

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



Jeffrey S. DeWitt  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Phil Mendelson  
Chairman, Council of the District of Columbia

**FROM:** Jeffrey S. DeWitt  
Chief Financial Officer

**DATE:** October 30, 2015

**SUBJECT:** Fiscal Impact Statement – Grimke School, NW, Disposition Approval Resolution of 2015

**REFERENCE:** Draft Resolution as shared with the Office of Revenue Analysis on August 25, 2015

---

**Conclusion**

Funds are not sufficient in the fiscal year 2016 through fiscal year 2019 budget and financial plan to implement the resolution. The resolution approves the disposition of the Grimke School for private development. The District used tax-exempt bond proceeds for capital projects at the Grimke School, and under I.R.S. rules, cannot allow a private entity to capitalize on these improvements so long as the bonds remain outstanding. Therefore, the District cannot dispose the property before it pays off these bonds or refunds them. The estimated cost of defeasance, including pre-payment penalties is \$3.3 million.

The disposition will reduce District assets by \$10,941,068,<sup>1</sup> but assets are not a part of the District's budget and financial plan, and their loss is not a fiscal impact. The District will receive \$25,000 when the property closes, which it can use towards paying off the bonds.

**Background**

The proposed resolution approves the disposition of the properties located at 1923 Vermont Avenue, N.W. and 912 U Street, N.W.<sup>2</sup> to a joint venture of Roadside Development, LLC and Sorg Architects (the developers). 1923 Vermont Avenue, N.W. is the historic Grimke School, which currently houses the African-American Civil War Memorial Museum and Visitor's Center. 912 U Street, N.W. is a public parking lot.

---

<sup>1</sup> 2016 proposed tax assessments for Square 361, Lot 827 (\$9,219,260) and Lot 833 (\$1,721,808).

<sup>2</sup> Known for tax assessment purposes as Square 361, Lots 827 and 833.

The Honorable Phil Mendelson

FIS: "Grimke School, N.W., Disposition Approval Resolution of 2015," Draft Resolution as shared with the Office of Revenue Analysis on August 25, 2015

The District plans to dispose of the Grimke School through a 99-year lease. A portion of the school grounds<sup>3</sup> and the parking lot property at 912 U Street, N.W. will be a fee-simple sale. The developers will pay a nominal rent of one dollar per year for the lease and a purchase price of \$25,000 for the fee simple properties. The developers will redevelop the Grimke School to include approximately 14,000 square feet of space for the African-American Civil War Memorial Museum and Visitor's Center, as required by law,<sup>4</sup> nearly 26,000 square feet of commercial office space, and nearly 13,000 square feet of performance space.

Since they are benefiting from the disposition of a District property, the developers must meet various affordable housing requirements.<sup>5</sup> To do so, they will offer thirteen of the thirty-five multi-family residential units they plan to build on the 912 U Street, N.W. property as affordable units.<sup>6</sup> This building will also have approximately 3,300 square feet of retail space. The subdivided portion of the Grimke School property will have seven market-rate townhomes along 9 ½ Street, N.W.

The developers must sign a First Source Agreement with the District<sup>7</sup> and use Certified Business Enterprises for at least 35 percent of the contract dollar volume of the project, 20 percent of the project's equity financing, and 20 percent of the dollar volume of non-construction development activities.<sup>8</sup>

### **Financial Plan Impact**

Funds are not sufficient in the fiscal year 2016 through fiscal year 2019 budget and financial plan to implement the resolution. Implementation of the resolution will cost approximately \$3.3 million in fiscal year 2017, and is subject to its inclusion in an approved budget and financial plan.

The District used approximately \$3.1 million in proceeds from tax-exempt bonds for the repair and the renovation of the Grimke School property between 2009 and 2011. Of this amount, \$2.9 million was for the African-American Civil War Museum and Visitor's Center, which occupies the gymnasium in the rear of the school. The remainder paid for repairs in the main Grimke School building.

The Internal Revenue Service bans jurisdictions from transferring or selling a public space to private entities if the jurisdiction used proceeds from tax-exempt bonds to develop or repair the public space. To avoid violating these rules, the jurisdiction must pay off these bonds according to the initial borrowing terms, or repay or refund these bonds before the sale could happen.<sup>9</sup> The District desires to dispose of the Grimke School before the bonds mature and the defeasance costs will be approximately \$3.3 million in 2017, including the repayment of the principal, prepayment

---

<sup>3</sup> The District will subdivide Lot 827 before closing, but the Land Development Agreement is silent on the size of the subdivision, except for noting that the District and the development team must mutually agree on the terms.

<sup>4</sup> Fiscal Year 2014 Budget Support Act of 2013, effective December 24, 2013 (D.C. Law 20-61; 61 DCR 962).

<sup>5</sup> Disposition of District Land for Affordable Housing Amendment Act of 2013, effective November 27, 2014 (D.C. Law 20-193; D.C. Official Code § 10-801(a-3)).

<sup>6</sup> Seven units will be priced as affordable to 50 percent of the area median income and six units will be priced as affordable to 80 percent of the area median income.

<sup>7</sup> Pursuant to D.C. Official Code § 2-219.03.

<sup>8</sup> Pursuant to D.C. Official Code § 2-218.49a.

<sup>9</sup> Internal Revenue Code §141, (26 U.S. Code § 141, Private activity bond; qualified bond).

The Honorable Phil Mendelson

FIS: "Grimke School, N.W., Disposition Approval Resolution of 2015," Draft Resolution as shared with the Office of Revenue Analysis on August 25, 2015

penalties, and other costs of closing this debt, such as retaining of the bond counsel. The Mayor has not identified a source to pay for defeasance.

Provided that the bonds are repaid, the Mayor plans to close the sale and sign the lease agreement in 2017. At that time, the District will receive \$25,000 from the developers. The parking lot located on the 912 U Street, N.W. will also close. The operator currently pays \$1,000 per month to the District, and this agreement expires in September 2016. Given the timeline for the disposition, the District should continue to receive these payments until the expiration of the agreement.<sup>10</sup>

---

<sup>10</sup> According to the agreement, the District must give the lot operator thirty-day<sup>s</sup> notice to terminate.