



## HOWARD COUNTY OFFICE OF COUNTY EXECUTIVE

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April 23, 2015

Mary Kay Sigaty, Chair  
Howard County Council  
3430 Courthouse Drive  
Ellicott City, Maryland 21043

Re: Proposed Property Dispensation

Dear Chairperson Sigaty:

I have filed surplus property disposal resolutions for three properties purchased by the County in 2014. These disposal resolutions should be considered along with CR 125-2014 that was tabled on January 5, 2015. All three properties were purchased in 2014 using a line of credit and it was intended by the previous administration to issue General Obligation bonds to finance the purchase of these properties. As part of the budget process, we will file a budget amendment to the FY 2016 proposed CIP budget to reflect the sale of these properties. The amendment will provide an additional \$4 million to the Land Acquisition Contingency Reserve project (C0309). This will assist the County with the purchase of a site for the 13<sup>th</sup> County high school in FY16 and if needed, provide matching funds to unlock the additional funding for school construction included in the State budget.

Given the non-public use intended for two of these properties, bond and tax counsel have advised against issuing tax exempt bonds to finance the purchase of the properties. One financing option would be to issue taxable bonds, which will incur a higher cost but will fit the purpose of the property usage more adequately. In either case, once debt is issued for the purchase of these properties, it could become very expensive to defease the debt if the properties were sold. The Flier building was intended to be used for a public purpose, however, renovations are expected to cost as high as \$7.5 million. This funding is not available in FY16 and may not be available in the future given the budget constraints and competing CIP priorities for the limited G.O. bonds. In addition, I do not believe that spending three times the purchase price on renovations is fiscally prudent. Therefore these properties were not included in the FY 2015 bond issue.

Given the limited funding available in the FY16 Capital and Operating budgets, my staff has made an effort to identify other resources the County can utilize to increase funding support for our education priorities.

The total cost incurred to acquire all four properties was approximately \$5.8 million and a conservative estimate is that the County could recoup a minimum of \$4 million if the properties were sold at current market values. As the properties are sold throughout the year, the County will apply the proceeds to the expenses incurred to purchase the properties. The sale proceeds will increase the bonding authority of the Land Acquisition Contingency Reserve project (C0309).

The Council had previously tabled CR 125-2014 (Maryland Environmental Services), which was filed by the previous administration. The appraisal at that time was valued at \$836,000 and the buyer was prepared to purchase the property at the appraised value. The County purchased this site using tax exempt bonds for \$594,974. Upon request of the Council, the Department of Public Works requisitioned a second appraisal in March 2015. The new appraisal dated March 31, 2015 valued the property at \$530,000, significantly lower than the agreed upon purchase price by the buyer and the County's original purchase price. The buyer, who has right of first refusal to purchase the property, has agreed to a purchase price of \$700,000, which will mitigate the loss of funds to the County. The delay has caused the County to lose \$136,000 in possible revenue. To avoid any further financial loss, I urge the Council to remove this Resolution from the table and vote on it at your next legislative session. The following chart summarizes the details related to the purchase of each property:

| <b>Property</b>                 | <b>Address</b>                             | <b>Date Acquired</b> | <b>Purchase Price</b> | <b>Appraisal at time of purchase</b> |
|---------------------------------|--|----------------------|-----------------------|--------------------------------------|
| Flier Building                  | 10750 Little Patuxent Parkway, Columbia    | 7/2/2014             | \$2,824,244           | \$2,700,000                          |
| Bickley Residence               | 8518 Frederick Road, Ellicott City         | 9/29/2014            | \$507,974             | \$460,000                            |
| Hurst Properties                | 9770 and 9790 Washington Boulevard, Laurel | 12/1/2014            | \$1,894,606           | \$1,832,300                          |
| Maryland Environmental Services | 7101 Dorsey Run Road, Jessup               | 9/25/2012            | \$594,974             | \$803,900                            |

After all four properties are sold at the current conservative estimate, the total deficit from these transactions is expected to be \$1.8 million; however, this deficit may decrease depending on the final sale price of the properties. This will be maintained as a balance on the county's line of credit, incurring \$12,000 of interest expense each year until paid. The deficit is expected to be paid with PAYGO capital funding in FY2017 or thereafter depending on the timing of the property sales and availability of fund balances in the General Fund.

While the County has to incur a net loss through these transactions in order to address issues attributable to policy decisions of the previous administration, I believe that this is the right choice to make. This action will provide additional funding for education priorities and properly use tax-exempt

bonds (in terms of limiting use of properties to public purpose). Moreover, this cost greatly outweighs the cost of the County issuing long term taxable debt for properties with no public use or for a property which will require more than three times its purchase price to be renovated. Continuing to own these four properties is not a fiscally prudent option.

If you have any questions, my staff is available to provide assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Allan H. Kittleman", with a long, sweeping horizontal flourish extending to the right.

Allan H. Kittleman  
County Executive