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ANNE FADULLON

Director

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The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke,

This letter is in response to questions raised at the March 27, 2018 hearing before the Committee of the Whole on the Fiscal Year 2019 proposed budget for the Capital Budget. At this hearing, the following questions were asked:

Councilman Domb:

1. Was there an appraisal done of 4601 Market St. at the time of purchase?

The \$4.6 million the City paid to PIDC in June 2014, strictly speaking, was not a purchase price. The City reimbursed PIDC for the costs of the Building Assessment & Adaptive Reuse Study and the costs to stabilize and manage the property during the 5+ years we held the site. There was a recent appraisal completed in March 2016. It was related to the early discussions about preparing an RFQ/RFP for 4601 Market. It was intended to give some guidance about the potential value of the site and not to serve as a replacement for a marketing effort.

2. Why was there no appraisal of 400 N. Broad Street?

An appraisal for 400 N. Broad was not ordered prior to lease commencement because the City was entering into a lease, not purchasing the building at that point. The lease requires that there be an appraisal of the property as part of perfecting the purchase option.

In determining the purchase price of the entire Police HQ premises, one is required to compare: (i) the outstanding principal and interest on the loan at closing on PAID's purchase of the facility (expected to be \$201,050,130) plus the first three years of base rent payable by the City (\$48,222,350) for a total of

\$249,272,480; and (ii) the fair market value of the Building at 400 North Broad St. (as determined by an appraiser chosen by the landlord from among three appraisers chosen by the City), which appraisal shall not take into account the value of the City tenancy or any other lease, minus the base rent paid by the City for the first three years of the lease (\$48,222,350).

Then the City takes whichever number is greater (that produced by clause (i) or clause (ii)) and if, as expected, the clause (i) number is larger, the City gets to deduct the base rent actually paid by the City during the first three years (\$48,222,350) from the clause (i) amount and pays the resulting amount (\$201,050,130), which equals the outstanding loan balance, as the purchase price to the landlord. If the number produced by clause (ii) is higher than the clause (i) number, the City pays that amount to the landlord. So if prong (i) equals \$249,272,480 (\$201,050,130 of outstanding p & i on the loan at the time of purchase and \$48,222,350 of scheduled rent during the first three years) and prong (ii) is \$248,777,650 (appraised value of \$297 million less \$48,222,350 of scheduled rent paid during the first three years), the FMV payable to landlord will be \$201,050,130. This represents the \$249,272,480 payable under prong (i) as the larger of the two prongs, less the \$48,222,350 credit for rent actually paid to landlord. The appraised value needs to exceed \$297,494,830 in order for the City to pay more than the outstanding loan balance plus accrued interest.

The FMV calculation formula was negotiated by the City to increase the value of prong (i) and decrease the value of prong (ii), to make it highly probable that prong (i) would produce the higher number and with the rent credit provided against the prong (i) amount, the purchase price actually paid would equal the outstanding loan balance.

The Purchase Price FMV shall be equal to the greater of:

(i)

The sum of (i) the amount of the principal balance and accrued interest outstanding under the Project Financing (the "Debt Basis") as of the date the Tenant consummates the closing pursuant to the exercise of the Purchase Option, plus (ii) the aggregate amount of all scheduled Minimum Annual Base Rent during the first 36 months of the Lease Term (the "Rent Equity"); and

Debt Basis	\$	201,050,130	
Plus Rent Equity		<u>48,222,350</u>	<i>(which will be a credit at purchase)</i>
Purchase Price FMV (before credit)	\$	249,272,480	*

*If \$249,272,480 is higher than the amount produced by clause (ii), the purchase price actually paid by the City will be \$201,050,130 because of a credit against the purchase price that the City receives for paid Rent Equity.

(ii) The fair market value of the Building as determined by the Appraiser at the time in question; taking into account all appropriate factors, but assuming the Building to be unencumbered by the Master Lease or any other lease (which appraisal shall not take into account the value of the City tenancy), minus the Rent Equity paid by the City.

Appraised FMV	\$	297,000,000
Minus Paid Rent Equity		<u>48,222,350</u>
Purchase Price FMV	\$	248,777,650

Conclusion: Under Example 1, the City would pay \$201,050,130 (outstanding principal and interest on the loan) as purchase price because \$249,272,480 (produced by clause (i)) is greater than \$248,777,650 (produced by clause (ii)). The \$249,272,480 is then reduced by the above described credit in the amount of \$48,222,350, resulting in the \$201,050,130 purchase price.

3. When was the decision made to not move the Police headquarters to 4601 Market?

At the beginning of the Kenney Administration, the Mayor's Office requested that the Departments of Public Property, Finance, Chief Administrative Office, and Planning and Development examine continuing the project at 4601 Market, as well as assess other sites. As part of this review, the Administration looked at expanding the current location at 8th & Race by adding a new building onto the site, completely renovating the existing building and using a Philadelphia Redevelopment Authority-owned lot for excess parking and just shifting employees in and out of the new building during construction, however, this seemed very disruptive to the Police Department; briefly considered the Glaxo building, which was dismissed as not being large enough to accommodate all the functionality; and considered the building at Broad & Lehigh, but it was deemed too far away from Center City, so it was dismissed fairly early on.

During this thorough review, the 400 N. Broad Street site was also considered. The location was deemed an excellent fit for the Police Headquarters, and the Mayor's Office directed the Department of Public Property to examine whether the property could fit the needs of the Department. After finding this to be the case, the Department of Planning and Development negotiated a price with the vendor, and the Finance Department, working with external bond counsel, structured the financing deal based on the negotiated price.

4. When did the City find out about the decision?

The City decided to move forward with 400 N. Broad Street as the site for the Police Headquarters in the early summer of 2017 and were finalized with the passage of City Council ordinance Bill No. 170559-A on June 22, 2017.

5. Please provide a breakdown of the 400 N. Broad Street technology costs.

Within the 400 N. Broad Street project are two major technology needs: the first is the general technology required for the operations of the Police Headquarters, and the second is a Joint 911 Call Center serving both police and fire communications. Some of the former was included in the debt service costs, with approximately \$9.6 million that is not 911-eligible. The Joint 911 Center was not included in the original estimate.

As the design work for the Joint 911 Center is still in the process of being scoped out, the costs included in the Five Year Plan and Capital Program are conservative estimates. Moreover, a substantial piece of the final costs would have been incurred anywhere the Joint 911 Center was located.

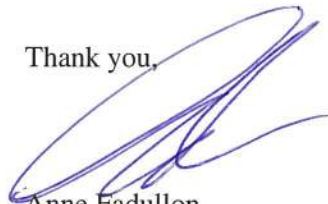
In the FY19-23 Proposed Five Year Plan and the FY19-24 Recommended Capital Program, the technology costs for the 400 N. Broad Street project are as follows:

Funding Source	FY19	FY20	FY21	Total
Operating: 911 Reimbursed	\$15,000,000	\$8,448,163	\$1,840,000	\$25,288,163
Operating: General Fund	\$1,638,127	\$4,914,380	\$1,638,126	\$8,190,633
Capital Program	\$5,499,915	\$5,499,915		\$10,999,830
Total	\$22,138,042	\$18,862,458	\$3,478,126	\$44,478,626

There is also \$3,604,604 included within the project cost for the contractor to pay for building infrastructure and technology-related costs, bringing the total to \$48,083,230. However, \$16 million of the \$48 million include items that were planned for purchase for the existing 911 Center. Now that the 911 Call Center will be in the 400 N. Broad location, the costs (eligible for 911 funds) were re-allocated to this project.

If you have any additional questions, please feel free to contact my office.

Thank you,



Anne Fadullon
Director, Planning & Development