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:	**January 5, 2016**
SUBJECT:	**Fiscal Impact Statement – St. Elizabeths East Campus – Phase I Disposition Approval Resolution of 2015**
REFERENCE:	**Draft Resolution as shared with the Office of Revenue Analysis on October 28, 2015**

Conclusion

Funds are sufficient in the fiscal year 2016 through fiscal year 2019 budget and financial plan to implement the resolution. The resolution approves the disposition of four parcels of the St. Elizabeths East campus for private development. The District used tax-exempt bond proceeds for capital projects on these sites, 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 of the property before it pays off these bonds or refunds them. The estimated cost of defeasance, including pre-payment penalties and administrative fees, is $1.7 million in fiscal year 2018.

The disposition will reduce District assets by $18.2 million,[1] but assets are not a part of the District's budget and financial plan, and their loss has no fiscal impact. The District will receive $864,000 when the District sells the properties.

Background

St. Elizabeths campus is a National Historic Landmark located in Southeastern Washington, D.C. and is comprised of a West and East campus. In 1987, the federal government transferred ownership of the East campus to the District. The St. Elizabeths East redevelopment framework plan[2] and the

[1] Proposed 2016 tax assessments for Square 5868S, Lots 809 ($1,469,140), 811 ($780,570), 812 ($518,950), 813 ($14,912,740), and 823 ($502,570).
[2] Saint Elizabeths East Redevelopment Framework Plan Approval Resolution of 2008, approved December 16, 2008 (Resolution 17-899; 56 DCR 516).

subsequent St. Elizabeths East Master Plan and Design Guidelines established the vision, scope, and details of how the District would revitalize the East campus.

The proposed resolution approves the disposition of four parcels (Parcels, 10, 11, 14 (a and b), and 17)[3] of the East campus to a joint-venture of Redbrick LMD, LLC and Gragg Cardona Partners, LLC for the development of single and multi-family residential homes and a commercial building. At the beginning, the District will only dispose of Parcels 11, 14(b), and 17. Once construction begins on Parcel 11, the developer can exercise an option to purchase Parcels 10 and 14(a). The developer will control Parcels 11 and 17 under a 99-year ground lease paying a nominal rent of one dollar annually for Parcel 11 and $100,000 annually for Parcel 17.[4] The District will sell Parcels 10 and 14 in fee simple for a base price of $864,000.[5]

Development of the parcels will occur in various stages. First, the developer will redevelop the historic Continuous Treatment buildings (Parcel 11) into approximately 250 multi-family residential apartments. In the next two phases, which are expected to occur simultaneously, the developer will build 60 to 120 single-family townhomes on Parcels 10 and 14.[6] The developer will build a commercial building[7] on Parcel 17 in the final phase of development.

Since the developers are benefiting from the disposition of District property, they must meet various affordable housing requirements.[8] The multifamily apartment building units will be approximately 80 percent[9] affordable and the townhomes units will be 30 percent affordable.[10]

The District is also obligated to fund infrastructure improvements around the development sites and to subsidize the development of any underground parking required by the District.

The developers must sign a First Source Agreement with the District[11] 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.[12]

[3] Known for tax and assessment purposes as Square 5868S, Lots 809 (Parcel 17), 811 (Parcel 14(b)), 812 (Parcel 14(a)), 813 (Parcel 11), and 823 (Parcel 10).
[4] Parcel 17 also carries an option to purchase after the Zoning Commission rules on density allowances. The purchase price and any off-sets from prior lease payments will be determined based on the project's density. The parties will detail the purchase terms in the ground lease.
[5] The District could increase the purchase price if the zoning approval process grants additional density for these parcels. $403,200 of the purchase price is associated with Parcel 14(b), while the remaining $460,800 is associated with the developer's option to purchase Parcels 10 and 14(a).
[6] This assumes the developer will exercise its option to purchase Parcels 10 and 14(a).
[7] The building must have a minimum of 30,000 square feet of ground floor retail space.
[8] 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)).
[9] For a duration of forty years, approximately 126 of the units will be affordable to 60 percent of the area median income (AMI), 57 to 50 percent AMI, and 19 to 30 percent AMI.
[10] Half of the affordable units will be affordable to 80 percent AMI and the other half to 50 percent AMI.
[11] Pursuant to D.C. Official Code § 2-219.03.
[12] Pursuant to D.C. Official Code § 2-218.49a.

Financial Plan Impact

Funds are 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 $1.7 million in Fiscal Year 2018.

The I.R.S. rules severely restrict private business use of a public space or the transferring or selling a public space to private entities if the government issuer used tax-exempt bond proceeds to develop or repair the public space and the bonds are still outstanding. The I.R.S. also imposes extensive and costly penalties for violations of the rules. To comply with the I.R.S. rules, the government issuer must pay off these bonds according to the initial borrowing terms, or defease or refund these bonds, before the sale to a private party could happen.[13] The District desires to dispose of these parcels before the bonds mature and the defeasance costs will be approximately $1.7 million, including principal and interest payments, prepayment penalties, and other related costs, including retaining a bond counsel and an escrow agent.[14] The actual defeasance and administrative costs will be determined at the time of defeasance that the District anticipates to be before the disposition date, in December 2017.

Once the District repays the bonds, the Mayor plans to close the sale and sign the lease agreements in December 2017 through July 2018. The developer will pay a minimum of $864,000 for the fee simple properties and annual lease payments of $100,000 for the leased properties. The sale proceeds could increase if the zoning approval process increases allowable density on Parcels 10 and 14 and the developer exercises its option to purchase Parcel 17. The District will deposit these funds in the general fund.

The District has budgeted $58 million for infrastructure improvements and those funds are sufficient to meet the District's obligations. The District does not have sufficient funds to subsidize or pay for any required underground parking, but the cost of any subsidy is unknown at this time.

[13] Internal Revenue Code §141, (26 U.S. Code § 141, Private activity bond; qualified bond).
[14] The bond expenditures will be allocated proportionally based on the acreage of the parcels to be disposed relative to the total acreage of the East campus.