

# Upcoming Council Agenda Items

# Memorandum



CITY OF DALLAS

DATE June 18, 2010

TO Members of the Public Safety Committee

SUBJECT Revised Parking Garage Lease for Police

This memo is to brief you on an action item scheduled for your June 23 agenda concerning an amended lease agreement for the parking garage serving the Jack Evans Police Headquarters. The lease was renegotiated at the request of the City to reduce high monthly rent payments over the next 3 years and 9 months in recognition of the challenging budget year the City is currently experiencing and anticipating for next year.

## **Parking Garage Use**

The City leases a three-story parking garage from International Business Machines (IBM) Corporation located at 1000 Belleview Street for the Police headquarters. The parking facility is situated on approximately 170,814 square feet of land, and contains approximately 1,430 parking spaces of which the City is leasing approximately 1,180 spaces. The parking garage has a connected four-story office building of approximately 182,000 square feet. Both the office building and the parking garage are situated on approximately 224,528 square feet of land. The current Option Agreement grants the City an option to purchase the office building and the parking garage prior to expiration of the lease term. It also grants the City an option to purchase the office building and parking garage for \$1 at the end of the lease term.

## **Agenda Item**

The June 23 agenda item is to authorize (1) an amendment to the lease agreement to restructure the annual base rental rate to reduce the current rental payment and extend the lease term for an additional one year period, through September 30, 2024; and (2) an amendment to the Option Agreement to amend the option period dates to provide for the purchase of approximately 224,528 square feet of land improved with an office building and the parking garage for \$1 at the end of the lease term to coincide with the amended lease termination date in 2024; and (3) an amendment to the Option Agreement to delete the provision that allows the City to purchase the property prior to the expiration of the lease.

## **Lease Terms**

The current lease was executed April 1, 2000 and is scheduled to expire September 30, 2023. Rental rates for the remainder of the current term (July 1, 2010 through September 30, 2023) total \$7,158,371. With the proposed amendment, rental rates for the remainder of the term lengthened by one year (July 1, 2010 through September 30, 2024) total \$8,237,537. This represents an overall increase of \$1,079,066 to extend the lease one year with the amended rental rates. The amended lease agreement allows the City to pay \$2,358,319 less rent in the time period between July 1, 2010 and September 30, 2019.

The current payment schedule, running from July 1, 2010, has a monthly cost of \$83,333 for 45 months followed by 114 months at \$29,167. The newly proposed lease would expire in September of 2024 and have monthly costs of \$29,167 for 111 months followed by 60 months at \$83,333.

**Analysis**

The Office of Economic Development (OED) assessed the alternative cash flows associated with the current and proposed lease options for lease of the IBM Garage space. OED compared the current lease terms to a proposed lease schedule that offers lower initial costs in exchange for a year longer lease with higher payments in the final years. Using a discounted net present value analysis, OED concluded that over a reasonable range of discount rates, the City will save money in real terms by accepting the new lease. Table 1 summarizes the results.

OED used discounted net present value analysis to compare the two lease terms. This analysis converts the monthly costs into real monthly costs using a discount rate. A discount rate is used to lower the value of payments in the future relative to more immediate payments. This is sometimes called adjusting for the “time value of money”. This approach reflects the observation that future dollars are worth less to most individuals than dollars in hand today. The new lease requires a larger total lifetime payout in exchange for lower costs in early years. The question is, are the lower initial savings worth the long term higher costs?

For governments, a widely used measure of the discount rate is the interest rate on borrowing money over the lifetime of the project in question. Since we cannot know future prevailing interest rates, OED repeated the analysis using several different discount rates ranging from 4.25% to 5.5%. The higher the rate, the lower the value applied to future payments. As a result, the higher the assumed discount rate, the better the new lease looks in terms of savings in adjusted dollars. There is a net savings for the City at all these discount rates. The new lease proposal provides a net savings to the city as long as the discount rate exceeds 3.96%.

Table 1.  
Lease Term Comparison

Discount Rate	Lifetime Payments		Net Savings
	Proposed Lease	Current Lease	
4.25%	\$5,748,733	\$5,811,408	\$62,675
4.50%	\$5,636,098	\$5,750,217	\$114,119
4.75%	\$5,526,496	\$5,690,249	\$163,754
5.00%	\$5,419,832	\$5,631,472	\$211,640
5.25%	\$5,316,015	\$5,573,854	\$257,838
5.50%	\$5,214,959	\$5,517,366	\$302,407

Source: Office of Economic Development.

### **Option for Early Purchase**

The current lease provides that the City may opt to acquire the garage and connecting office building in the following amounts during the periods listed below:

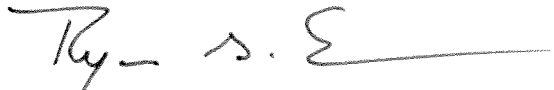
- Lease Years 1 through 9 \$48,000,000
- Lease Years 10 through 15 \$45,000,000
- Lease Years 16 through 23 \$42,000,000

The owner was willing to consider the City's request to renegotiate the lease rental rates and terms if this provision was eliminated from the amended lease agreement. Because the consideration for the right to acquire early is substantial, it was felt that removing this provision would not present a burden on the City. The option to acquire the structure for \$1 at the end of the amended lease term remains in place in the amended lease agreement.

### **Summary**

You are asked to authorize the amended lease agreement to reduce the current rental payment, extend the lease term an additional one year, remove the option to acquire the structure prior to the lease expiration, and extend the date to acquire the structure for \$1 at the end of the lease term to coincide with the new lease expiration date in September 2024.

Please let me know if you have any questions.



Ryan S. Evans  
First Assistant City Manager

Attachment: Proposed Rent versus Current Rent Schedule

C: Mary K. Suhm, City Manager  
Deborah Watkins, City Secretary  
Thomas P. Perkins, Jr., City Attorney  
Craig Kinton, City Auditor  
Judge C. Victor Lander, Judiciary  
A.C. Gonzalez, Assistant City Manager  
Forest Turner, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer  
David Brown, Chief of Police  
Theresa O'Donnell, Director of Development Services  
Helena Stevens-Thompson, Assistant to the City Manager

**IBM Garage Lease Proposed Rental Schedule Comparison to Current Schedule**

Current Rental Term Expires 9/30/2023

Proposed Rental Term Extended Through 9/30/24 an additional 1 year

Rental Period	Proposed Rental Schedule Rental per Period	Current Rental Schedule Rental per Period	*Rental Difference Beginning 7/1/2010
1/1/2010	\$499,999.98	\$416,666.65	\$83,333.33
7/1/2010	\$175,002.00	\$583,333.33	(\$408,331.33)
1/1/2011	\$350,004.00	\$1,000,000.00	(\$649,996.00)
1/1/2012	\$350,004.00	\$1,000,000.00	(\$649,996.00)
1/1/2013	\$350,004.00	\$1,000,000.00	(\$649,996.00)
1/1/2014	\$87,501.00	\$250,000.00	(\$162,499.00)
4/1/2014	\$262,503.00	\$262,503.00	\$0.00
1/1/2015	\$350,004.00	\$350,004.00	\$0.00
1/1/2016	\$350,004.00	\$350,004.00	\$0.00
1/1/2017	\$350,004.00	\$350,004.00	\$0.00
1/1/2018	\$350,004.00	\$350,004.00	\$0.00
1/1/2019	\$262,503.00	\$262,503.00	\$0.00
10/1/2019	\$250,000.00	\$87,501.00	\$162,499.00
1/1/2020	\$1,000,000.00	\$350,004.00	\$649,996.00
1/1/2021	\$1,000,000.00	\$350,004.00	\$649,996.00
1/1/2022	\$1,000,000.00	\$350,004.00	\$649,996.00
1/1/2023	\$750,000.00	\$262,503.00	\$487,497.00
10/1/2023	\$1,000,000.00		\$1,000,000.00
<b>Totals</b>	<b>\$8,737,536.98</b>	<b>\$7,575,037.98</b>	<b>\$1,162,499.00</b>

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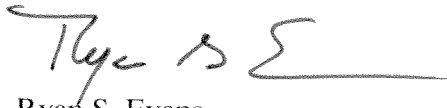
TO: Members of the Public Safety Committee

SUBJECT: Interlocal Agreement and Memorandum of Understanding - City of Duncanville

This is a Memorandum of Understanding, Interlocal Agreement and Resolution addressing law enforcement operations conducted by the Dallas Police Department and the Duncanville Police Department within the territorial boundaries of the other city. The agreement covers the several designated service areas of the City of Dallas that adjoin the borders of the City of Duncanville and several areas of the City of Duncanville that adjoin the borders of the City of Dallas. This agreement outlines the notification, arrest, investigative, and case filing procedures to be followed by both police departments. In addition this agreement enhances communication between departments and provides better services to the citizens of Dallas and Duncanville. Beginning this year, this agreement has been written as an open ended agreement and will remain in place indefinitely, unless the agreement is terminated by either party.

I recommend that the members of the Public Safety Committee approve the draft Interlocal Agreement, Memorandum of Understanding, and Resolution documents and refer them to the full Dallas City Council for approval.

Please feel free to contact me for clarification on any of these documents.









Ryan S. Evans  
First Assistant City Manager

Attachments

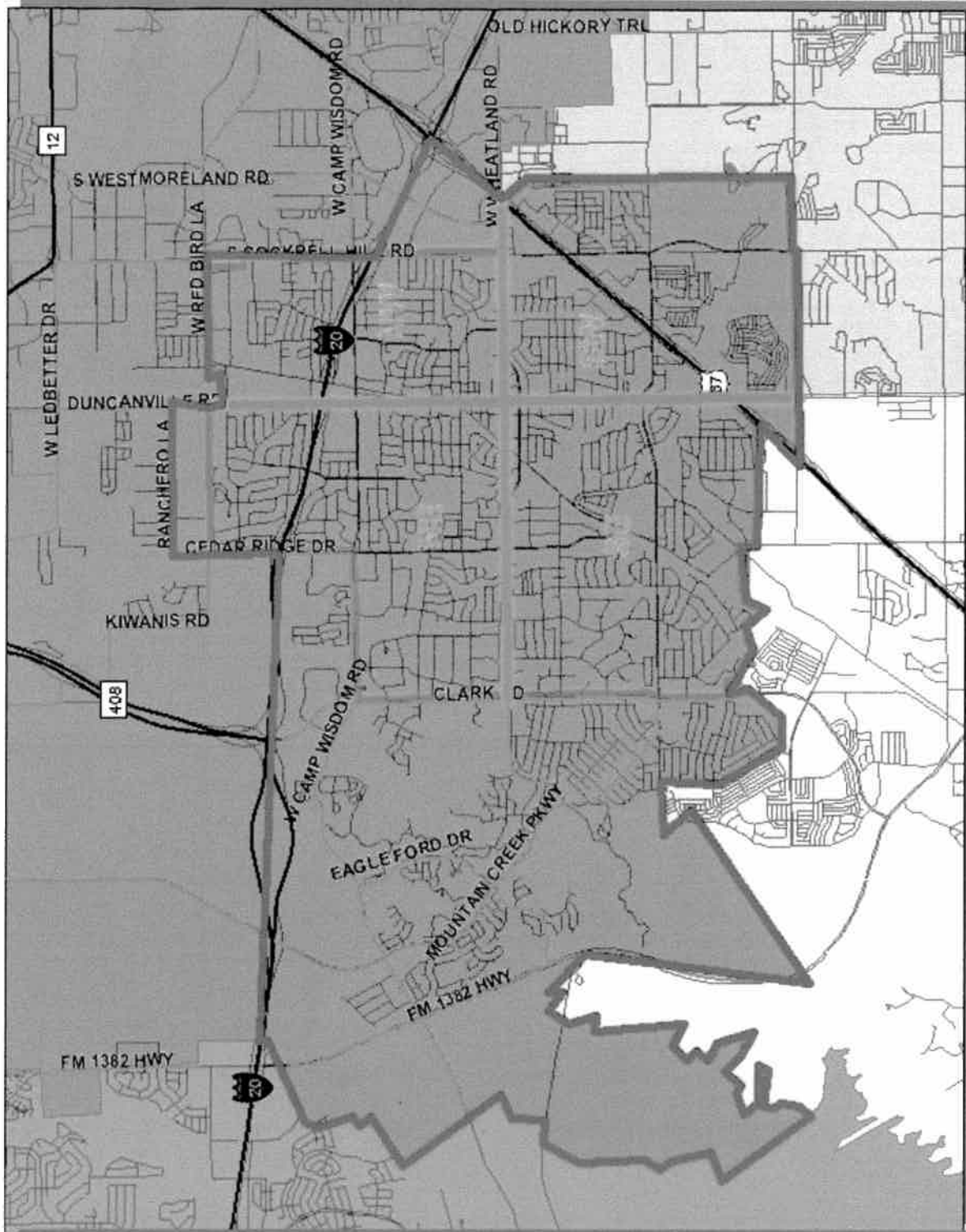
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-  Major Roads
-  DalRoads

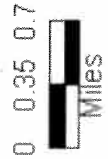
## City Limits

- CITY
-  Dallas
  -  DeSoto
  -  Duncanville
  -  Grand Prairie
  -  Irving
  -  Lancaster

-  Duncanville Division Boundary
-  Service Area Boundary



## Service Area Agreement Boundary with City of Duncanville



# Memorandum



DATE: June 18, 2010

TO: Members of the Public Safety Committee

SUBJECT: Interlocal Agreement and Memorandum of Understanding - City of Grand Prairie

This is a Memorandum of Understanding, Interlocal Agreement and Resolution addressing law enforcement operations conducted by the Dallas Police Department and the Grand Prairie Police Department within the territorial boundaries of the other city. The agreement covers the several designated service areas of the City of Dallas that adjoin the borders of the City of Grand Prairie and several areas of the City of Grand Prairie that adjoin the borders of the City of Dallas. This agreement outlines the notification, arrest, investigative, and case filing procedures to be followed by both police departments. In addition this agreement enhances communication between departments and provides better services to the citizens of Dallas and Grand Prairie. Beginning this year, this agreement has been written as an open ended agreement and will remain in place indefinitely, unless the agreement is terminated by either party.

I recommend that the members of the Public Safety Committee approve the draft Interlocal Agreement, Memorandum of Understanding, and Resolution documents and refer them to the full Dallas City Council for approval.

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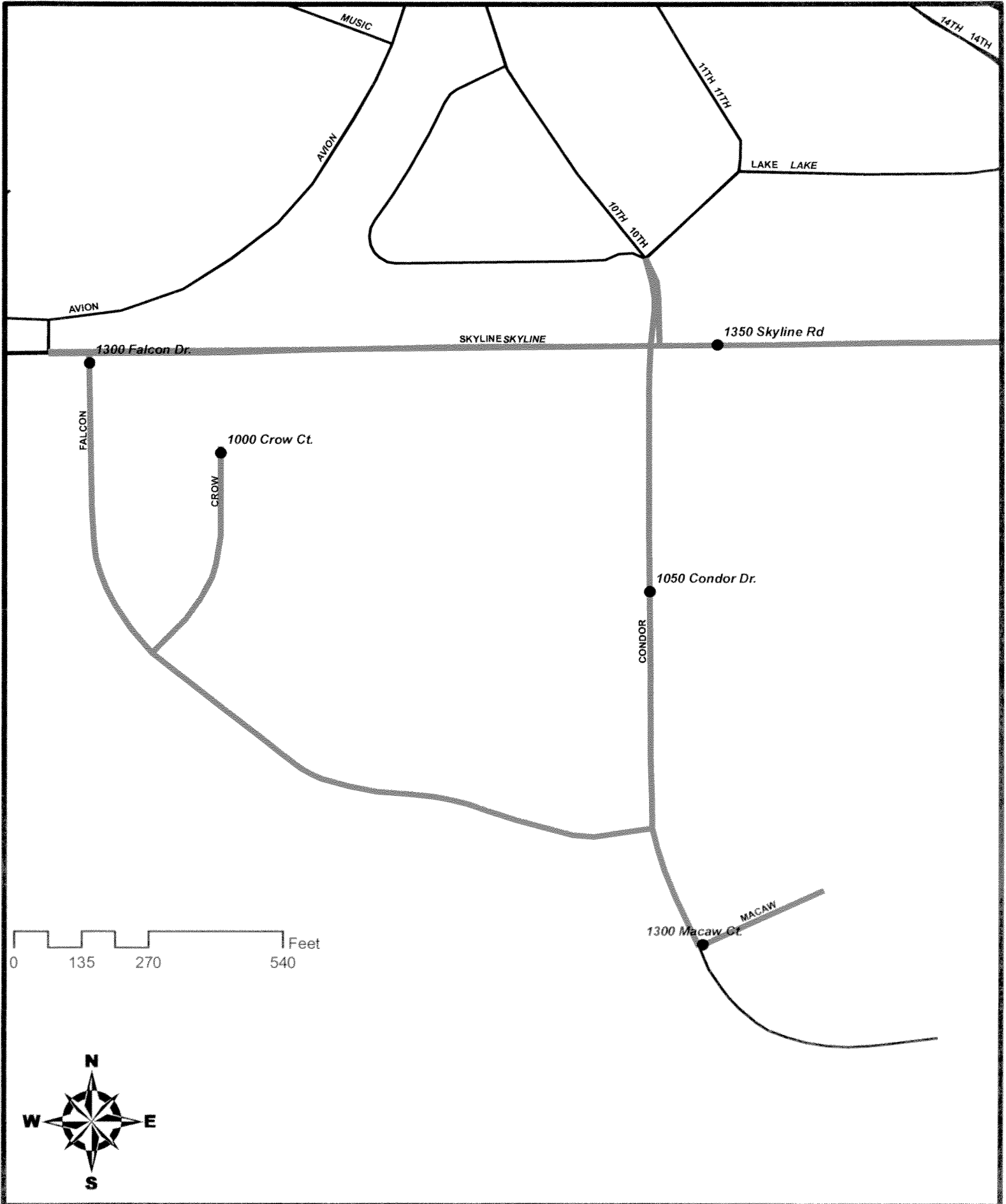


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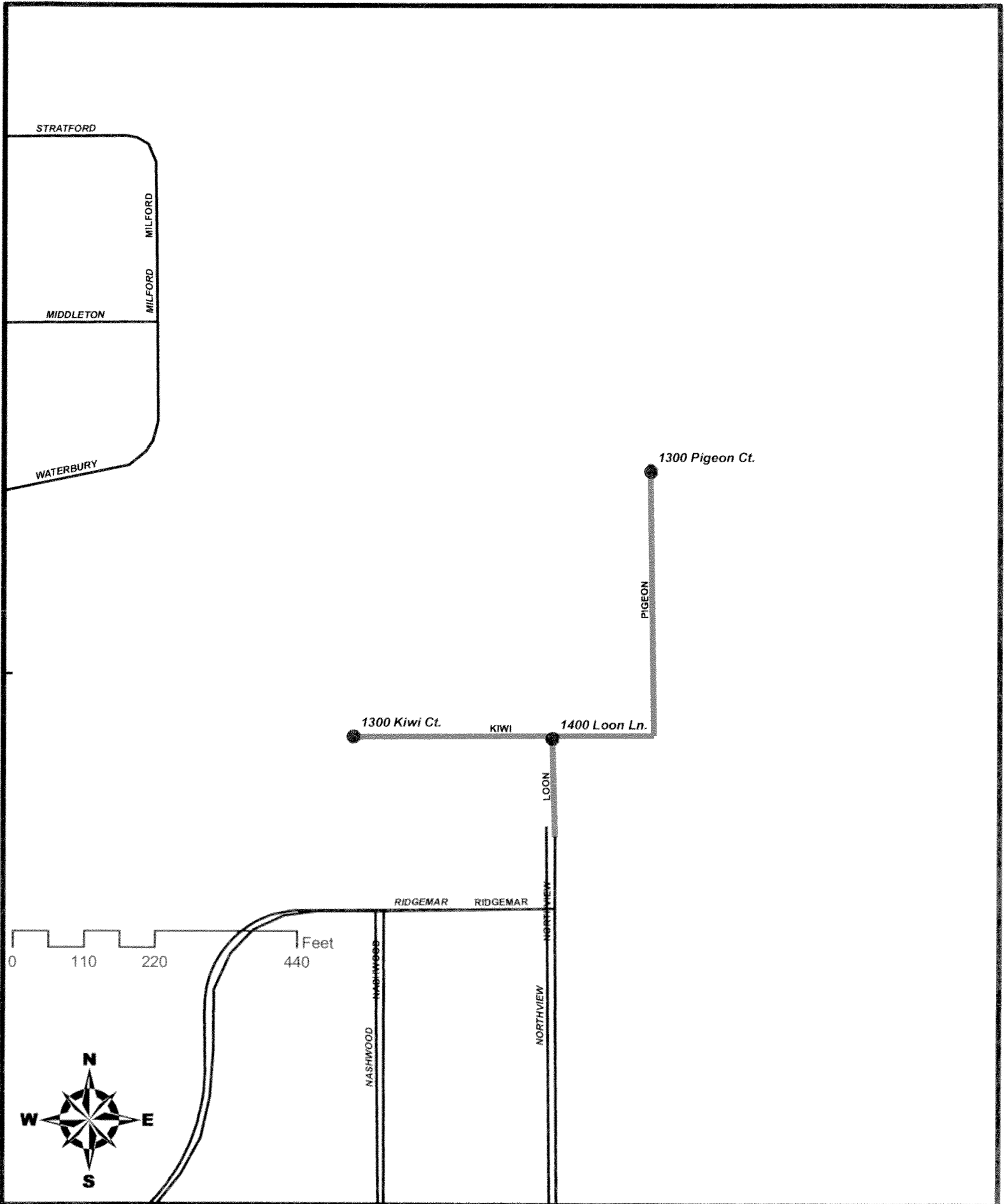
Attachments



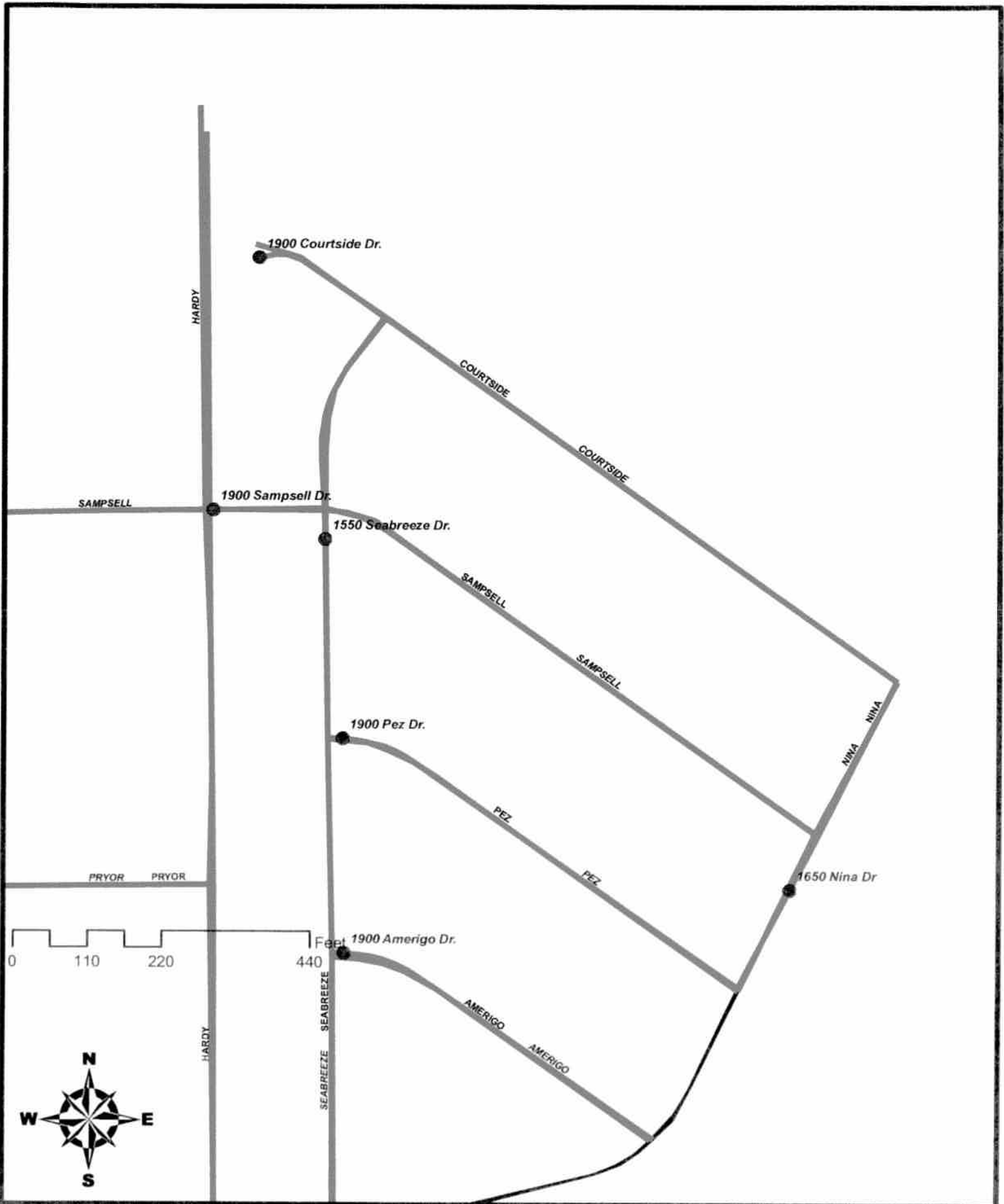
# Attachment "A"



# Attachment "B"



# Attachment "C"



# Grand Prairie Interlocal areas

