



**District of Columbia Public Library**

**Martin Luther King Jr. Memorial Library**

**Development Implementation Strategy Memorandum**

**Confidential Memorandum  
September 29, 2014**





The purpose of this memorandum is to provide the DCPL with information to facilitate a discussion and confirm the MLK Development Implementation Strategy including, but not limited to, the base and expanded base library program, ancillary uses, an addition, as well as the entitlement and development fundraising strategy.

- I. Recommended Development Implementation Strategy:
  - a. Maintain the current vision to provide a 21<sup>st</sup> Century library which transforms the library along a continuum from a book centered institution to a technology-centered institution to a community institution to a creative institution, always keeping the best of tradition as it adapts and innovates.<sup>1</sup>
  - b. Continue to refine the MLK’s Base Program and the Expanded Base Program (defined below in Sections II and III) which can be accommodated on level A, levels 1 – 4 and expanding the existing roof structure on level 5.
  - c. Continue to advocate for the existing funding for the MLK Library including accelerating the timing by two years to match the current development schedule.
    - i. Gain support for a separate funding source for the Interim Library
    - ii. Seek additional third party sources for either capital and/or long term operational support of MLK
    - iii. Continue to leverage the existing entitlement process and secure historic tax credits
    - iv. Unless mandated by a budget shortfall in future years forego the additional risk of selling air rights to create levels 6, 7, and 8 for un-programmed space
  - d. Introduce ancillary mixed use opportunities which can enhance the number of library patrons, enliven the building and will connect with the surrounding neighborhood. Focus on retail uses now as part of the entitlement process as well as the regulatory process to ensure DCPL can decide on the appropriate tenants/partners which can, among other things, provide long term financial support (in the form rental income) for MLK.
    - i. Ensure that the DCPL is prepared to be an effective landlord of private sector tenants.

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<sup>1</sup> DCPL REQUEST FOR QUALIFICATIONS: ARCHITECTURAL SERVICES August 2013

II. Project Vision

- a. DCPL stated as part of Architect solicitation in August 2013 “...The Martin Luther King, Jr. Memorial Library will be a place for residents to explore, connect, create and engage...”
- b. The DCPL Board of Trustees reaffirmed the vision with Renovation Principles in May 2014 which focused on optimizing and honoring the historic landmark and connecting the building and its library services to the surrounding neighborhood including, but not limited to, neighbors, tourists, and vulnerable population.
- c. DCPL modified the vision in September 2014 in a statement of purpose and need used for the National Environmental Protection Act (“NEPA”) process “...
- d. Physical Due Diligence items over the past year has influenced the vision

Item	August 2013	August 2014	Implication
Program	250,000 Net Square Feet (“NSF”)	257,574 NSF (See Exhibit 1)	
	425,203 Gross Square Feet (“GSF”)	465,164 SF GSF	One or more floors are no longer available for other uses
Base (“Must Haves”)	Adult Services Adult Literacy Center for Innov. Children’s Hub Teen Adaptive Services College Info Center Computer Learning  Non Public Space	SAME	Project accommodates Base Program but all space utilized
Expanded Base (“Nice to Haves”)	Special Collections	Special Collections? Café Meeting/Event Space Ground Flr. Retail TBD 5th Flr. Program	Project accommodates Expanded Base Program but all space utilized
Structural	Preliminary reports suggested conceptually additional floors are possible without major structural improvements	“The Bar Addition” of 105,000 SF as presented by M+J has been confirmed as possible without major structural improvements	No change
Parking	Additional floors of residential requires limited changes to existing parking	Additional floors of office will require alternative parking solutions and limit DCPL fleet presence	Mechanical parking solutions are the only way to increase parking within the existing envelope

Retail	NA	Retail is possible but requirements are significant (Discussed further in Section V)	Regulatory and landlord issues add complexity
Entitlements	HPRB as main entitlement body. NCPC could be part of the process	NCPC is the lead agency and will require both NEPA/106	NCPC adds complexity for the Addition; adds time before final direction can be established

- e. **Conclusion** -The vision has not been significantly impacted by the physical due diligence of the building nor the programming effort with Martinez and Johnson/Mecanoo (the “M+J Team”) in the Spring of 2014. Please note to deliver a 21<sup>st</sup> Century library DCPL is likely occupy more than 90% of the building. This approach will allow DCPL to accommodate the Base or the Expanded Base Program, future expansion, or additional ancillary mixed use opportunities within the existing building footprint.

III. Project Program

- a. DCPL provided the M+J Team a skeleton program for a 21<sup>st</sup> Century Library in the Fall of 2013. The M+J Team visited with numerous DCPL staff members and conducted multiple interviews, studied the building and completed a four month programming effort in June 2014.
  - i. Base Program – See Exhibit 1 for Program Summary
  - ii. Expanded Base Program – As shown in the exhibit, there are three columns:
    1. Existing
    2. Competition Guidelines
    3. Proposed
  - iii. Variance—In addition to the core library program, program has been added per the above chart.
- b. **Conclusion** – Both the Base Program and the Expanded Base Program are achievable:
  - i. Both fit with the existing footprint of the building with an expansion of the existing 5<sup>th</sup> floor roof structure.
  - ii. Both fit within the current order of magnitude of budget.
  - iii. Both will require several local and federal entitlements but will likely not require review by the Mayor’s Agent.

IV. Project Budget – Sources and Uses

Item	August 2013	August 2014	Implication
Capital Funding (District Sources)	FY2014 Budget \$103 MM	FY2015 Budget \$208 MM	Additional funding in FY2019 vs. FY2017
Other Sources – Sale of air rights	could help close \$100 MM financing gap	\$28 MM is ~15% of total costs	Continue to “bank” the air rights
Other Sources – Sale of Historic Tax Credits	Not contemplated	\$20 – 30 MM could be leveraged in conjunction with the entitlement process	Regulatory changes required to DCPL “ownership”

Other Sources – Rental Income from Retail	DCPL program was not defined	Compliments 21 <sup>st</sup> C library with more customer visits	Must be part of the planning and entitlement process.
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- a. The FY2014 Budget (approved in the spring of 2013) allocated \$100 MM to the project. DCPL subsequently commenced the architect solicitation and other due diligence which concluded in the selection M+J and confirmation of an order of magnitude budget for the library only of \$160 – 180 MM in March 2014.
  - b. The FY2015 Budget (approved in the spring of 2014) allocated another \$100 MM to the project. A total of \$208 MM will likely fully fund the main library as contemplated in the Concept Plan. Unfortunately, the bulk of the \$200 MM is not available until the FY2019 although the project will likely be ready to commence construction in FY2017. Provided the uncertainty of funding in the out years DCPL conducted further investigation of other sources including the sale of air rights, sale of historic tax credits, and income for ancillary retail uses.
  - c. **Conclusion** – In order to protect current funding DCPL must exhibit to the decision makers progress by Q12015. This includes, but is not limited to:
    - i. Keep the project within budget and on schedule for construction commencement in the fall of 2016 (FY2017)
    - ii. Complete hearings for the local entitlement process with Historic Preservation Review Board (“HPRB”)
    - iii. Identify and structure additional third party sources (if necessary)
    - iv. Selection a general contractor and provide updated pricing within the \$208 MM order of magnitude budget
    - v. Identify an interim library location and make the case for funding for the interim library
- V. Mixed Use Development – Retail
- a. Introducing retail in the project creates the following benefits to DCPL
    - i. Increase the number of customers that visit the library and increase the average time they spend in the library
    - ii. Address the urban design issues on first floor including, but not limited to, vast sidewalks and poor entrance sequencing
    - iii. Create vibrancy for the building even during the library’s off hours
    - iv. Create a long term revenue source to support library operations (regulatory amendments are required)
  - b. Introducing retail requires the following:
    - i. Regulatory change to give DCPL control of uses and revenue
    - ii. Commit to a viable retail program now as part of the entitlements
    - iii. Commit to base building improvements to accommodate retailers
    - iv. Commit to share loading and other back of house components
    - v. Commit to long term landlord tenant relationships
    - vi. Recognize that turnover will occur of time
  - c. **Conclusion** – 10,000 SF – 20,000 SF of retail is a viable way of enlivening the building especially at the ground floor plane. First Floor Retail will animate the historic “loggia” and create a critical mass of patrons for the library. Fifth Floor retail will be a destination while library is open but also a destination because of the views during nights and weekends when the library is closed. Retail architects and strategists have validated the MLK site as a viable retail destination. These experts will be retained going forward to ensure the desired retail can be planned properly.

This square footage represents roughly 20% of the usable building footprint but could increase customer visits and could result in \$400k - \$1 MM in net operating income (“NOI”) for DCPL. Note that the DCPL will also have to budget for operational issues (i.e. waste removal, metering, insurance and occasional construction work) as well as expenses to manage tenants (i.e. legal fees, leasing commissions and tenant fit out costs)—just like any other landlord. Programming of the space will be further vetted with DCPL and viable businesses plans will be reviewed to ensure a retailer can survive on level 5. See Exhibits for retail diagram.

VI. Mixed Use Development – “The Bar Addition”

- a. Introducing The Bar in the project creates the following benefits to DCPL
  - i. Question - Institutional uses could increase the number of customers that visit the library
    - 1. Please note most institutional uses such as charter schools typically will not pay market rate pricing for commercial spaces
    - 2. Please note private commercial office will likely house 300 – 500 office workers and may not significantly increase the number of library customers
  - ii. Create a long term revenue source to support library operations (regulatory amendments are required)
- b. Introducing The Bar Addition requires the following
  - i. Regulatory change to give DCPL control of uses and revenue
  - ii. Commit to a viable Addition program now as part of the entitlements process
  - iii. Commit to base building improvements to accommodate the Addition
    - 1. Parking is a significant cost and problem
  - iv. Commit to share loading and other back of house components
  - v. Commit to a long term condo association relationship
- c. Martinez and Johnson has presented “The Bar” of approximately 100,000 SF of what could be residential or commercial space to be constructed on levels 6, 7 and 8. As stated DCPL’s current Base and Expand Base Program will not require use of The Bar and therefore DCPL analyzed the highest best use and other challenges which are listed below.
  - i. Highest Best Use – Commercial has been deemed highest and best use with a maximum potential valuation of nearly \$28 MM.
    - 1. The value described in the CBRE appraisal for the MLK Library is a “best case”. Several factors could influence the actual price obtained by the DCPL in a sale of the asset including, but not limited to, the owner’s motivation, timing, and risk tolerances. Appraisers provide owners objective data regarding land values, comparable transactions in the markets, and cost information. If MLK were a more conventional development site under private ownership, then the differential between the appraised value and an actual market transaction would be minimal.
    - 2. This will require reconfiguration of the existing parking and possibly mechanical parking solutions for both DCPL Fleet/DCPL employees and commercial parking.
  - ii. Next Highest Use -- Residential use is also possible with a maximum potential valuation of approximately 10% less (not including inclusionary zoning or additional affordable housing requirements). The comments of “best case” are also relevant but please note that inclusionary zoning and/or District affordable housing requirements could drastically reduce the valuation.
- d. **Conclusion** – Concentrate on a plan which focuses on the library program and the existing funding and investigate structural enhancements which could support an addition at a later date.

- i. The Bar is now considered un-programmed space which poses significant hurdles to the Project to incorporate it.
  - 1. Without a user or potential program identified the Bar is simply an undefined concept that can't be integrated into the current Library renovation design or entitlement plan. Thus, maintaining the Bar concept seriously jeopardizes Project schedule and the ability to maintain the existing funding commitment.
    - a. A regulatory change is required to give DCPL control of the selection of a buyer, uses and revenue. The range of time for existing District agencies for the selection of buyers and disposition of assets (even air rights) is two to three years. This process includes, but is not limited to, solicitation, selection, negotiation of land disposition and development agreements which in this case would also include of reciprocal easement agreements, construction covenants and requirements because of the mixed use nature of the project as well as the surplus and disposition process with the DC Council.
  - 2. Non-library uses in the Bar create significant physical, program and legal issues for DCPL operations.
  - 3. Non-library uses in the Bar are impractical due to issues like parking and access.
  - 4. The Bar would disqualify any Historic Tax Credit opportunities and likely require review by the Mayor's Agent.
  - 5. The main library project, based on the current order of magnitude budget, is fully funded.
    - a. The ability to secure proceeds via Historic Tax Credits could be a viable safety net in the event of a budget shortfall. The Historic Tax Credits can be secured in parallel of the current entitlements without adding the complexities of the Mayor's Agent.

VII. Alternate Sources – Historic Tax Credits (“HTC”)

- a. Introducing HTCs in the project creates the following benefits to DCPL
  - i. It is possible for the MLK Library to receive up to \$20M to \$30M of historic tax credit (HTC) funding
  - ii. Create a long term revenue source to support library operations (regulatory amendments are required)
- b. Introducing HTCs requires the following
  - i. Restructure the ownership of the MLK Library to include a non-profit entity and tax credit investor. The nonprofit entity could be the DCPL Foundation or another DCPL entity (Regulatory changes are required). The investors could be banks or other investors seeking tax credits.
- c. **Conclusion** – Continue to pursue historic tax credits and present and legal structural changes for consideration as soon as possible.
  - i. Put forth a preservation concept plan which achieves the DCPL program and is in line with the federal historic preservation standards. See Exhibits for preliminary structuring chart.



## Exhibits

1. Library Program Summary (Base and Expanded Base Program)
2. Executive Summary of CBRE Appraisal (full report available)
3. Streetsense Retail Summary
4. Bryan Cave Tax Summary and Memo
5. M+J Designs