

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION

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July 23, 2015

BY E-MAIL AND HAND DELIVERY

Mayor and City Council of the City of Annapolis

160 Duke of Gloucester Street

Annapolis, Maryland 21401

Re: Recommendations Regarding Proposals for Disposition of
Old Rec Center at 9 St. Mary's Street ("the Property")

Dear Mayor Pantelides and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission" or "FAC") regarding the FAC's review of key terms and conditions of proposals submitted by 02 Lafayette, LLC, and University of Maryland Center for Environmental Science ("UMCES"). We base our recommendation on materials submitted to us by the City Manager, many of which were provided by the City's Finance Director, for review at a special meeting of the FAC held on Monday, July 21.

Following our review of these submitted materials the FAC voted 3-2 to recommend that the City Council accept the proposal of 02 Lafayette, LLC, to purchase the Property for the development of 6-8 residential condominium units rather than the UMCES proposal to enter into a 30 year lease with the City for the purpose of redevelopment and establishment of an educational institutional use that would include offices, meeting space and conference center space. Commission Chair Fred Sussman, Vice Chair Lee Finney and Member Nancy Williamson voted in favor of this recommendation and Commission Members Bob Burdon and Ross Dierdorff opposed this recommendation.

We note that the minority members of the FAC will be submitting their own views to the Mayor and Council. The majority members of the Commission have considered but disagree with those views. The majority members still recommend acceptance of the 02 Lafayette, LLC, proposal for the following reasons:

1. The FAC has long recognized that many of the City's revenue challenges result from the substantial amount of tax-exempt government property in the City. The FAC has advocated many times that one of the chief ways for the City to increase its revenues is to expand its residential and commercial assessable tax base. The 02 Lafayette proposal would further this principal advocated by the FAC and place this property back on the tax rolls. The UMCES

proposal would continue an important piece of property in government, tax exempt, ownership in the City and not seize upon the opportunity to take a modest step to improve the fiscal challenges that the City faces.

2. The 02 Lafayette proposal for condominium units is likely to result in an initial substantial purchase price payment that the City may apply to reduce debt service or invest for future capital needs, and a perpetual property tax revenue stream that is likely to far exceed the estimated annual lease payments currently proposed by UMCES.

3. The uses proposed by 02 Lafayette and UMCES both will require City services. The FAC believes that the residential proposal for 6-8 condominium units will generate no more, and possibly less, need for services than the office, meeting and conference center use proposed by UMCES. The 02 Lafayette proposal will accommodate all of its parking needs on-site while UMCES candidly acknowledges that users of, and visitors to, its site will need to find off-site parking, some of which could be used for residents and visitors patronizing downtown shops and restaurants.

4. There is an inherent uncertainty and risk in entering into a long-term lease with a State agency. The State's fulfillment of its lease commitments is subject to availability of funds in the State budget and, in this case, a political will to continue into the long term future what currently appears to be a favorable environmental program. No such risk or uncertainty exists with respect to redevelopment of the Property for residential condominium use.

5. The UMCES proposal calls for renovation of the Property for a limited purpose use. At the end of the lease, or upon early termination of the lease, the specialized nature of the buildout may limit the reuse of the building without additional building modifications.

6. The City will have administrative and management responsibilities and costs associated with a long-term lease of the Property that will not exist with a sale.

7. Various individuals have suggested that the UMCES proposal will generate spin-off economic benefits to the City through patronage of local restaurants and stores, and contribute to the vibrancy of the City as a visitor destination. While there may be some incremental benefit to commercial uses downtown from visitors to the educational facility, (i) this economic benefit has not been quantified, (ii) any additional tax revenues that may be generated by such spin-off business will go to the County and the State and not inure to the benefit of the City, and (iii) many of the employees who will be housed at the UMCES facility already work in other locations in the City.

In sum, for the reasons set forth above, and based upon the information available to it, the FAC endorses the 02 Lafayette, LLC, proposal for the purchase of the Property and the development of 6-8 condominium units on the Property.

The Commission stands ready to answer any questions you may have, provide greater detail on our recommendation, and/or offer further guidance as you may request.

Sincerely,

A handwritten signature in blue ink, appearing to read 'F. C. Sussman', written over a horizontal line.

Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)
Bruce T. Miller, Finance Director (By e-mail)
Thomas C. Andrews, City Manager, (By e-mail)
Regina Watkins-Eldridge, City Clerk (By e-mail)
Jackie Bierman, Boards and Commissions Coordinator (By e-Mail)