

February 2, 2015

To: Mayor and City Council

From: Thomas Andrews, City Manager

Subject: Ordinance O-1-15, Lease of 270 Defense Highway to George Bowling

The City-owned house at 270 Defense Highway, known as the City Engineer's house, has historically been occupied by the City's water plant supervisor. The house was built in the 1880 when the water system infrastructure was developed along Defense Highway. The City has never previously had a lease with an occupant of the house. The City has always benefitted by having a water plant employee living in the house, available and able to provide immediate response to any after-hours issues at the plant. The current water plant superintendent, James FitzGerald, chose not to move into the house when he became the plant supervisor. At that time, George Bowling moved into the house, with the same rent-free arrangement afforded to occupants. Several years ago, the City began charging Mr. Bowling a nominal rent of \$350 per month.

To comply with IRS regulations, a lease has been developed for the house. The IRS guidelines require that the occupant pay fair market rent for the house. As mentioned above, City Engineer's house was built in 1880. The house is not very nice by today's standards, but it is livable. The house's exterior appearance has been significantly improved by Mr. Bowling during his occupancy. It does not have central air conditioning. Although the house has four 1880s vintage bedrooms, only two bedrooms have closets and meet the current, accepted definition of a bedroom. The house has 1-1/2 baths, one on each floor; the half bath is a toilet and sink that was installed in an old porch area on the first floor.

The City's Finance Director did a review of the monthly rent for available, comparable two bedroom rentals within the City of Annapolis. The City's house is a old farmhouse, and isn't really comparable to anything built after 1900. The house is located outside the City limits. After finding the average monthly rent for several available two-bedroom residences, the Finance Director then adjusted the average rent by 50% due to the age, condition and location of the house. The table below lists the addresses and monthly rents for the two-bedroom residences used for establishing the fair market rent for the City Engineer's house. The rent was set at \$1000 per month because the house on Oak Avenue was considered an outlier that unfairly increased the average.

	Bedrooms	Bathrooms	Monthly Rental
128 Market Street	2	1	2,550.00
Winters Chase Way	2	2.5	2,100.00
Oak Ave	2	1	3,900.00
West Street	2	1	1,675.00
Market Street	2	2	2,000.00
Average	2.00	1.50	2,445.00
Average w/o Oak Ave rental			2,081.25
Discount; condition and location			0.50
			1,040.62