

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: MAY 22 2008

SUBJECT: Fiscal Impact Statement: "Old Naval Hospital Lease Approval Act of 2008"

REFERENCE: Draft Legislation – No Number Assigned

Conclusion

Funds are sufficient in the FY 2008 budget and FY 2009 through FY 2012 budget and financial plan to implement the provisions of the proposed legislation.

Background

The proposed legislation would lease the Old Naval Hospital, Carriage House and grounds ("Property"), under the jurisdiction of the District of Columbia, located at 921 Pennsylvania Avenue, SE—Square 802, Lot 948--to the Old Naval Hospital Foundation for a term of 65 years together with two (2) twenty-year extension options, to the Old Naval Hospital Foundation ("Tenant"), a District of Columbia non-profit corporation. The Old Naval Hospital Lease Term Sheet ("Term Sheet"), dated April 28, 2008, states that the annual rental rate would be \$1.00, subject to specific use clauses outlined in the Term Sheet.

Financial Plan Impact

Funds are sufficient in the FY 2008 budget and FY 2009 through FY 2012 budget and financial plan to implement the provisions of the proposed legislation. Implementation of the proposed

recording tax and possessory interest tax revenues¹ for the District, and an on-site Café in the Carriage House would likely generate sales tax revenues once it is completed. In addition, once Tenant's capital reserve has been fully funded at \$900,000, the District would realize 15% of the gross revenues generated by Tenant, which would primarily be raised through subletting or permitting other entities to use the Property. Finally, the District may realize an increase in income tax revenues, as the Mayor's Analysis of Economic Factors indicates that the renovation of the Old Naval Hospital would create approximately 150 jobs for District residents for the duration of the 12 month renovation, and 7 full-time and 45 part time jobs upon completion. However, revenue amounts from these sources cannot be reliably projected.

District agencies could absorb the cost of implementing the proposed legislation with existing resources. According to the Term Sheet, Tenant would pay all operating expenses associated with the proposed lease. Tenant would also pay for all development costs and the construction of all redevelopment project improvements, provided that the District of Columbia, subject to the availability of funds, would provide Tenant with up to \$5.5 million as an improvement allowance. This improvement allowance would be authorized through the "Old Naval Hospital Grant Act of 2008," which the Office of the Chief Financial Officer (OCFO) understands would be submitted to Council for consideration along with this proposed legislation. Therefore, the fiscal impact of the improvement allowance will be considered in the fiscal impact statement attached to the "Old Naval Hospital Grant Act of 2008," and not to this proposed legislation.

The value of District assets is not part of the District's budget and financial plan, and the proposed lease was not intended to be a market lease; therefore, the market value of the Property and potential revenues for the District associated with a lease at market value was not taken into consideration in this fiscal impact statement. Likewise, the market value was not taken into consideration in the Analysis of Economic Factors submitted by the Mayor and attached to the proposed legislation.

¹ This amount would be zero if Tenant applies for and is granted exemptions from said taxes by the Office of Tax and Revenue (OTR), or through Council action.