CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

Tel. 498-9030

FINANCE - REVENUE

DATE: June 5, 1990

TO: Robert Healy, City Manager

FROM: James Maloney, Finance Director

SUBJECT: Porter Exchange Mall

At your request, we have contacted the mortgage holder of the Porter Exchange Mall in an effort to determine the feasability of the City's purchasing the site for municipal use. According to Mr. Peter St. Clair of HomeFed Bank, there is currently $31.5 million outstanding debt on the project, including $18.5 million owed to HomeFed. A mortgagee's foreclosure sale has been scheduled for June 12, 1990. In regards to the City's involvement in the foreclosure sale, there appears to be several procedural and legal impediments that block our entry into the process at this time.

First, a recently enacted state statute, Chapter 30B, requires that a municipality solicit formal proposals to acquire interest in a property that has a market value in excess of $500. This process is a multi-step one that requires detailed written specifications that includes in addition to specific square footage needs, a formal evaluation process, rules for potential bidders' submissions, public advertisement and sealed proposals. It would take the City in excess of 3 months to comply with Chapter 30B.

If no responses were received to a formal proposal requesting a site as large as the Porter Exchange, an eminent domain taking could conceivably take place. Such a procedure would make it extremely unlikely that any savings or "deals" that the City might benefit from in a slow market would occur. In eminent domain cases governments quite often pay in excess of open market rates when court judgements are handed down several years later.

Regarding the financing of such a purchase, the most appropriate and least costly would be through the issuance of City backed general obligation bonds. Assuming a 6.5% interest rate and a $32 million sale price, the annual debt service for the purchase of the building would be $5,280,000 on a 10 year issue or $3,680,000 on a 20 year issue. In addition to the purchase price, it is estimated that it would cost an additional $11,000,000 to retrofit the building to our needs. This estimate assumes a low per square footage cost of $50 due to the fact that all systems are new. In fact, retrofitting the building could run as high as $100 per square foot. Assuming a 10 year issue for $11 million to retrofit the building, the annual debt service on retrofitting would be $1,815,000 bringing the total annual debt service on the project to either $5,495,000 or $7,095,000 depending on the length of the bond issued to purchase the building. I have also not included the cost for buying out the existing leases for the tenants currently in the building. Conran's, for instance, has a 25 year lease while other businesses have 10 year leases.

The issue of private/public partnerships or the City's leasing parts of the building for commercial uses, are both essentially blocked by recent federal tax law changes. The only way for government to get involved in such arrangements would be to issue taxable bonds which would increase debt service on the project by as much as 50%.

2

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139
TEL. 498-9011
FAX. 868-8159

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

June 11, 1990

To The Honorable, The City Council:

Transmitting communication from James P. Maloney, Assistant City Manager for Fiscal Affairs, in response to Council Order No. 34, dated May 14, 1990, relative the Porter Exchange Mall.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
enclosure

Agenda # 2 S-633

Response to City Council # 34 of
May 14,1990 regarding the Porter
Exchange Mall.

In City Council,

June 11, 1990

Placed on file