. People of East Cambridge are put upon and need more resources which they never get. This can be done, but requires a lot of money. She urged taking a look at people who really want to use this building for the arts. There are no needs for this in the City. There is a lot of need for child care in this area. The Foundry has been in the City since 1870.

Mark Jaquith, 213 Hurley Street, stated that noise from development has escalated. Cambridge has gotten money for development, but this is a way to give back to the citizens. What is the Dover amendment and the restriction for this type of building? This was considered as part of the mitigation from the Alexandria zoning.

Carolyn Jones, 22 Meadow Way, works at MIT faculty and she wants to keep an edge for community space. She is an art historian. It would be good to have development punctuated with community space. She spoke about town/gown synergy. It would be great if MIT's capital could be partnered with the City for this space. She wanted to have more architects estimates.

Rozann Kraus, 91 Chilton Street, stated that she would love to have MIT do anything in the City. She felt the best use of this space was for the use of the arts. Daytime use could be an art magnet school. The fact that Cambridge does not have an arts center is an oxymoron. We need walls and an elevator.

Ilan Levy, 148 Spring Street, read a letter dated November 8, 2010 from the City Manager about the renovations to the former Police Station and suggested substituting language that would apply to the Foundry. He suggested that MIT provide architectural services funding. He also submitted a communication supporting the Foundry being used for arts, community and non-profits for children **(ATTACHMENT B)**.

Nadeem Mazen, 73A Magazine Street, stated that he is the owner of art facilities. Looking at this building from an arts, education space, and town/gown synergy are ways for this being a multi-use space. The City is strong

on development. If you gave the space to the arts community you may get a different range of outcomes for the building that will counterbalance the selling and lease options. There is confirmation bias by looking for a certain kind of study and gearing up to sell this space. It would be good to put funding and energy to arts. He submitted a communication stating that the Foundry should be financially sustainable and stand as a special landmark in Cambridge as the home to Artists and the arts, community space for seniors and youth and the home of non-profit organizations serving Cambridge children **(ATTACHMENT C)**.

James Williamson, 1000 Jackson Place, stated that the Foundry is worthy of renovation and restoration. He wondered what the Historical Commission's position is on the Foundry. What would be the uses and activities for the building? He is not in favor of selling the building, but is concerned about the costs. CRA could be involved in managing the development of the building. It is good to think about this space in relation to East Cambridge and consider their needs. This was mitigation for the East Cambridge area.

Public comment closed at 5:18 PM.

At this time Councillor Decker asked the members of the City Council for their comments.

Councillor Decker responded to public comment by stating no one is panicking about this matter. For a variety of reasons the public thinks that the City is going to sell this building. If the City has decided to sell the Foundry this is unknown to the City Council. Individual City Councillors thought they could decide about this building. This was not a building that would be sold or overused based on relationships cultivated with City Councillors. The decision was that the City should have a thoughtful conversation about this building. The finances of this building are significant and a relative concern that this is out of the reach or that the obstacles are so great that they cannot be reached or achieved. The options available are an important conversation and all the information is important. She stated that there are a lot of things that residents want to see invested in, including the arts. The arts may not be in the Foundry building; it may be arts in the schools or arts in the neighborhood groups. There are many ways to support arts in the community. This is a City that is thoughtful in how money is invested. This is the first step in this process. All understand that it is an incredible opportunity but this does not need to be decided tomorrow. She encouraged the continuation of being thoughtful, methodical and bringing in new ideas.

Vice Mayor Simmons stated that the building came to the City through mitigation and community benefit process. She felt that this was a community benefit that the City would find a way for the community to use. Cambridge has an embarrassment of riches. She sees this building as a way to get something really good in the community. She appreciated the number of options provided and would not make a judgment statement on them. The community at large is looking at this as an opportunity and she hopes the City will benefit from it. At this point she would not vote to sell the building when it could be used in some way. The City should work on making it a community use. She spoke of the building at 5 Western Avenue that is a public/private relationship between the Cambridge Housing Authority, the Multi-Service Center and the Community Learning Center. Here are two entities that serve the community. She spoke about the uses of the building and not wanting to take on the responsibility of outfitting the building. Previously there has been talk about an arts building, but there was never any building - now there is a building that could house an arts center. She questioned whether the City had offices in rented space other than the School Department. City Manager Rossi stated that it is just the School Department in rented space. He added that what made the former police station viable was that the money spent for rented space was transferred and added to this amount was the rent the CHA is paying the City. This made the debt service on this building affordable for the City. There are creative ways and that is what this discussion is about. Vice Mayor Simmons stated that she wants to see how this building can be used by the City.

Councillor Decker stated that she has been contacted by various organizations, some for profits, not for profit and non-profits. She stated whether the City maintains ownership or goes into creative partnership, under the Dover amendment, municipalities cannot give financial assistance to non-profits. She is looking at in the future how to have larger constructive conversations that welcomes dialogue on this matter. A big question is what organizations you choose. Worthy organizations that deserve support will be left out of the conversation. She stated that her position is neutral on what to do with the building. There would be a vacuum of arts programs if the arts curriculum that now exists and serves the community were to be absent. She mentioned the Margaret Fuller House, the Dance Complex, the Multicultural Arts Center and the Maude Morgan organizations that have struggled to sustain themselves. What does it mean for the City to pour money and resources into a new organization that none of the existing organizations have access to. If resources were added to the current organization more sustainability

could be provided.

Vice Mayor Simmons mentioned a meeting held at Cambridge College that discussed community mitigation benefit and the need to allow artistic and social service organizations into this process. She encouraged reaching out to this group to have their voices heard to discuss their thoughts about the Foundry building which came up a lot in this discussion. Councillor Decker stated that the Foundry building is about community benefits and the need for a better process for all the groups that provide services. It would be good to bring this conversation to the table. The parallel conversation is about the finances, the uses and who gets to use the building are important questions.

Mayor Davis stated that she submitted a policy order at the July 29, 2013 Special City Council meeting asking for a cost benefit analysis on a variety of options. Money is not the only reason that a decision is made but sometimes it is good to have a reality about what the money is. In looking at the options proposed tonight at least one of the options proposed by her was not included that being using the entire building for community space. She inquired why the full benefit of leasing or selling is discounted the way that it is in the options. Leasing the building to a private entity with no contingencies and the annual rent of \$300,000 - \$450,000 how many square feet were estimated in this option. Mr. Reardon responded that these assumptions were based on the 53,000 square feet of the building with 10,000 square feet being retained for community space with the remainder of the building being leased at market rate. He added that option four is to lease the entire building with no community space. Mayor Davis questioned if one-fifth of the building was not included as rental because you are not charging anything would not this be twenty percent less of the total. Mr. Reardon explained that in this option the cost of the renovation is being spread over eighty percent of the building instead of one hundred percent of the building. It is not just the loss of rental. Now the cost of renovation has to be spread over the eighty percent instead of one hundred percent. Mayor Davis commented that all the lease options are net of the renovations. Mr. Reardon responded in the affirmative. Mayor Davis questioned the outcome in the sell options. Selling the building with no contingencies for \$5.5 to \$6.5 million with the assumption that \$12 million is being invested by the owner. The 10,000 square feet is discounted and the value to the new owner is half as much. Mr. Reardon explained that this is because the new owner would have to provide the renovation for the 10,000 square feet of community space plus the owner would not be getting rent for this space. Mr. Rossi added that in the numbers

from HMFH it does not include any outfit costs. Those numbers are to bring the building up to code and make sure that it has legal access and that the systems are done and the envelope of the building is secure as well as the energy systems meet the City's standards. Mayor Davis asked if the building were sold outright the City would end up with \$5.5 million and could the City do this based on the agreement on this property and provide the 10,000 square feet of community space. Mr. Reardon stated that the options are hypothetical's, not including the requirements of the Dover amendment or the zoning. The options were to give a baseline. Mr. Rossi stated that if the building was sold with the community space restriction the sale price would be lowered. Mayor Davis commented that the most that the City could get for the building would be \$2.5 - \$3.5 million. She commented on if the \$2.5 - \$3.5 were used to generate support for non-profits. Mr. Rossi urged caution about this as this is another big discussion that the City needs to have on mitigation money and community benefits and what might be the legal restrictions. He did not want the public to think that if the City has this money it can be given away. Mayor Davis stated that if the City had this money something could be done to benefit non-profits. She asked how much income the City could generate from the \$2.5 million over twenty years. Mr. Reardon responded \$50,000 - \$60,000 per year. Mayor Davis stated that if the principal were spent over twenty years what this would be. Mr. Reardon responded in the low \$300,000 range annually. Mayor Davis stated that it is important to understand that there are models of these art centers, such as the Maude Morgan and the Arsenal Arts in Watertown. She urged contacting these art centers and learning what funding they had to raise and what their income is. The Arsenal Art Center is 30,000 square feet. This space was acquired from the federal government for \$1. Funding for outfitting and operational costs was raised. The head of this facility is known to Mayor Davis and would be willing to discuss what it took to get the center up and running. The only way to get to the reality of this is to figure out how much it costs and if there is the wherewithal and the interest in raising the money. With commitment and a lot of work anything is possible. If the City were to give the building to an Arts Authority for \$1.00 and the Arts Authority had to raise the funding what would be looked at and what is this reality. This is possible and has been done and there would need to be \$4-10 million raised to make this happen. It would be good to continue on the options as they relate to the money and whether the City has the capacity to give the building away and how this could be done. If the building were sold it appears that it would be worth only \$2.5 - \$3.5 million. She does not see the City coming up with the annual operating costs for the building. She stated that making the entire space an early childhood center is a great idea, but who would

come up with the money and would there be any rental income offset. More work is needed on this matter. At some level this matter has to be about financing.

Councillor Decker stated that the meeting is being filmed for a class project. It is protocol to inform the Chair before filming. This meeting is being recorded by audio as well.

Councillor vanBeuzekom asked what the previous rental income from the building was because it was fully leased out before the City took ownership. Mr. Reardon stated that the rents were in the \$20's to the low \$30's depending on the time, which was a different time, place and era based on the economics of what was going on. The entire building was rented out. The City being the owner of the building comes under different regulations including ADA compliance and accessibility. Once renovation begins the costs increase exponentially. The City does not have the alternative to do nothing to the building and lease it. Councillor vanBeuzekom stated that she wanted it understood that before the City took ownership of the building that it was fully rented. She asked what the full value of the building was and the taxes collected on the building before the City took ownership. Mr. Reardon stated he was not sure about the assessed value and could have been leased out for \$10 - 12 million before the City took ownership. Councillor vanBeuzekom stated that on taxing commercial property the City looks at the annual income of the property. Mr. Reardon stated that the taxes collected were about \$200,000 - \$225,000 collected per year. Councillor vanBeuzekom commented that the renovation would be spread out over 8 - 10 years and that is factored in the options and the rental estimate cost to the City is a net. If this were spread out over the period of renovation then in year nine the rent would go up to potentially \$2 million dollars a year. In option five the 10,000 square feet going to a non-profit at a cost of \$12.50 per square foot and then the full market value of \$42.50 would for example remain for the remainder of 43 years of the ground lease. This is \$1.1 million after the renovations have been paid. Mr. Reardon responded in the negative. The \$12 million renovation cost would be paid up front and would be spread over a 20 year period. It is not \$2 million at the end of nine years. It will increase some, but not that dramatic. Over a five year period the rent may go up ten percent and up again over the next period depending on inflation and how the contract is structured. The assumptions are all based on paying off a mortgage over the life of the project. In the ground lease it is for fifty years because the renovation costs must be paid off and then the owner needs to recapture the value. Then at the end of the fifty years the building will be given back to the city and the owner will have

nothing. He further stated that the private owner would do all the renovations and would have to discount this in their model. Mr. Reardon stated that the \$12.50 is expenses, not rent. The \$42.50 is in addition to the \$12.50 that a typical tenant would pay for the expenses. A triple net rent is being used. The non-profit would be paying an expense of \$12.50 to utilize the community space and no rent per se. The private tenant would be paying the \$42.50 and the expenses of the \$12.50 so in reality they are paying \$55.00 per square foot. Councillor vanBeuzekom stated that it would be helpful to have more detail on this to make a financial decision on this building. She stated that in relation to the Dover amendment there is no scenario that rent would not be charged or that the 10,000 square feet would be completely free of rent and this is compatible with the Dover amendment. Mr. Reardon stated that in order to get the options before the City Council he made some assumptions to look at without getting into statutes. He did not think the City would be allowed to give the space to a non-profit, but that the City could use the space ourselves. This type of analysis is difficult because it is based on hypotheticals. He was trying to give the City Council ranges, but did not want to make this so complex.

Councillor Decker commented that the Assessor did not fall short on what was asked of him. She encouraged Councillor vanBeuzekom to submit her specific questions in writing to the Chair prior to the meeting so that more information would be provided. She requested that the questions be submitted to the Clerk before the next meeting in September. Councillor vanBeuzekom responded that she did not know the scope of the meeting today. She also agreed with the suggestion made by Mayor Davis that other models for art centers be examined. She added the Cyclorama in Boston to the list previously provided. This is a public/private entity similar to The Natick Center for the Arts and any others. Councillor Decker stated that this is a preliminary conversation. There is a joint meeting on Monday, August 5th with three City Council committees. The meeting on Monday will hear from many organizations on what could be done with this space. She understands that the City Manager has a process where a number of organizations will come and talk to the City Council about the various paths they have taken to look at this matter. The Brewery in Jamaica Plain has also created a community arts space.

Councillor vanBeuzekom asked in any of the options do you envision, is there a way to estimate what the taxes would be if the building were sold. In the lease options do you envision in the ground lease scenarios whoever leases the building would they be responsible for taxes

on the building. Mr. Reardon responded that taxes were considered and taxes were included on the non-profit portion because if it were owned by a private entity renting to another party that would not make it exempt. Taxes have all been included in the options, but can be refined over time when it is known what the City Council's direction is.

In conclusion Councillor Decker stated that this is a preliminary meeting to discuss some of the options to determine what the paths will look like financially. On Monday, August 5th there will be a joint meeting of three committees to look at matter. There is a lot of interest by the City Council on this building. It is important that we take our time and that we are thoughtful and methodical on this. The financial path has a direct relationship to the usage, the partnerships, the collaborations and we are having multiple conversations as we do this. There will be discussions to hear from art organizations that have traversed this area and to hear about the challenges they have faced. She is interested in the collaborations made and the decisions made from the collaboration. The Arts Council faces this all the time. She wants to keep the parallel conversations ongoing to understand the financial implications of this process. There are other uses such as early childhood center and the family resource center at the high school which does not have the space it needs. This decision may be made by the next City Council. She did not want to see a superficial rush on this over the next few months. She sees the City Manager working with a professional group of people who have done this all over the country as well as with the City Council. She thanked all attendees for their attendance.

#### **ADJOURNMENT**

On motion of Councillor Decker the meeting adjourned at 6:04 PM.

For the Committee,

Councillor Decker, Chair  
Finance Committee