VINCENT C. GRAY
MAYOR

FEB 13 2013

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Mendelson:

Enclosed for consideration and approval by the Council, pursuant to authority conferred by D.C. Official Code §10-801, is the *903 Franklin Street, NE Disposition Approval Resolution of 2013* and the *903 Franklin Street, NE Surplus Declaration Resolution of 2013*. The Resolutions authorize the Department of General Services to enter into a real property purchase agreement for real estate located at 903 Franklin Street, NE, and more specifically designated for tax and assessment purposes as Square 3841 in Lot 0829 (the "Property").

The Property, built in approximately 1955 with additional work completed in 1958, is located in Ward 5. The land area of the Property is estimated to be approximately 2,935 square feet and is improved with a two-story building containing approximately 3,982 square feet. The Property was acquired by the District of Columbia on January 24, 1968 at a price of $50,432.29 from Pick Masonry Company. The Property has not been designated as a historic building by the Washington DC Historic Preservation Office. The Property was used by a masonry company and is now used for storing items ranging from tires to documents.

The Property is no longer required for public purposes because the Property is very small, lacks dedicated parking, and in its current condition, necessitates cost-prohibitive renovations to adaptively re-use the property for a District agency or other public use in a cost-effective manner on a long-term basis. Additionally, the maintenance required to preserve the building in its current state is likely to continue to increase. Declaring that the Property is no longer required for public purposes and disposing of it by selling it to a third party is the most expedient and cost-effective solution to reactivate the Property by enabling a business owned by a District of Columbia resident to expand, provide new revenue to the District, and remove a blight from the community.

The Department of General Services ("DGS") issued a competitive Request for Offers ("RFO") in June of 2012. Morgans Inc., a District of Columbia corporations t/a Jimmie

Muscatello's ("**Muscatello's**") was chosen out of the three offers received because it submitted an offer which included a purchase price substantially higher than the other offers and provided proof of funding able to support the purchase price and improve the Property. Muscatello's currently has an existing business one block away which employs over a dozen people and proposes to use the Property to relocate its storage operation from its Rhode Island Avenue location, at which it has exhausted its storage capacity, in order to expand Muscatello's showroom at its primary location. At a minimum, the proposed redevelopment will include replacement of the roof, upgrading all electrical and plumbing systems of the Property, and interior demolition to transform the Property into one large storage space, instead of multiple small rooms, as the Property is currently set up.

I urge the Council to take prompt and favorable action on this proposed resolution. If you have any questions, please contact Brian Hanlon, Director of DGS, at (202) 724-4400.

Sincerely,

Vincent C. Gray

Vincent C. Gray

Enclosure

Chairman Phil Mendelson
at the request of the Mayor

A PROPOSED RESOLUTION

____

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

____

Chairman Phil Mendelson, at the request of the Mayor, introduced the following resolution, which was referred to the Committee on _______________.

To approve the disposition of District-owned real property located at 903 Franklin Street, NE in Washington, D.C., known for tax and assessment purposes as Square 3841 in Lot 0829.

RESOLVED, BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this resolution may be cited as the "903 Franklin Street, NE Disposition Approval Resolution of 2013".

Sec. 2. Definitions

For the purposes of this resolution, the term:

(a) "CBE Agreement" means an agreement with the District governing certain obligations of the Purchaser or the developer of the Property under the Small, Local, and Disadvantaged Business Enterprise Development and Assistance Act of 2005, effective October 20, 2005 (D.C. Law 16-33; D.C. Official Code § 2-218.01 *et seq.*) ("CBE Act"), including the equity and development participation requirements set forth in section 2349a of the CBE Act (D.C. Official Code § 2-218.49a).

(b) "Certified business enterprise" means a business enterprise or joint venture certified pursuant to the CBE Act.

(c) "First Source Agreement" means an agreement with the District governing certain obligations of the Purchaser or any developer of the Property pursuant to section 4 of the First Source Employment Agreement Act of 1984, effective June 29, 1984 (D.C. Law 5-93; D.C. Official Code § 2-219.03, and Mayor's Order 83-265 (November 9, 1983)), regarding job creation and employment generated as a result of the construction on the Property.

(d) "Purchaser" means Morgans, Inc., a District of Columbia corporation or its successor.

(e) "Property" means the real property located at 903 Franklin Street, NE in Washington, D.C., known for tax and assessment purposes as Square 3841 in Lot 0829.

Sec. 3. Approval of Disposition

(a) Pursuant to subsections 1(b) and (b-1) of an Act Authorizing the sale of certain real estate in the District of Columbia no longer required for public purposes (the "Act"), approved August 5, 1939 (53 Stat. 1211; D.C. Official Code §10-801(b) and (b-1)), the Mayor transmitted to the Council a request for Council to authorize the sale of the Property to the Purchaser.

(b) The proposed disposition would occur through a sale to Purchaser, whose primary address is 900 Rhode Island Avenue, NE Washington, DC 20018.

(c) Purchaser was chosen as the successful respondent to a competitive solicitation issued by the District in June of 2012.

(d) The proposed disposition is expected to include the following terms and conditions, in addition to such other terms and conditions as the Mayor deems necessary or appropriate:

(1) Purchaser shall acquire the Property in its "as is" condition for the sum of $230,000.00.

(2) The Purchaser will enter into a CBE Agreement with the District. The CBE Agreement will require the Purchaser to contract with certified business enterprises for at least 35% of the contract dollar volume of the redevelopment of the Property, if any, and if possible, will require at least 20% equity and development participation of local, small and disadvantaged business enterprises.

(3) The Purchaser will enter into a First Source Agreement with the District.

(e) The Council finds that the Property is not required for public purposes.

(f) The Council finds that the Mayor's analysis of economic and other policy factors supporting the disposition of the Property justifies the sale proposed by the Mayor.

(g) All documents submitted with this resolution shall be consistent with the real property purchase agreement term sheet transmitted to the Council pursuant to section 1(b-1)(2) of the Act (D.C. Official Code §10-801 (b-1)(2)).

(h) The Council approves the disposition of the Property.

Sec 4. Transmittal

The Secretary to the Council shall transmit a copy of this resolution, upon its adoption, to the Office of the Mayor, the Department of General Services and the Chief Financial Officer.

Sec. 5. Fiscal Impact Statement.

The Council adopts the fiscal impact statement in the committee report as the fiscal impact statement required by section 602(c)(3) of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 813; D.C. Official Code § 1-206.02(c)(3)).

Sec. 6. Effective Date.

This resolution shall take effect immediately.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF GENERAL SERVICES

Office of the Director

REAL PROPERTY PURCHASE AGREEMENT SUMMARY

903 Franklin Street, NE
Washington, D.C.
Square 3841 in Lot 0829

December 2012

PURCHASER:	Morgans Inc., a District of Columbia corporation t/a Jimmie Muscatello's
SELLER:	The District, acting by and through its Department of General Services
PURCHASE PRICE:	$230,000 by the delivery at Closing
CLOSING:	No later than twenty (20) business days following expiration of the Due Diligence Period at an exact date and time at Rappahannock Title LLC
DUE DILIGENCE PERIOD:	Thirty (30) days commencing on the Effective Date
EFFECTIVE DATE:	Date on which the Agreement is fully executed
DISTRICT CLOSING COSTS:	Payment of its own attorneys' fees (if any), the cost for preparation of the deed to the property, the cost of discharging any mortgage, lien or other title encumbrances other than those permitted in the Agreement, charges customarily paid by sellers, and any real property transfer tax imposed, unless exempt.
ESCROW AGENT:	Rappahannock Title LLC
EARNEST MONEY:	Within five (5) business days after the Effective Date, Purchaser shall deposit into escrow with Rappahannock Title LLC Fifty Thousand and No/100 Dollars ($50,000)

2000 14th Street, NW, Washington, DC 20009 • Telephone (202) 724-4400 • Fax (202) 727-7283

FIRST SOURCE AND CBE:

Purchaser shall enter into a "Certified Business Enterprise" agreement with the District of Columbia governing the obligations of Tenant under the Small, Local and Disadvantaged Business Enterprise Development and Assistant Act of 2005 (D.C. Law 16-33; D.C, Official Code Section 2-218.01 et seq.) prior to Closing. Purchaser shall also enter into a "First Source Agreement" with the District of Columbia governing the obligations of Purchaser under the First Source Employment Agreement Act of 1984, effective June 29, 1984 (D.C. Law 5-93; D.C. Official Code Section 2-219.03) prior to Closing.

"AS-IS" SALE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF REAL ESTATE SERVICES

METHOD OF DISPOSITION AND ANALYSIS OF ECONOMIC FACTORS

Property Description:	903 Franklin Street, NE in Washington, D.C., known for tax and assessment purposes as Square 3841 in Lot 0829 (the "**Property**")
Size of Property:	Land Area – 2,935 square feet Building Area – 3,982 square feet
Assessed Value:	$239,850 (2013 land & improvements)
Zoning of Property:	C-M-2
Ward:	5

Introduction

This analysis of economic factors is hereby submitted to the Council for the District of Columbia for the proposed disposition of 903 Franklin Street, NE and known for tax and assessment purposes as Square 3841, Lot 0829 (the "**Property**").

The Property has extensive problems which require significant repairs and capital improvements. The land area is estimated to be approximately 2,935 square feet. The building consists of approximately 3,982 square feet.

The Department of General Services ("**DGS**") maximized competition for offers to lease or purchase the Property in four ways: DGS issued a public solicitation for offers on June 8, 2012, ("**RFO**") which solicitation had an offer deadline of July 23, 2012; DGS contacted dozens of owners of industrial properties within one half mile of the Property, advising them that the Property was available for lease or purchase, which effort resulted in two offers to purchase the Property; DGS contacted dozens of businesses within one half mile of the Property; DGS contacted real estate agents who had leased and/or sold industrial properties within one half mile of the Property in the 12 months prior to the date the solicitation was issued; DGS placed an ad about the Property on loopnet.com, a highly trafficked commercial real estate website. The selection process for the public solicitation was led by DGS and included input from the Office of Planning.

Morgans Inc. t/a Jimmie Muscatello's ("**Muscatello's**") was chosen out of the three offers received because it submitted an offer which included a purchase price substantially higher than the other offers and provided proof of funding able to support the purchase price and improve the Premises (none of the other offers provided adequate proof of funding). Muscatello's currently has an existing business one block away which employs over a dozen people and proposes to use the Property to relocate its storage operation from its Rhode Island Avenue location, at which it has exhausted its storage capacity, in order to expand Muscatello's showroom at its primary location. At a minimum, the proposed redevelopment will include replacement of the roof, upgrading all electrical and plumbing systems of the Property, and interior demolition to transform the Property into one large storage space, instead of multiple small rooms, as the Property is currently set up.

Mucatello's redevelopment plan complies with the C-M-2 zoning requirements of the Property.

Method of Disposition and Economic and Social Benefits to be Realized through Disposition

The disposition methods considered by DGS were a sale to the highest bidder, a sale to a non-profit for a specifically designated purpose, and a lease. The proposed method of disposition of the Property is by a sale to the highest bidder for $230,000. Per the appraisal which DGS obtained on August 24, 2012, the appraised value of the Property in its current condition is $200,000 and therefore the negotiated purchase price of the Property is 15% higher than its appraised value. For several reasons, DGS believes that the sale to the highest bidder is better for the District than leasing the Property or selling it to a non-profit.

Firstly, no party expressed to DGS an interest in leasing the space, despite the fact that DGS properly marketed the Property as both available for sale or lease. Therefore, DGS does not believe leasing the Property to be a viable option. Secondly, the net income to the District resulting from the sale of the Property to Muscatello's is likely greater than the net income which would result to the District if the Property were sold to a non-profit or leased. DGS received an offer to purchase the Property from a non-profit with significant real estate holdings and this offer was nearly 50% less than that of Muscatello's, which is not a non-profit. Further, leasing the Property (the possibility of which DGS believes to be extremely unlikely), would likely require significant subsidies from the District, which a sale will not: the District would likely have to pay to improve the Property to enable a Tenant to safely occupy it and/or the District would likely have to offer a significant concession on rent to make up for the Property's poor access, lack of dedicated parking, and poor condition. By contrast, the sale of the Property as proposed is estimated to provide the District with net income of more than $315,000 over the next 20 years ($230,000 for the purchase, plus estimated annual tax revenue of approximately $4,250). Thirdly, DGS does not believe that selling the property to the aforementioned non-profit would create long term economic benefits that outweigh the non-profit's substantially lower offer and poorer financial qualifications: for example, the non-profit gave no indication in its offer that its utilization of the Property would cause it to directly employ more people over the medium to long term. The non-profit indicated that they would simply shift existing staff to the Property, not add any new employees. Fourthly, a long term lease (lease with a term of greater than 20 years) is unlikely to result in an offer in which the tenant will agree to pay upfront all costs to renovate the Property. Therefore, a long term lease (in which the District would have some responsibility for construction costs) would result in greater costs to the District than the proposed method of disposition. This is because no tenant is likely to pay upfront the renovation costs themselves for a property which has no dedicated parking and poor access when they can lease better situated real estate and receive a tenant improvement allowance from the landlord (i.e. the Landlord will pay upfront all costs to renovate the property). Finally, if the Property is disposed of as proposed, the District will have no financial obligation toward renovating or maintaining the Property, shifting all responsibility for repairs and maintenance and capital repairs to Muscatello's. By contrast, if there is a lease for the Property and the lease is terminated (for example, for tenants failure to pay rent), the District would be responsible for maintaining the Property.

In addition to the aforementioned benefits, such as substantial revenue for the District and the redevelopment of the Property at no cost to the District, the proposed redevelopment will create short term construction jobs and enable Muscatello's to relocate its storage operation from its Rhode Island Avenue location, at which it has exhausted its storage capacity. In addition to removing a blight from the community, the proposed redevelopment is in keeping with the goals stated in the Office of Planning's Comprehensive Plan to:

- Reduce the number of vacant, abandoned, and boarded up structures in Upper Northeast and encourage redevelopment of non-productive industrial sites[1]; and

- Avoid the displacement of small and local businesses due to rising real estate costs by developing programs to offset these rising costs[2]

The proposed purchase and sale agreement will require that the Tenant execute and deliver to the District a First Source Agreement with the Department of Employment Services and a CBE Agreement with the Department of Small, Local and Disadvantaged Business Enterprise. The Proposed Purchaser agrees to be bound by and perform in all material respects in accordance with such First Source Agreement and CBE Agreement.

Conclusion

In forwarding this Analysis of Economic Factors to the Council, the Mayor has concluded that: 1) the Property is surplus to the needs of the District government, 2) the sale of the Property is in the best interests of the District of Columbia, and 3) the specific economic benefits of the sale outweigh the benefits of retaining this property in the District's inventory. For all these reasons, the Mayor recommends the disposition of this property in accordance with the terms of the purchase and sale agreement submitted herewith.

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[1] District of Columbia Office of Planning, <u>2006 Comprehensive Plan</u>, 2006, 24-13

[2] District of Columbia Office of Planning, <u>2006 Comprehensive Plan</u>, 2006, 7-30

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

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**December 21, 2012**
SUBJECT:	**Fiscal Impact Statement – "903 Franklin Street, NE Disposition Approval Resolution of 2013"**
REFERENCE:	**Draft Resolution shared with the Office of Revenue Analysis on December 18, 2012**

Conclusion

Funds are sufficient in the FY 2013 through FY 2016 budget and financial plan to implement the bill. The proposed disposition of this property would reduce District real property assets by approximately $239,850.[1] Since assets are not included in the budget and financial plan, the disposition of the property will have no direct fiscal impact on the District's budget and financial plan. In return, the District will receive $230,000, which will increase general fund revenue. Additionally, the property will generate a small amount of real property tax revenue starting FY 2013.

Background

The bill authorizes the sale of property located at 903 Franklin Street N.E., known for tax and assessment purposes as Lot 829 in Square 3841 ("Property") to Morgans, Inc. ("Purchaser") in the amount of $230,000. The Property is not currently utilized by the District, and is expected to be developed by the Purchaser for commercial purposes.

The sale agreement requires the Purchaser to enter into a First Source agreement with the District, obligating the Purchaser to job creation and employment requirements for redevelopment of the property. Additionally, the Purchaser will be required to contract with certified business enterprises for 35 percent of the contract value for any redevelopment, and require 20 percent participation of local, small and disadvantaged businesses.

[1] FY 2012 Proposed Tax Assessed Value according to OTR's Real Property Tax Database, accessed December 20, 2012. https://www.taxpayerservicecenter.com

Financial Plan Impact

Funds are sufficient in the FY 2013 through FY 2016 budget and financial plan to implement the bill.

The proposed sale of the Property would reduce the District's real estate assets, but real estate assets are not included in the budget and financial plan. The District will be compensated $230,000 for the property,[2] and once sold, the District is expected to realize Class II commercial real estate tax revenues on the property in the amount of $3,795 annually, subject to future assessments and the overall tax obligations of the Purchaser.

Fiscal Impact of 903 Franklin Street NE Disposition Approval Resolution of 2013					
	FY2013[b]	FY2014	FY2015	FY2016	Total
Sale Proceeds	$230,000	$0	$0	$0	$230,000
Real Estate Taxes [a]	$1,897[b]	$3,795	$3,795	$3,795	$13,282
Total Revenue	**$231,897**	**$3,795**	**$3,795**	**$3,795**	**$243,282**

(a) Class II (commercial) – Per D.C. Official Code § 47-812(b-9)(2)(A), the first $3 million rate on commercial property is $1.65 per $100 of assessed value. Assumption is assessed value will be sale price of $230,000.

(b) Assumption is taxes will only be assessed for half of 2013 because sale will not be complete until then.

[2] The Property was assessed in 2009 in the amount of $244,820 According to OTR's Real Property Tax Database, accessed December 18, 2012. https://www.taxpayerservicecenter.com. A 2012 assessment is lower, and $230,000 is the negotiated price on the sale agreement.