

DISPOSITION ANALYSIS
IN SUPPORT OF DISPOSITION OF REAL PROPERTY

Project Name: Grimke Elementary School and 912 U Street NW

Property Description: Square: 0361, Lots: 0827 and 0833 (the “Property”)

Size of Property: Lot 0827 is approximately 37,926 square feet
Lot 0833 is approximately 5,872 square feet

Zoning of Property: R-4 & ARTS/C-2-B

Ward: Ward 1

Lessees: Roadside Development LLC and Sorg Architects (the “Development Team”). Additionally, the African American Civil War Museum (AACWM) and several dance organizations are expected to lease space in the Grimke Elementary School Building (the “School Parcel Lessees”).

Description of Development Program:

The Development Team intends to (1) renovate the historic Grimke Elementary School to make it a new arts and cultural center of the U Street corridor, (2) replace the Grimke School addition and associated parking on 9 ½ Street NW with seven (7) for-sale townhomes, and (3) build approximately 35 residential units on the surface parking lot at 912 U Street NW. The Grimke School Building will include approximately 14,000 sf of space for the African American Civil War Museum (AACWM), 12,500 sf of space for performing arts organizations, and 27,000 sf of commercial office space. The Vacant Parcel will include 13 units of affordable housing, 22 units of market rate housing, and approximately 3,000 sf of ground-floor retail.

1. Proposed Method of Disposition. DC Code § 10-801(b)(8).

Lot 827, the “School Parcel”, will be subdivided into two parcels. The west portion of the School Parcel, which includes the original Grimke School building, will be ground leased for 99 years under the provision of D.C. Code §10-801(b)(8)(C) that covers leases greater than 20 years (“Ground Leased Parcel”). The east portion of the School Parcel along with the Vacant Parcel will be sold fee simple according to the requirements of D.C. Code §10-801(b)(8)(F) (“Fee Parcel”).

2. Description of efforts to dispose of Property for direct “public benefit” as described

on specific government plan adopted by the Mayor or Council (e.g. Community Development Plan, the Comprehensive Plan, the Strategic Neighborhood Plan, or the Comprehensive Housing Strategy Plan). DC Code § 10-801(a-2).

In 2008, the Deputy Mayor for Education released a Request for Offers (RFO) for the Grimke School. The District did not select a charter school to award the building. Subsequently, the Department of General Services (DGS) elected to move FEMS and the Department of Corrections out of Grimke and make it available for redevelopment. In 2009, DMPED released a solicitation for redevelopment, but did not select a development team.

DMPED released a new solicitation for the Grimke School in April 2014. Three teams submitted offers and two were selected to move forward to a Best and Final Offer (BAFO). Under the previous administration, the project was awarded at the last minute to Roadside Development and Sorg Architects (Roadside/Sorg). However, the awarded program did not meet the requirements of the Disposition of District Land for Affordable Housing Amendment Act of 2014 (“ADU Act”). The new administration asked the two short listed teams to submit new BAFOs that meet the requirements of the ADU Act.

Both teams submitted new offers that met the requirement for 30% affordable units. The selection panel compared the offers carefully and recommended award to the Roadside/Sorg team. The Roadside/Sorg team has the qualifications, provided the most economic value to the District, and still meets the requirement for 30% affordable units.

a. Public Benefits Requested in Solicitation.

The DUKE Small Area Plan, approved by Council in 2005, recommends that the District “Relocate Fire/EMS and Corrections from Grimke” and “Consider an interpretive museum for the African-American Civil War Memorial and possibly other museum uses at Grimke School.” It also recommends additional arts-related uses for the Grimke building.

In 2013, the Council of the District of Columbia passed legislation, the “African-American Civil War Memorial Freedom Foundation Inc. Museum Development Act of 2013”, which requires that any redevelopment of the School Parcel provide for the exclusive use, renovation, and expansion of no less than 10,000 square feet in the Grimke School building for the establishment and operation of the AACWM and its Visitor’s Center (Sections 2132 to 2134 of D.C. Law 20-61). The legislation is included in the “Fiscal Year 2014 Budget Support Act of 2013.” The District’s solicitation for redevelopment of Grimke included this as a requirement of all proposals.

The June 4, 2014 solicitation also required that any proposal with a residential component include affordable housing as required by Inclusionary Zoning provisions of the District of Columbia Zoning Regulations (11 DCMR §§ 2600 *et seq.*). After responses were received, the Council passed new legislation (the Disposition of District Land for Affordable Housing Amendment Act of 2014 (D.C. Act 20-485) (“ADU Act”), which requires that 30% of units be affordable on District-owned property. In order to comply with the ADU Act and maintain a fair process, DMPED requested that the two short

listed teams submit Best and Final Offers addressing the new affordable housing requirements.

b. Describe any Public Benefits in the proposed Developer's Development Plan.

First, the proposed development plan includes 13 units of affordable housing at 50% and 80% AMI. This meets the ADU Act requirement to make 30% of all units affordable.

The proposed development plan goes beyond the legally required minimum square footage for the AACWM and provides approximately 14,000 gross square feet that will include a new black box theater for the benefit of both the museum and performing arts organizations.

Finally, just under 25% of the space in the Grimke facility will be leased to not-for-profit performing arts organizations including CityDance, Step Afrika!, Imagination Stage, and Dance USA. These organizations are expected to offer a number of classes and creative programming to serve DC children and families. In conjunction with the museum, these uses will turn Grimke into a new arts and culture hub for Washington, DC.

c. Public Uses included in proposed Developer's Development Plan (such as public parks, construction of roads, sidewalks, and other public amenities).

The proposed Development Plan will bring new life to the historic Grimke School building and a vastly improved pedestrian experience in the neighborhood through enhanced sidewalks, crosswalks, and streetscape features. In keeping with the DUKE Small Area Plan recommendations, the Developer will rebuild the sidewalk in front of the Grimke School Building, improve the visual connection between the African American Civil War Museum and the Memorial that is on the west side of Vermont Avenue, as well as improve the landscaping around the Grimke School building.

3. The chosen method of disposition, and how competition was maximized. DC Code § 10-801(b-1)(A).

a. Description of solicitation process (include form of solicitation, how solicitation was advertised).

The Office of the Deputy Mayor for Planning and Economic Development ("DMPED") released a Request for Proposals ("RFP") on June 4, 2014. The RFP was published on the DMPED website, distributed to DMPED listserv recipients, provided to all impacted ANCs and disseminated through local press coverage of the release of the solicitation. A pre-proposal conference was held on June 17, 2014. Initially, submissions were due on July 29, 2014, but the deadline was extended to August 28, 2014.

b. Please describe the competitive bid process, including number of responses. Please also summarize each qualified bidder for the Property. If no competitive process was

followed, please explain why not, and how the Developer was chosen and all key terms of the arrangement.

The schedule of the RFP process was as follows:

- RFP Issued – June 4, 2014
- Pre-Response Conference and Site Visit – June 17, 2014
- Responses Due – July 29, 2014 (extended to August 28, 2014)
- Community Presentations on Proposals – October 14 and October 28, 2014
- Open period for Community Feedback – October 14 to November 17, 2014
- Notification of Short listed Developers – November 25, 2014
- Short listed Team Best and Final Offer Submissions Due – February 20, 2015
- Notification of Final Selection – April 9, 2015

DMPED received responses from the following three Development Teams:

- Roadside Development/Sorg Architects (“Roadside/Sorg”)
- Community Three Development/Torti Gallas Architects (“C3D/Torti Gallas”)
- Grimke Redevelopment Partners - a joint venture between MCN Build and the Meridian Public Charter School (“Grimke Partners”)

An Evaluation Panel, including staff from DMPED, the Office of Planning, and the Department of General Services, reviewed the material provided and met for an initial evaluation on October 3, 2014. The Evaluation Panel interviewed all three respondents on October 8, 2014. After the interviews, the Evaluation Panel selected two respondents for a short list to provide Best and Final Offers (BAFO).

The BAFO request was issued on February 2, 2015 with responses due by February 20, 2015. The Panel met on February 25 to consider the responses and followed up with additional questions of both respondents. The Evaluation Panel held its final meeting on March 20, 2015 and recommended award to the Roadside/Sorg team.

Qualified Bidder Summaries

The Roadside/Sorg team proposed a full rehabilitation of the historic Grimke School building with 14,000 gross square feet for the AACWM, approximately 12,500 gross square feet of shared practice, performance and office space for Step Afrika!, CityDance, Dance USA, and Imagination Stage, and approximately 27,000 gross square feet of commercial office space. The proposal also included seven townhomes on 9 ½ Street NW and a mixed-use building including 35 units of quality affordable and market-rate housing over ground floor retail on the Vacant Parcel. The residential component of the proposal included 13 units of affordable housing at 50% and 80% of Area Median Income (AMI). The team proposed construction in two phases starting with the Grimke School building and Vacant Parcel in order to provide uninterrupted operations for the AACWM.

The C3D/Torti Gallas proposal for the Grimke School building included 11,538 gross square feet for the AACWM, commercial office space for Torti Gallas and Partners, and shared work space managed by CulturalDC for the Improv Theater and PEN/Faulkner.

On 9 ½ Street NW, C3D/Torti Gallas proposed a three-story multifamily building with 27 for-sale condominiums. On the Vacant Parcel, the team proposed to build a multifamily building with 25 for-sale condominiums. Of 52 total units proposed, 16 would be made affordable at 50% and 80% AMI. The team proposed a single phase of construction with all properties being developed simultaneously.

c. Please describe any public hearings on the potential disposition and any public comments received during the public hearings.

DMPED and ANC1B hosted two community presentation sessions on October 14 and October 18, 2014 where the respondents showcased their proposals. Subsequently, ANC1B held additional meetings on October 22, October 27 and November 5, 2014 to discuss the proposals and prepare a recommendation. On November 6, 2014, the ANC submitted a letter (Exhibit A) that recommended C3D/Torti Gallas and Roadside/Sorg move forward to a BAFO stage. It also recommended that the offers focus on increasing daytime use and incorporating arts and culture uses.

The District has kept the community informed of progress on the solicitation and negotiation process by meeting with ANC members and attending ANC meetings. A DMPED representative attended an ANC 1B monthly meeting on February 5, 2015 in order to report on the BAFO and addressing the ADU Act requirements. After award, DMPED also attended a meeting of the ANC's Economic Development Committee to report on the negotiation process.

On September 18, 2015, DMPED held a public surplus hearing as required under DC Code § 10-801. At least ten community members attended. No comments on the surplus designation were received. (See transcript provided.) After the surplus hearing, community members asked questions and made comments on the proposed disposition. Community members inquired about how parking will be handled during the interim period before construction begins. Other questions focused on building maintenance and the timing of construction.

4. The manner in which economic factors were weighted and evaluated, including estimates of the monetary benefits and costs to the District that will result from the disposition. The benefits shall include revenues, fees, and other payments to the District, as well as the creation of jobs. DC Code § 10-801(b-1)(B).

a. Identify all relevant costs, including property value for the subject and surrounding property, cost of potential rehabilitation, current and / or past cost for upkeep on the Property.

An independent appraisal completed by Valbridge Property Advisors concluded the value based on the development program of each of the three development parcels. The appraisal concluded that the market rent of the School Building would be \$0 because the market value would be -\$4,620,000. The market value of the Townhome Parcel under

the proposed development scenario would be \$2,660,000. The market value of the Vacant Parcel under the proposed development scenario would be \$240,000. Taken all together, the market value of the overall project would be -\$1,720,000.

The appraisal concluded the cost of rehabilitating and converting the Grimke School Building at over \$14.6M. The direct and indirect costs of the multifamily building is approximately \$312/sf. This is on the lower end of the comparable construction costs presented in the appraisal. Despite the high costs of rehabilitating and preserving an historic structure as well as the cost of 13 affordable units, the District is not providing any additional subsidy for this project other than a write-down in land value.

Currently the property is vacant and therefore not being maintained to a useable standard. Additionally, for purposes of life and safety the utilities have not been shut off so the property continues to be a drain on the District's resources without providing any tax revenue or any other benefits to the public. For any user, a major rehabilitation is necessary to bring the school into compliance with modern building codes and accessibility requirements.

Due to the poor condition and need for cost-prohibitive rehabilitation of the Grimke School Building, DMPED determined that the economic benefits could be maximized by reactivating the Property through disposition to a private entity. Private redevelopment would create value for the District by building new housing and introducing new office, arts and retail uses.

b. Describe potential revenue that could be derived from the Property and how it was maximized in selected disposition method.

As part of its submission, Roadside/Sorg offered to pay \$25,000 to the District for the Fee Parcel and will pay \$1/year for a 99-year lease of the Grimke School Building. The District will provide no additional subsidy for this development. Since the School Parcel is owned by the District and has only served a public use, it has not contributed tax revenue to the District in the past. By converting the property to commercial and residential use, the property will begin contributing tax revenue to the District. Roadside/Sorg commissioned Jon Stover & Associates (JSA) to produce a Fiscal Impact Analysis that estimates the development will generate \$9.2 million in District revenue over ten years from property taxes, sales tax, income taxes and corporate profit taxes. This analysis also determined that the project will generate 134 temporary or construction jobs and 125 permanent jobs.

Planned redevelopment of the Property would allow the District to derive both disposition and long-term tax revenue from the Property. Because the Property has been vacant and unsuitable for government use without prohibitive rehabilitation costs, it is neither generating revenue nor providing public benefits. The District is able to maximize revenue through a ground lease disposition of the School Parcel and by including fee simple purchase of the Fee Parcel. Additionally, the future tax revenues

generated from converting the Grimke School building to commercial and arts uses will be substantial, particularly because this property has never generated income in its history.

The Vacant Parcel is currently leased to U Street Parking for \$1,000/month. The lease expires in January 2016. As part of the disposition process, DMPED weighed the current lease against development of 35 units of housing and 3,000 square feet of retail. DMPED determined that development would provide far more revenue over the long run than leasing the property for parking.

5. Please describe all disposition methods considered and provide a narrative of the proposed disposition method that contains comparisons to the other methods and shows why the proposed method was more beneficial for the District than the others in the areas of return on investment, subsidies required, revenues paid to the District, and any other relevant category, or why it is being proposed despite it being less beneficial to the District in any of the measured categories. DC Code § 10-801(b-1)(C).

The solicitation indicated that the District planned to convey the Grimke School through a long-term ground lease and the remaining property via fee simple transfer. Due to the condition of the Grimke School building and the cost required to rehabilitate a historic building of 52,000 square feet, DMPED determined that a fee simple transfer of the Fee Parcel could cross subsidize the costly rehabilitation of the Grimke School building and avoid a need for additional subsidy. Initial solicitation responses suggested that even with a shorter 50-year ground lease on the School Parcel and fee transfer of the Fee Parcel, the project would still require a subsidy in addition to writing down land value to zero. By requesting additional scenario analysis through the Best and Final Offer process, the District was able to select a proposal that offered a 99-year ground lease on the School Parcel, fee transfer of the Fee Parcel, and \$25,000 in land value. The District's appraisal shows that, under the proposed development program, the overall value of the property is -\$1,720,000.

The proposed method of disposition will maximize revenue for the District, maximize investment in the project, and avoid a subsidy. This disposition method is the most efficient and effective because it allows the District to generate not only annual revenue from a productive asset, but it will also produce tax revenue through sales and property taxes. In addition, the proposed project will require no additional subsidy from the District to rehabilitate a historic asset.



RECOMMENDATION FOR GRIMKE REDEVELOPMENT PROJECT

November 6, 2014

SUMMARY RECOMMENDATION:

ANC 1B recommend the Office of the Deputy Mayor for Planning and Economic Development to request best and final offers from 1) Community Three Development, LLC; and 2) Roadside Development, LLC and Sorg Architects. The proposal from Grimke Redevelopment Partners (joint venture MCN Build, Morningstar Community Development, and Four Points, LLC) highlighted the need for space for technology incubators and educational campuses for K-6 space. We recommend the appropriate DC agencies work to identify appropriate existing schools available for transition better suited for the Meridian School within our community. Further, the Mayor has designated Georgia Ave as a technology corridor and should foster technology start-ups and growth while engaging participation from the DCPS, Charter, Colleges, and Universities to develop a new high value workforce.

The best and final offers should be further expanded to include:

- Defined use of space for Arts, Culture, and Creative per the Duke Plan
 - Daytime use – performances, office space, community use
 - Evening use – performances, classes, community use
- Increased daytime use
 - Commercial employment on U St Corridor
 - Foot traffic
- Historic Site
 - Destination anchor site for area
 - Leverage the heritage trail of generations which segues visitors towards the AACWM and DC's historic jazz district
- Improved architectural design and space usage
 - Commercial buildings
 - 9 ½ Street enclave
- Creative opportunities to develop an intelligent corridor (*extra*)
 - Signage
 - Visitor area
 - Arts and Humanities integration across corridor
 - Corporate partnerships in creative tech trials

PROCESS:

ANC1B and the Office of the Deputy Mayor for Economic Development are working collaboratively in the redevelopment of the Grimke School and associated properties. The ANC has provided input to the RFP, jointly hosted two information sessions, and held three community meetings to recommend the top two proposals for best and final offer along with suggestions for further improvement of the proposals. ANC1B acknowledges the crucial role of the Grimke Working Group and the neighbors with abutting properties to the project.

ANC1B Input to RFP:

Community & Stakeholder Outreach

The success of any development project hinges on the inclusion and support of the local community. DMPED has conducted community outreach with key stakeholders, including relevant ANC Commissioners and residents, to understand what goals the community would like the redevelopment of the Development Parcels to achieve. Generally, the community supports daytime and commercial business uses- such as the AACWM, and other cultural and arts organizations- and uses that bring people to the neighborhood to work, visit, and have historic and cultural experiences. More specifically, the community emphasizes that while the Arts Overlay encourages the development of restaurants, bars and nightclubs, other preferred uses in the Overlay are more desirable given that a significant number of these types of establishments have already located on the U Street corridor. New construction should be architecturally appropriate with the historic Grimke School building and complement the existing townhouses on 9 1/2 Street and Respondents should consider increased traffic patterns on the main streets and alleys. Respondents are strongly encouraged to work with local community members and stakeholders to understand how the community's goals, to the extent practical, can be met in the Respondent's response. DMPED will engage the community by informing the ANC of the submitted proposals and gathering comments before the selection of a Respondent. While DMPED has the final decision in selecting a Respondent, involving the ANC during the process will promote community engagement and a positive outcome. The ANC's recommendations shall be given great weight provided by District law, as applicable, if the selected proposal requires a PUD, HPRB, or any other zoning-related application.

On September 10, 2014, DMPED announced the receipt of three responses submitted. The three respondents to the RFP are:

- Community Three Development, LLC
- Grimke Redevelopment Partners (joint venture MCN Build, Morningstar Community Development, and Four Points, LLC)
- Roadside Development, LLC and Sorg Architects

DMPED and ANC1B hosted two Grimke Redevelopment RFP Community Presentation Meetings on October 14 and October 18, 2014.

ANC1B held three community meetings, on October 22, October 27, and November 5, 2014, to discuss the proposals, ask follow-up questions of the respondents, and prepare a recommendation to ANC1B for submission to DMPED for the best-and-final stage of the project.