

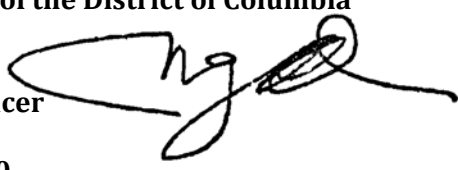
Government of the District of Columbia
Office of the Chief Financial Officer



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: November 16, 2010

SUBJECT: Fiscal Impact Statement – “Justice Park Disposition Approval Resolution of 2010”

REFERENCE: Draft as Shared with the OCFO on November 7, 2010 – No Bill Number

Conclusion

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed resolution. The disposition of this property could have a positive but unknown impact on the budget and financial plan starting in FY 2013 or FY 2014. Under the terms of the draft ground lease, the developer would be required to pay an annual rent equal to 10 percent of annual cash flow. Estimates of annual cash flow were not available at this time of this analysis. The District would begin collecting rent payments in FY 2013 or FY 2014.¹

The disposition of this property would also reduce District real property assets by approximately \$1.33 million.² Since assets are not included in the budget and financial plan, the disposition of the property will not have a negative fiscal impact on the District’s budget and financial plan.

¹ According to the Office of the Deputy Mayor for Planning and Economic Development, the annual rent payments would begin once 90 percent of the rental units are under lease; this is expected to occur in FY 2013 or FY 2014.

² A third party appraisal was conducted by an appraiser hired by the Office of the Deputy Mayor for Planning and Economic Development to estimate the Fair Market Value of the property “As Is,” *i.e.* in its present state of condition. The property was appraised at \$1,330,000. According to OTR’s Real Property Tax Database, the assessed value for tax year 2010 is \$297,770 for Lot 811. Source: <https://www.taxpayerservicecenter>.

Background

The proposed resolution would authorize the Mayor to sell the District-owned property located at 1421 Euclid Street N.W., legally known as Lot 811 in Square 2665. The property is currently a recreational area of approximately 12,235 square feet of land. The Mayor intends to dispose of the property via a 99-year ground lease to Euclid Community Partners, LLC, ("Developer") a District of Columbia limited liability company.

The property will be redeveloped into a multi-family residential building (38,500 square feet) consisting of a minimum of 30 apartments, all of which will be affordable to families with income at or below 60 percent of Area Median Income. The project will also include approximately 16 parking spaces.

Per the draft Ground Lease ("lease"), the Developer would pay annual ground rent equal to 10 percent of cash flow for the first five years and each year thereafter pay the greater of \$10,000 or 10 percent of cash flow, escalated by 2.5 percent annually.³

The Developer has also agreed to make an annual contribution of \$10,000, in cash or in kind, for the maintenance and beautification of the new Justice Park site. For the first 15 years, the use of the annual contribution would be restricted to site maintenance.

Under the proposed legislation, the Developer is required to enter into an agreement with the Mayor to contract with Certified Business Enterprises (CBEs) for at least 35 percent of the contract dollar volume of the project, and to require at least 20 percent equity and 20 percent development participation of CBEs. Finally, the Developer is required to enter into a "First Source Agreement" with the District requiring it to hire a certain number of District residents for new jobs created as a result of construction on the property.

Financial Plan Impact

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed resolution. The disposition of this property would reduce District real property assets by approximately \$1,330,000. Since assets are not included in the budget and financial plan, the disposition of the property will not have a direct fiscal impact on the District's budget and financial plan.

The proposed disposition could also have a positive but unknown fiscal impact in the FY 2011 through FY 2014 budget and financial plan. Under the terms of the lease, the Developer would be required to pay the District an annual rent 10 percent of annual cash flow for the first five years, and then each year thereafter pay the greater of \$10,000 or 10 percent of cash flow, escalated by 2.5 percent annually. Estimates of annual cash flow were not available at the time of this analysis; therefore it is not possible to estimate the fiscal impact over the budget and financial plan period.

³ The lease was shared with the OCFO on November 8, 2010. The lease is not final and cannot be finalized until the land disposition is approved by the Council. Therefore the terms of the lease reviewed by the OCFO could change after Council approval.