EXHIBIT NO. 1

12
12-15-07

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 12, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: AUTHORIZATION AND RESOLUTION TO ACQUIRE PROPERTIES AT 4530 AND 4600 KING STREET AND 3451 NORTH BEAUREGARD STREET

ISSUE: Acquisition of real property.

RECOMMENDATION: That Council:

(1) Authorize the City Manager to execute an acquisition agreement for 4530 and 4600 King Street and 3451 North Beauregard Street as outlined in the Principal Terms of Agreement (Attachment I);

(2) Authorize funding on a temporary basis the acquisition of these six parcels ($5.0 million) and the demolition of the existing medical office building ($0.8 million) from previously appropriated pay-as-you-go cash capital funds;

(3) Authorize funding on a permanent basis the $5.8 million from the proceeds of a future general obligation bond or general obligation note sale; and

(4) Adopt the attached resolution (Attachment II) declaring the City's intent to reimburse itself the $5.8 million temporary cash funding source from the proceeds of a future general obligation bond or note sale.

DISCUSSION: About a year ago, the City was contacted by Dr. Alfred Tauber who is one of the trustees of the Tauber Foundation, in regard to the City's interest in the Tauber Foundation donating to the City, for beneficial public use, five parcels of land at 4530 and 4600 King Street, and one adjacent parcel at 3451 North Beauregard Street. These six parcels had been part of the former Jefferson Memorial Hospital on King Street that is no longer in operation. The building has outlived its useful life, and is in the process of being demolished. The medical office building on King Street is in the process of closing down, and also will be demolished. The small medical office building condominium on Beauregard Street is separately owned, continues to operate, and except for the underlying ground, the medical office condominiums are not part of this proposed acquisition. At some point in the future, prior to the redevelopment of the property, it would be the City's plan to acquire the remaining three small medical office condominiums.

The six Jefferson Hospital parcels could have a range in value of between $15 million and $30 million based upon development plans and market conditions. The proposal from the Tauber Foundation is to give the land to the City in exchange for the City reimbursing the Tauber Trust $5 million, which is about half of the funds the Trust has expended acquiring the parcels it did not already own. This transaction would result in the net donation to the City of land of between $10 million and $25 million in value. The covenants, which would come with the property, would be that public use for at least ten years would be required, and the property would be named the "Laszlo N. Tauber Campus." Dr. Laszlo Tauber was a surgeon and the founder of Jefferson Memorial Hospital. He emigrated to the United States from Hungary in 1947 and not only founded the Hospital, but also established a successful commercial real estate business which developed, owned and operated office buildings in the Washington, D.C. area.

On November 19, 2007, the City Council authorized the City Manager to proceed with a 9.06 hearing to the Planning Commission, and to make preparations for final Council purchase authorization action in December. While the basic outline of the Tauber gift to the City has been agreed to and a few more administrative and legal specifics of the acquisition need to be cleared, negotiations have sufficiently progressed that the City, the Tauber Foundation, and Tauber Trust plan on closing on the property in early 2008. Details of the Principal Terms of Agreement (Attachment I) are being finalized, and will be provided to Council when completed.

The six properties under consideration contain 206,000 square feet of land (about 4.7 acres). The property is currently zoned OCM(100) and is currently nearly entirely developed with the former hospital, office buildings, and related impervious surface parking. The parcels are at a gateway location in the City. The six parcels are located on a hillside near the corner of King and North Beauregard Streets. This location is in the north-central part of the City near the jurisdictional boundaries with Fairfax County and Arlington County. The parcel has access to both King and North Beauregard Streets. The parcels are adjacent on two sides to the retail shopping complex at the corner of King and North Beauregard. One of the parcels (14,000 square feet) is on a 99-year lease which runs until 2061. The City would acquire the lease rights for this parcel from the Tauber Foundation. It would be the City's plan to negotiate with the current owner of this parcel and to eventually purchase this parcel to obtain fee simple ownership. The subject properties are zoned OCM(100) or Office Commercial Medium. The OCM (100) zone allows a variety of uses including business and professional offices. The Alexandria West Small Area Plan identifies the sites as appropriate for office uses, and has a permitted FAR of 1.5 which would permit about 309,301 gross square feet of buildable development. Use of the properties for office space would be consistent with the Small Area Plan and Zoning Ordinance. After holding the required 9.06 hearing on December 4, the Planning Commission unanimously recommended the acquisition of these six parcels.

Future Planned Uses: These six parcels not only represent a valuable financial gift to the City, but also represent an opportunity for the City to eventually consolidate from leased to owned office space. Currently, the City leases office space for the Department of Human Services (DHS) in three locations in the City: Mt. Vernon Avenue, Herbert Street, and North Beauregard

Street. The City also leases space for the Department of Mental Health, Mental Retardation and Substance Abuse (MH/MR/SA) in two locations in the City (St. Asaph Street and Colvin Street). The School Board also leases space for its School Administrative headquarters operations on North Beauregard Street. The School Board has reviewed this as a potential site and is willing to consider a co-location.

These leased spaces total about 130,000 square feet and currently cost the taxpayers $2.9 million per year in lease costs. Lease renewals on much of this space will occur soon with an expectation of a significant rent increase for long-term renewals or for new space to around $4.0 million per year, as rents continue to escalate in real terms. In addition, DHS, MH/MR/SA and the Schools current office space is insufficient to meet their current space needs. It is estimated that the projected future space needs of these three entities total about 160,000 square feet. If the City were to convert from leased to owned space (and not continue leasing for those three entities), the City would save significantly over the long term in comparison to leasing. Based upon a study undertaken by the construction engineering firm of McDough, Bolyard Peck (MBA), and a financial analysis by the City's financial advisor Davenport & Company, it is estimated (based on a lease vs. own analysis of a 130,000 square foot building) that over a 30-year period the City would save at least $69.7 million which is equal to $33.1 million in today's dollars. Since the current zoning allows for more density than the City will need for these three public entity office space users, the City could potentially, at some point in the future, lease part of the property to the private sector for office use, as well as possibly using part of this site for affordable/workforce housing.

The location of these parcels, although on the northern border of the City, would work well in regard to serving residents, clients and School constituencies. This is borne out by the experience of the City Health Department, which moved from North St. Asaph Street in Old Town to 4480 King Street (a block from the Jefferson Memorial Hospital parcels). Since the move to 4480 King Street, the Health Department has seen both total client visits and client appointments increase. This area of the City can be reasonably accessed from Arlandria as well as from the western parts of the City where many DHS and MH/MR/SA clients reside. The Schools have found that their currently leased Beauregard office site works well as a location for School administrative services. DHS has also recently moved its Job Link operation to North Beauregard Street, and that site access has worked for Job Link clients.

In addition to the benefits of this location, by having one site where the Schools, DHS and MH/MR/SA are co-located, there will be an increased level of partnership and collaboration among these three entities. The sheer fact of sharing space and being adjacent to other service providers will be of enormous benefit to the City, its residents, various clients and consumers, as well as for School students and their parents/guardians. As is currently the case, many of the clients and consumers served by one of these public entities are also served by another of these agencies. Therefore, increased partnership and collaboration will result in more effective and efficient service delivery among these three City organizations.

The development planning process for these six parcels and any other adjacent parcels would entail significant participation by the three main users of the facility and the City's departments of General Services, Planning & Zoning, and Transportation & Environmental Services, as well as the Schools, in conjunction with adjacent residents, businesses and neighborhood organizations. Given the City's current focus of planning for and developing a new Police Headquarters Building, as well as the move of the City's trades facilities from South Quaker Lane to Roth Street, it will be several years until this planning process for the former Jefferson Memorial Hospital site begins. Then it will take several years to design and construct the facility, or facilities. This development plan may also be a good candidate for a public-private partnership in the construction and financing of these public facilities. The first step in this process would be to undertake the demolition of the medical office building at an estimated cost of $0.8 million. Also the site will need to be made visually acceptable, as it will sit vacant for three or more years before construction activity will begin.

In the interim time period prior to any new project initiatives, the City will need to take steps to ensure that this site is safe and not a blight to the neighborhood.

Funding: Initially, as a bridge loan funding source, existing appropriated pay-as-you-go cash capital would be used to temporarily fund the acquisition and demolition costs of $5.8 million. The pay-as-you-go cash is on hand from capital projects which have been approved, but have not yet been initiated or completed. Later on in this fiscal year, the cash bridge loan would be repaid from the proceeds of a future general tax exempt obligation bond, or general obligation note sale. This would mean that the bond or note sale would be $5.8 million higher than would otherwise be the case (the amount of the sale is to-be-determined based upon prior Council approved capital improvement programs (CIP), as well as projected capital project implementation cash flows). While the City customarily issues general obligation bonds, for this sale staff is considering the issuance of notes (i.e., such as a bond note line of credit). A recommendation on this matter will be presented to Council early in 2008.

FISCAL IMPACT: As described above, the funding of the land purchase would be initially with available CIP cash capital funds to be reimbursed with either general obligation bonds or notes. The general obligation bond notes would use tax exempt financing.

For FY 2009, the City will incur a cost for debt service (interest only) for the $5.8 million of about $207,000. In FY 2010 or FY 2011, when principal repayment is initiated, debt service costs will be about $487,000, and then gradually decline over a 20-year period until the $5.8 million is totally repaid. The costs of constructing an office building for DHS/MHMRSA/ Schools is difficult to determine at this point, since it is too early to have a program of requirements developed with each of the three potential office space users. However, for purposes of providing an order of magnitude of costs and savings, an outside professional analysis was prepared. This showed, based on the MDP Study, that the estimated cost of building a 130,000 square foot facility (with structured parking) would be $90 million. Debt service over a 30-year period on this amount would be $5.3 million per year compared to projected average annual lease costs over a 30-year period of $7.6 million. This averages out to a $2.33 million savings per year which would total $69.7 million in savings over 30 years, or $33.1 million in savings in today's dollars.

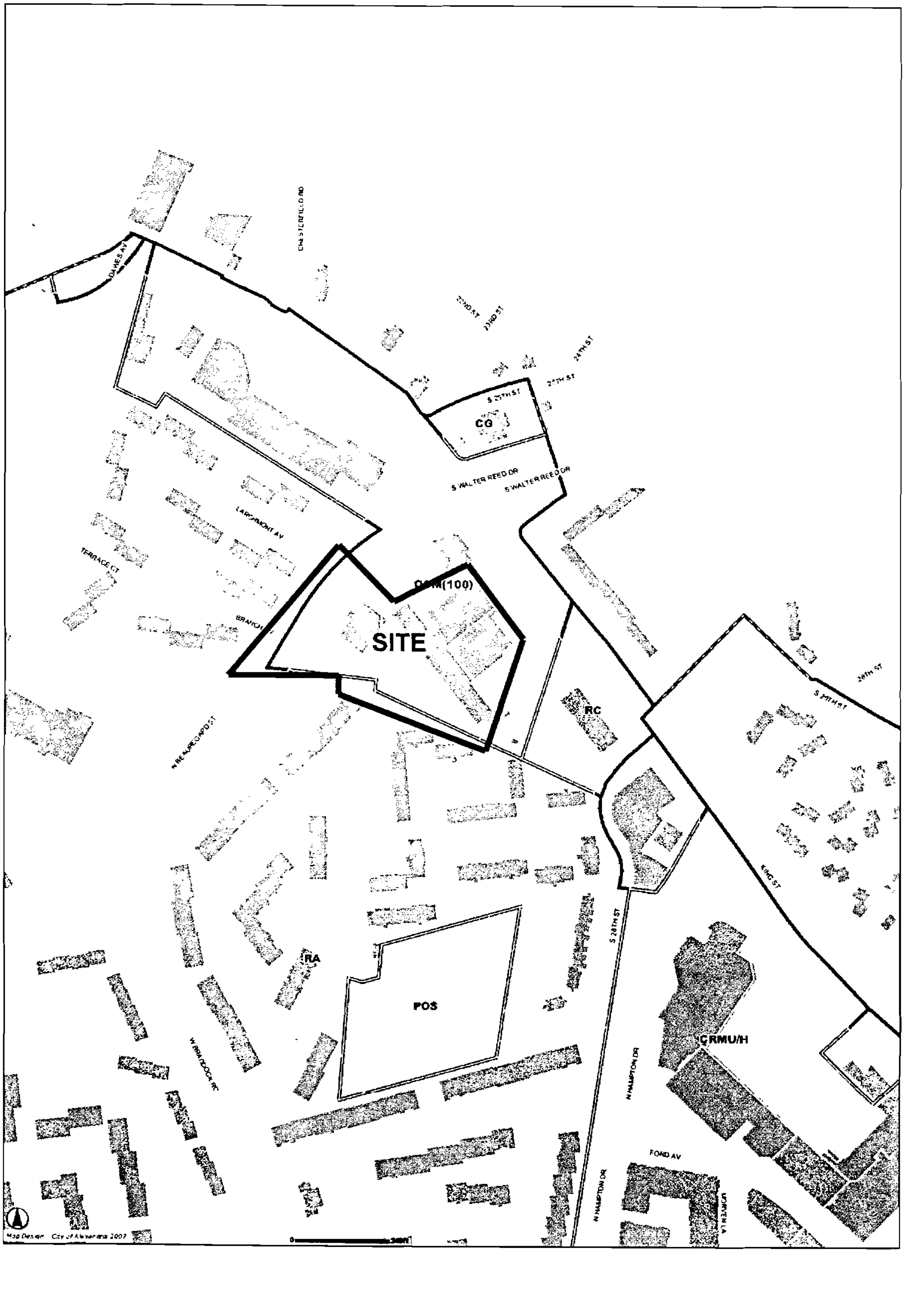
Shifting this analysis to building a 160,000 square foot building (meeting future projected space needs of these three organizations and including structure parking), shows the estimated cost of the building would be $109 million. Debt service over a 30-year period would be $6.5 million compared to average annual lease costs of $9.3 million. This averages out to a $2.9 million savings per year which would total $86.6 million over 30 years, or $41.5 million savings in today's dollars.

In addition to these savings, this analysis does not include the savings in land costs that the City might incur for the development of affordable/housing on alternative sites, nor does it include the potential land lease income potential if private office development was placed on the property at some point in the future after the donor 10-year restrictions expire. This analysis of costs and savings does not assume future private use income, as that is a decision to be made over the long-term. Finally, the lease versus build/own analysis does not reflect the residual value of the land and office buildings at the end of a 30 year period which would be substantial.

Because of the City's use of a cash bridge loan planned to be repaid with tax exempt bonds or notes, the adoption of the Intent to Reimburse Resolution (Attachment II) is recommended. The adoption of this resolution is required under federal tax law in order for the City to reimburse itself with bonds or notes which would be exempt from federal income tax taxation and, therefore, have the lowest interest costs to the City.

ATTACHMENTS:
Attachment I: Proposed Memorandum of Understanding
Attachment II: Tax Exempt Reimbursement Resolution

STAFF:
Mark Jinks, Deputy City Manager
Edward Mandley, Director, Department of General Services
Christopher Spera, Assistant City Attorney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Map Design: City of Alexandria 2007

Attachment I

Principal Terms of Agreement

(To be provided prior to Saturday's Meeting)

Attachment II

RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF ALEXANDRIA, VIRGINIA DECLARING ITS INTENTION
TO REIMBURSE ITSELF FROM THE PROCEEDS OF ONE OR MORE
FINANCINGS TO ACQUIRE CERTAIN REAL ESTATE

The City Council of the City of Alexandria, Virginia (the "City") has determined that it may be necessary or desirable to advance money to pay the costs of acquiring certain real estate or interests therein and demolish certain structures thereon (the "Project").

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ALEXANDRIA, VIRGINIA:

1. The City Council adopts this declaration of official intent under Treasury Regulations Section 1.150-2.

2. The City Council reasonably expects to reimburse advances made or to be made by the City to pay the costs of the Project from the proceeds of its debt or other financings. The maximum amount of debt or other financing expected to be issued in one or more series for the Project is $5,800,000.

3. This resolution shall take effect immediately upon its adoption.

The foregoing resolution was adopted by the City Council at its meeting on December 15, 2007, by the following roll call vote:

Member	Vote

Absent:

____

Clerk, City Council, City of Alexandria, Virginia

____

Date

RESOLUTION NO. 2263

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The foregoing resolution was adopted by the City Council at its meeting on December 15, 2007, by the following roll call vote:

Member	Vote
Pepper	Aye
Krupicka	Aye
Euille	Aye
Gaines	Aye
Lovain	Aye
Smedberg	Aye
Wilson	Aye

Absent:

None

ADOPTED: December 15, 2007

William D. Euille

WILLIAM D. EUILLE MAYOR

ATTEST:

Jacqueline M. Henderson

Jacqueline M. Henderson, CMC City Clerk