

**City of Salem Massachusetts
Executive Session Meeting Minutes**

Board or Committee:	Redevelopment Authority, Regular Meeting
Date and Time:	Monday, September 30, 2019 at 6:00 PM
Meeting Location:	98 Washington Street, First Floor Conference Room
SRA Members Present:	Chair Grace Napolitano, Gary Barrett, David Guarino, Dean Rubin, Russ Vickers
SRA Members Absent:	None
Others Present:	Tom Daniel – Director of Planning and Community Development Kathryn Newhall-Smith – Senior Planner Matthew Zahler – Real Estate Development Consultant from MPZ Development, LLC (on phone)
Recorder:	Colleen Brewster

Chair Napolitano calls the meeting to order. Roll call was taken.

Executive Session

1. To review the submittals to the Request for Qualifications for the redevelopment of real property located at 32-34 Federal Street and 252 Bridge Street, Salem, MA because an open meeting may have a detrimental effect on the negotiating position of the public body.

Chair Napolitano: Motion to request an Executive Session.
Barrett, Guarino, Chair Napolitano, Rubin, Vickers. Passes: 5-0.

The SRA entered into executive session at 8:05PM.

Mr. Daniel stated that they are eager to speak with the four development teams and provide them with the SRA's feedback and preview what's ahead, as indicated in the staff memo dated September 10, 2019. Clarification is still needed on the Registry of Deeds from each team. He and Chair Napolitano met with the Register O'Brien to discuss the reality of the Registry's needs and he is open to meeting with the teams. DCAMM is responsible for finding a new space for the Registry so they will issue an RFP this fall or they could extend their lease at Shetland Park. That information is needed because of the legislation authorizing the transfer of the property to the SRA. The SRA can also tell DCAMM they either think or don't think the Registry in the court buildings is feasible. Mr. Vickers questioned how they get that answer. A figure of merits needs to be given, for the developers to respond to; square-footage, rates, and cost, and before the RFP is issued. In his opinion the RFQ didn't request enough clarity and the teams were doing a lot of guessing. Mr. Daniel replied, by explaining the situation to the teams and make it clear they know what they needed in terms of square footage and numbers of this leased premise. They will need this information prior to the issuance of the RFP.

Mr. Barrett asked how much square-footage the Registry needs. Mr. Daniel replied 12,000 square-feet; 7,000 square-feet for his office and 5,000 square-feet for the Sherriff, but that could be reduced. They need a better understanding of the financial piece also. Mr. Rubin suggest an approximate square-footage be included in the RFP. Mr. Vickers agreed. Chair Napolitano replied that they must

follow the state's process to identify where the Registry could go. Mr. Daniel replied that after their discussion they will request a response in writing, since they currently have mixed information. Mr. Vickers stated that they feel they can get enough information outside of the formal process to satisfy DCAMM then it should be left out of the RFP. Mr. Guarino noted that one development team included in their proposal but changed their mind.

Mr. Daniel stated that the RFP's need to indicate the level of detail the SRA is seeking, including, mapping out their public funding and permitting timeline. Some developers put the courthouses first while others put the crescent lot first. The crescent lot will have a long permitting process due to Ch. 91 requirements and the courthouses have long financing for securing the tax credits, assuming that they are being pursued. They want to make sure the timelines for permitting and financing make sense and the courthouses aren't completed last. They will seek financial information; detailed proforma, capital stack for private and public sources, costs, and the public request. They need to determine how to structure the payment for the property, a lease structure vs. a fee structure. The crescent lot is already SRA property; however, the courthouses must get repaid to the State. Mr. Rubin asked if legally, can they withhold the issuance of an occupancy permit on the crescent lot until a certain amount of the courthouses have been completed, use it as an incentive. Mr. Zahler replied that he would not recommend withholding an occupancy permit, but other things can be done to incentivize them to progress with the projects in a particular order. Part of the fee payment can be dependent upon completion or you can structure a note that the City gives, that would be repaid upon completion.

Mr. Daniel stated that they want to make sure the tenants provide public access and the Superior Court and Law Library. He previously asked Mr. Zahler what they can expect as a requirement in the RFP responses, and the answer was a signed LOI by each tenant with their deal terms. Mr. Zahler stated that a form letter can be included in the RFP so the teams know what the SRA is seeking. It would also include square-footage requirements and rent amounts. Mr. Vickers noted that it took a couple years to a tenant at the Salem Jail and a LOI may be asking too much too soon. Mr. Daniel replied that the LOI isn't binding where the basic terms are identified, the basic terms can be questioned. Mr. Zahler added that square-footage requirements, rent amounts, built-out and operational requirements are also in typical LOI's and a lease agreement would be modeled off of that document. The LOI is a tenant's commitment to a concept. Mr. Vickers stated that he would also want to know what makes the tenant think they will be able to enter into an agreement. Mr. Guarino agreed and noted that the SRA didn't know Hampton Inn was the tenant at the new hotel on Washington Street, under further down the road. Chair Napolitano asked if one or multiple LOI can be submitted. Mr. Zahler replied that the team needs to submit their best LOI only. Mr. Vickers stated that he's concerned with whether the teams will have viable tenants and a LOI might have them setting their bar too high. Mr. Zahler replied that term sheets can be requested from each tenant to ensure that there are mutually agreeable terms before signing a lease. Mr. Rubin asked if a developer had ever said their tenant won't work. Mr. Zahler replied that it can go both ways or they make it work. Developers are already thinking of these topics to fill the gap in their proforma for a use. With a State tenant you know what you are getting and developers know what the cost of the build-out but with other tenants there is more market risk. Chair Napolitano asked if a LOI and/or a Term Sheet could be requested in the RFP. Mr. Zahler replied yes.

Feedback for each Development Team:

Barnat Development

Mr. Daniel stated that Ms. Barnat mentioned creating living history spaces in the courthouses and bring the public into the building to enjoy them, which resonated with the SRA and aligned with the SRA goals. All of the team members were well qualified and demonstrated enthusiasm for the historic rehabilitation portion of the project. A historic preservationist needed to be added to their team which SRA members believe that such representation is needed to successfully navigate the complicated and lengthy stated historic tax credit process. The team needs to demonstrate their financial capability to see the project through to completion. Each development team will be asked to flesh out their Registry of Deeds amounts.

SRA Discussion:

Mr. Rubin stated that he's uncertain with the bigger picture, if that gets included in the RFP and if so, they should include those bullet points. Mr. Daniel replied that this is just in addition to the evaluation criteria where the bigger goals will be. Mr. Rubin stated that the term "gateway" makes him envision a beautiful entryway, but he's unsure of where the complication of slip lanes, cars, and pedestrians comes into the RFP. If the buildings look great but there is still just a cluster of buildings he will feel as if they'd failed. Mr. Daniel replied that it will be in the RFP as an SRA goal for the connectivity of the buildings, not just a cluster of two old and one new building. It will be submitted and evaluated by the SRA. Mr. Rubin added that they are really telling the development teams the SRA's vision, so they can explore which ones works best.

JHR

Each team members enthusiasm for the project was evident during the interview. They had a clear passion for the restoration of the courthouses and the SRA appreciated all the thought that went into the reimagining of the public spaces around the crescent lot, MBTA station, and the lawn of the County Commissioners building. The team is well qualified and Hillary's personal dedication to ensure that this project will be successful appealed to the members. Questions were expressed about the viability of Salem State as an anchor tenant, while a signed lease agreement will not be required through the RFP, the SRA will be seeking a higher level of commitment that includes a funding scheme for any proposed tenants.

SRA Discussion:

Mr. Rubin stated that Hillary's personal dedication to the project was appealing, but won't be anything the SRA bases their decision off of, since every developer should be dedicated and have their highest people involved. Mr. Guarino noted that it was persuasive to him in their deliberation because of his financial viability to complete the project, so there is no harm in mentioning it since they would expect him to follow through and do just that. Mr. Zahler added that they shouldn't make it personal and not mentioning it, as to not give them any indication that you are leaning one way or another.

North River Partnership for Community Reinvestment, LLC

Members noted the complimentary experience of the team partners and associates; Diamond Sinacori's historic restoration experience, Urban Spaces redevelopment experience, and North Shore CDC's record of success with developing affordable housing. The team demonstrated enthusiasm for creative public use at the Superior Court building. The SRA would like to understand the groundwork that has been laid thus far for the children's or family museum to fruition. The response to the RFP needs to include details as far as partnerships, funding identified for both near and long term financial viability of the museum, market research specific to this use in Salem, and any other information that speaks to the viability of this use in this location. The SRA would like to understand any alternative tenant use options, should the museum be deemed infeasible, and when and how a decision will be made. The District Hall concept is a use that will allow for public access to the historic buildings; however, the SRA's notes that other buildings in the area like Bridge at 211 and Tabernacle Church have a similar potential use.

SRA Discussion:

Mr. Rubin stated that he's interested to see if Mr. Diamond is still committed to a children's museum now that Peabody has announced that it also wants to open a children's museum. Mr. Daniel added that the former Children's Museum of Salem on Essex Street had a loan with them. They closed approximately 10-year ago.

Winn Development

Mr. Daniel stated that they have extensive development and redevelopment experience and staff. The SRA recognizes their track record of success and would like to better understand the partnership between Winn and Nine Zero. During the interview it seemed as though Winn would be the lead of the development of the crescent lot while Nine Zero would take up the historic restoration and reuse of the courthouses, i.e., two distinct projects with management that would not overlap. The SRA wants to ensure the historic rehabilitation occurs in a timely fashion so the courthouses are not sitting vacant while the new residential structure is complete and occupied. The SRA is interested to see what uses and tenants are proposed for the courthouses, and the proposal would need to include viable uses and tenants throughout the building. During the interview the team was very open to ideas that acknowledged the preservation restrictions needed so they could understand the preservation parameters in which to work.

SRA Discussion:

Mr. Vickers asked if they proposed housing for both buildings. Mr. Daniel replied no, they proposed the Registry of Deeds as their anchor tenant. Chair Napolitano noted that the SRA will need to entice them to make sure the courthouses don't sit empty while the crescent lot is being completed. Mr. Rubin stated that the commentary seems more redundant. Mr. Zahler noted that they have historic tax credit projects in process, and they need to get a better sense of how it fits into their pipeline. They also need to confirm their role with their partner Nine Zero and if Winn Development will lead the charge. They should receive that feedback in their RFP submission.

Some other information for teams to consider is; soil conditions, railroad rights, and the intersection of Washington and Bridge Streets. The vision will be the starting point of the RFP, because this is

about a cohesive project and making it work with the intersection, since it's a redevelopment project that connects to multiple areas. Mr. Vickers stated that the RFP didn't describe the vision and that needs to be set early.

General SRA Discussion:

Mr. Daniel noted that there were some general questions. First, the courthouses need to be completed parallel with or prior to the crescent lot development, with the necessary mechanism to put in place for that to happen. Second, having a Board discussion to determine their preference for a fee-simple transaction or a long-term lease, at least 85-year minimum. The court buildings and associated legislation states that any proceed from the sale of the courthouses will go to DCAMM first to reimburse them for their costs, second to the SRA, and lastly split. Might a lease be advantageous to the developer and what are the advantages of the SRA where his questions to Mr. Zahler. The advantages to the SRA are; an income stream over a period of time or a one-time payment. A fee could also be phased with the initial payment due at closing. Mr. Vickers asked why a developer would be interested in a long-term lease. Mr. Daniel replied that deferred costs, payment or lease, will help the project along and provide some flexibility. Mr. Zahler added that it's beneficial to a developer to pay less upfront which a lease structure will allow, with a series of payments overtime. Their investor will aggregate the payments and ultimately, they will want a smaller payment over a larger period of time, which might accrue to a larger payment, but it's still more helpful to them. An upfront larger transition is expensive and risky for the developer. An 85-year lease is seen to investors as a sale. Mr. Vickers asked if that should be included now or later in the process. Mr. Daniel replied that the Board should say which they want. Mr. Rubin favored a fee-simple to take the risk off of the SRA since leases can be broken when times changes and economies change and their revenue could be left at zero. Mr. Zahler added that the lease would be extremely rigid with no way to get out of it, like a sale. There will be a negotiation but if the City doesn't want to have the asset anymore, a fee-simple transaction would make more sense. Mr. Daniel noted that they don't have an ongoing responsibility for it and in 99-years that SRA board would have to deal with it. This would provide a revenue stream. They can include that they are open to either option. Ms. Newhall-Smith noted that they can defer the start of the payments to allow the developer to keep the money longer. Mr. Daniel added that this can be done with a sale. The crescent lot has an appraised value and DCAMM only gets paid off of the courthouse project. Mr. Rubin asked if the SRA should seek feedback from DCAMM. Chair Napolitano replied that it should be explored.

Mr. Vickers stated that each developer will have a prime tenant that may not be their ultimate tenant further on in the process. Post designation, should a time limit be set if the development team's tenant isn't found, so they can propose a secondary tenant. If so, that needs to be established at the time of designation. Mr. Zahler replied yes, through a development agreement. Mr. Daniel added that they will need the team's performance measures, performance requirements, and schedules in addition to their secondary tenant's LOI. Mr. Zahler noted that there will be 90-days to for them to sign the development agreement with associated thresholds for permits to be done. If they say it will take a year, they can be given 14-16 months, and if they don't have it by then there could be a penalty or a risk of losing their designation. A timeframe can also be set up for their tenant. This will cause them to constantly check-in with the SRA to make sure they are meeting the goals of the RFP and staying on the schedule. If a development agreement form has been created, it can be included in the RFP. Mr. Daniel stated that they will need a higher-level agreement, not the standard form used by the City.

Mr. Daniel stated that they will also ask the development teams to provide a plan for how to weather an economic downturn. Preservation restriction language is being determined as well as evaluation criteria. Mr. Vickers stated that once a designation is made, the relationship changes and we are a team trying to make this project happen. It can be molded as the project progresses, since all these details won't be worked out early on. Mr. Daniel agreed.

Mr. Rubin asked for the SRA's timeline. Mr. Daniel replied that the preservation restrictions are being developed and clarity on the Registry of Deeds are the priorities. The feedback sessions with the development teams will be scheduled in October and they will continue with the process from there.

Roll call to adjourn the Executive Session at 9:10PM. Rubin second.
Barrett, Guarino, Chair Napolitano, Rubin, Vickers. Passes: 5-0.

Chair states that the Open Session will not reconvene at the conclusion of the Executive Session.

Adjournment

Guarino: Motion to adjourn the meeting.
Seconded by: Rubin. Passes 5-0.

Meeting is adjourned at 9:10PM.

Know your rights under the Open Meeting Law M.G.L. c. 30A §18-25 and City
Ordinance Sections 2-028 through 2-2033.