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110 Compromise Acquisition Q&A Number 3

Several of you have asked follow-up questions regarding Resolution 32-14, which proposes that the City purchase the 110 Compromise Street property that used to be Fawcett's downtown location. I am forwarding these answers so that everyone may benefit from the questions.

Interested readers should also see the article that Alderman Arnett and I wrote in *The Capital* newspaper on October 5. It is available online here:

<http://www.capitalgazette.com/opinion/columns/budge-arnett-column-1005-docx-20141005,0,6578857.story>

And the first two Q&A's on the topic, which are online at:

<https://www.facebook.com/Ald.Joe.Budge/posts/651626294957920>

and

<https://www.facebook.com/Ald.Joe.Budge/posts/663059730481243>

Regards,
Joe Budge

How soon would the City anticipate having the property ready to list?

The property could be ready to list in about a year. The extent to which the Annapolis community wishes to discuss key steps along the critical path, such as zoning, could lengthen

that.

Will a local broker be used? How will the brokerage selection process unfold?

The Office of Law has recruited a broker to represent the City on the acquisition side of the transaction.

I am recommending that the City engage a broker for the eventual sale, as well. Brokers have expertise in marketing and selling real estate - the city does not. The Administration will determine if and how a broker would be selected, however.

Can you get an independent appraisal of the property?

The City's broker is developing a valuation of the property in its current state and of the commercial parcel that we intend to sell after subdivision.

Although the proposed subdivision of the property by the City is appealing, how does the City know what would be the design most interesting to potential buyers?

The City has no idea what design would be best for potential buyers. Alderman Arnett and I are proposing that the City sell the commercial parcel and let the buyer build to the design that works for them within existing code and Historic District constraints.

What is the monthly interest on the loan?

The seller is offering to finance the loan with a 5-year, 5% note amortized on a 10-year schedule. Interest on that note would be \$159,000 in the first year, declining in subsequent years. Alternatively, the City could use its 3% Line of Credit. Interest on the Line of Credit would cost \$99,000 per year.

Against that expense, the City would receive \$68,000 per year in slip rentals, \$59,000 in Boat Show lease, and \$8,500 in parking, totaling \$135,500 annually. The City would net a modest profit on the property if it used the Line of Credit.

When you say in your Q&A part 1 that the transaction is contingent upon approval of a grant, how and at what point does that contingency have effect? Should the City Council resolution not await the written approval?

The City's purchase contract for the property will have a contingency requiring the grant. The

granting agency is awaiting the passage or failure of the Council Resolution (R-32-14) before finalizing the grant.

Is the grant available only in fiscal year 2015 or will it be available in fiscal year 2016?

This question is moot as the property will not be available to the City in fiscal year 2016.

In a previous of your town halls the question was raised about additional grants being sought to reduce the property cost to 2.5 (a break even scenario). Has this grant search tasked to someone within the city, where would this responsibility lie? The AEDC ? Do they have a grant writer on staff?

There is a misunderstanding here. Additional grants will only be available if the City decides to keep the Compromise Street parcel to itself. The grants we know of would still require a 50% match by the City. These grants would bring the net property cost down to \$2.25MM – all of which the City would pay. There are no additional grants available to bring this transaction, as proposed, to break-even.

Responsibility for grant writing rests within the Administration. I don't anticipate the Administration will undertake a search for additional grants unless the Council decides to proceed with this project. Although the AEDC has disbanded, consultants for grant writing are available and several City departments have budget for consultants.

What has led the City to believe that there are no potential buyers of 110 Compromise Street, willing and able to develop the property within the 70/30 rule of the Maritime District Zoning?

The current property owners indicated they have received no such offers that they are willing to accept. Should the City not purchase the property, their intent will be to find long-term tenants. The owners stated they have no intent to obligate their tenants to provide space for the boat shows.

The lack of a permanent head of the Planning & Zoning Department raises concerns over how the City will consistently implement zoning changes and respond to potential developers.

The Mayor is seeking confirmation of the Director of Planning & Zoning at the December 22 Council meeting.

If the city assumes the cost of demolition how soon might it begin and how will the contractors be selected?

Demolition will require approval by the Historic Preservation Commission. We don't expect that to be an obstacle as the building is not a "Contributing Structure" to the Historic District (per last year's HPC comments on the CDMP). Timing is another question. HPC guidelines require the applicant to have a plan for what will replace the demolished structure. We have not discussed with the Commission if they will accept an interim plan or if we'll need to wait for the eventual developer's plan. The City can accommodate either path, but it would greatly affect the timing of the demolition.

Contractors would be selected by Public Works. I don't believe they have a contractor for this on retainer, so one would be selected through an RFP.

The 110 Compromise building is old enough to contain both lead paint and asbestos. When DPW estimated demolition costs of the structure was that possibility factored in? If not, how much additional expense might be involved if either of those materials are present?

The Phase 2 Environmental Inspection report provided by the owners of 110 Compromise indicated that there is no lead-based paint or asbestos present in the building. We, therefore, did not include costs for removal of those materials in the demolition estimate. If present, the additional cost would be dependent on the extent of the materials in the building. It is difficult to estimate the cost increase without knowing what materials are present, and how much of the materials are in the building.

What is the condition of the bulkhead on Market Slip? Will the City need to replace it?

The property owners replaced the bulkhead with a new, treated wood and piling bulkhead in 2003. According to both Public Works and the Internet, bulkheads of this type typically have a lifespan of 25 years in unprotected waters. The lifespan could be somewhat longer in protected waters such as Market Slip.

In 2013 the Department of Public Works commissioned an underwater diving inspection of the storm drains in Market Slip. This study was a precursor to the stormwater control and bulkhead replacement plans that DPW presented to the Council in February of this year. Two stormwater drains exit through the 110 Compromise bulkhead. The diver's field notes for the vicinity of these drains state "Both Steel sheet wall and Timber sheet wall are in good condition." While this is not an assessment of the entire bulkhead, it is consistent with the

expected lifespan of the structure. It is likely the City will need to replace the bulkhead in 15-20 years.

Right now the power and water to the bulkhead physically originate at the old Fawcett building. If the city acquires the property, it plans to subdivide off the parcel containing the old Fawcett building in order to resell it, and it would become private property. Consequently, the city would need to find some other city source of power and water for the bulkhead – which would remain under city ownership.

There City has power and water available to boaters on the Donner Lot bulkhead. This can easily be extended to the 110 Compromise bulkhead.