



NAVAL RECREATION CENTER (NRC) SOLOMONS

Potential EUL Project

Proposed Recreation Complex

Spring 2010

Frequently Asked Questions

For more information,
please contact:

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NRC Solomons is proud to be the largest outdoor recreation facility in the Navy. We appreciate the opportunity to provide much-needed Morale, Welfare and Recreation (MWR) activities to sailors and their families, active duty and retired military personnel, Department of Defense employees and their families. We are proud of the financial resources that we can contribute to other MWR activities as a result of our successful operations at NRC Solomons. We look forward to working with those that utilize our facilities and members of the Calvert County community to ensure any improvements to our facilities will continue to meet the needs of our patrons and be compatible with community-based resources that provide complementary services.

Frequently Asked Questions

What is an Enhanced Use Lease?

- An Enhanced Use Lease (EUL) is a long-term lease by the Navy that allows a non-federal entity to develop or redevelop underutilized military land or facilities on an installation to support the military mission and to meet market demand for facilities or services through cooperative efforts and a shared, compatible vision.
- EULs may enhance or improve existing Navy facilities, utility systems or infrastructure; support construction of new assets; or avoid further deterioration of underutilized assets (such as buildings or structures) by providing developers with an opportunity to collect rents or to obtain other income associated with the construction, renovation, or operation of these assets on an installation.
- EUL project tenants can include the military installation itself, military contractors operating on-base and even off-base parties, depending on the nature of the EUL project.
- The Navy's EUL program leverages the unrealized value of underutilized property to achieve three primary goals that serve the Navy's overall mission:
 - Increase partnership opportunities between the private sector, local community, and the Navy.
 - Increase alternative energy sources.
 - Consolidate resources to reduce the overall Navy environmental footprint.

What does the Navy mean by "underutilized" and "excess" property?

- EULs are a tool that the Department of Defense uses to leverage government-owned real estate assets (land and buildings) that are underutilized or not put to optimum use and available, but not excess to the military's needs.
- For federal real property, "underutilized" means that the property is not utilized physically or functionally for its highest and best use or for its intended use. Underutilized property is not excess to the needs of the federal government and is not suitable for disposal.
- For federal real property, "excess" means real property that is not required for agency needs or responsibilities.
- The military is not disposing of assets through the EUL but is leasing them to non-federal entities.



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What is the proposed Enhanced Use Lease at NRC Solomons?

- An EUL at NRC Solomons could involve the possible redevelopment of installation land inside the security perimeter that would be compatible with the installation's mission as the Navy's largest outdoor recreation facility and provider of quality of life programs to military and Department of Defense (DoD) civilian patrons.
- The EUL redevelopment could involve new construction or reuse of existing facilities to achieve the highest and best use of the installation's real property and buildings to meet this extremely important mission.
- The exact EUL project has not been finalized, and will be only after a process that involves further evaluation and definition of the potential EUL.

What are examples of potential Enhanced Use Lease projects?

By law, all EUL projects must promote national defense or be in the public interest. Possible EUL examples include:

- Hotels and conference centers.
- Office spaces and laboratories, including renovation of historic properties.
- Energy production (i.e., central utility plants, bio-mass production, wind, solar and geothermal, co-generation and waste-to-energy).
- Industrial-uses and training centers (i.e., vehicle test tracks) and inter-modal terminals.
- Golf courses.

Why is the Navy pursuing an Enhanced Use Lease at NRC Solomons?

- A recent internal Navy study indicated NRC Solomons has underutilized land.
- An EUL is one of several means to modernize and enhance the Navy's assets to meet mission requirements, and could be appropriately used for this purpose at NRC Solomons.
- The EUL could assist in sustaining or enhancing the current Morale, Welfare and Recreation (MWR) operations at NRC Solomons and could provide an enhanced revenue stream for support of MWR at other facilities.

What Navy tenants are currently located at NRC Solomons and how many people work for them?

- Naval District Washington operates the Solomons Complex near the confluence of the Patuxent River and the Chesapeake Bay. The Navy Recreation Center, Navy Family Housing and two industrial tenants occupy the 295-acre Naval Base complex.
- NRC Solomons is one of the larger employers in Calvert County with over 200 employees (combined full-time and seasonal).

What benefits would an Enhanced Use Lease provide to the installation?

- An EUL could reduce government base operating and capital costs through receipt of cash and in-kind services which may include maintenance, repair, new construction and demolition at the installation or at other installations.
- Since the military receives no less than fair market value of the leased assets, this revenue could be used to fund other mission needs at the installation and in the Service.
- While any development under an EUL would be a private development, owned by a private company, it should increase the value of underutilized assets and improve the utilization of military real property to meet mission requirements; and, the government still owns the underlying land.
- It may result in the construction of state-of-the-art facilities that provide higher energy efficiency, decreased environmental impacts and lower operating costs than those they might replace.



What benefits does an Enhanced Use Lease provide to the region surrounding the Navy installation?

- The EUL may offer key MWR opportunities that support the continued military presence in the region and potentially attract other users to the facilities.
- The potential EUL could open NRC Solomons to other users, such as the general public, that would pay user fees for the ability to access the installation's amenities.
- It may promote local economic growth and stimulate the local job market and the market for suppliers and service providers to support the EUL project and the operations of any developed facilities.
- It may increase real estate tax revenues through induced development outside the installation and provide other benefits to local governments, enhancing their budgets and further solidifying working relationships with the military installation.
- It can become a magnet to further investment, off-base, by private companies who meet expanded demand the operations of the EUL facilities aboard the base create.

Why would private developers pursue military Enhanced Use Leases?

- An EUL developer would aim to respond to market demand by leasing prime real estate on military installations, financing, building, improving or operating facilities that meet this market demand and in doing so hope to increase their ability to generate a profit.
- EUL developers see the military as partners in fostering relationships that forge a compatible vision for the military's continued regional presence and strengthened relationships with the surrounding community.
- The added security of operating on a military base is also attractive to potential EUL developers.

Would the potential EUL developer hire the current MWR employees to operate the potential EUL facilities?

- It is too early in the potential EUL process to make any guarantees about the outcome of the EUL and what shape the potential project may take; however, this topic could be a point of negotiation between the Navy and the potential EUL developer.
- As always, the Navy values our people as one of our highest assets and we will work with our partners to ensure as many current MWR employees as possible are retained in the course of the potential EUL project.

What would it cost to utilize any new facilities that may be added to NRC Solomons?

- The exact pricing structure for any new facilities will be determined after negotiations with the potential EUL developer but affordability for junior sailors and their families remains a top priority with any potential EUL development at NRC Solomons.
- The Navy will keep this consideration strongly in mind if it negotiates a potential EUL at NRC Solomons.

What facilities are currently located at NRC Solomons?

- Sport facilities such as tennis and volleyball courts, horseshoe pits, a miniature golf course, driving range and four swimming pools.
- *Adventure Zone*, host to outdoor concerts, 5k run series and painting and arts and crafts workshops.
- *Pt. Patience Marina* offers 124 "wet" boat slips (yearly and transient) with water and electrical hook-ups.
- A variety of lodging accommodations such as classic cottages, contemporary cottages, log cabin duplexes, bungalows, apartments, and camp sites.



Under an Enhanced Use Lease, who controls the property – the government or the private developer?

- The private developer is granted a multi-year lease to make improvements to the property that can be leased at market rate rents to suitable, interested tenant(s).
- The federal government makes no revenue or rental occupancy guarantees to the developer and private developers bear the sole risk of generating revenue from the EUL project.
- The military allows the developer to control the leased property, but the military retains ownership of the assets leased to the developer chosen during the EUL process.
- The government is responsible for ensuring the proposed development is consistent with the installation's mission and causes no adverse security conditions.

Are there restrictions on what activities the developer can undertake though an Enhanced Use Lease?

- Through hold harmless protections, EUL projects may not compete with Naval Exchanges, AAFES, NEXCOM, DECA and Morale, Welfare and Recreation activities unless the EUL project replaces the existing MWR revenue stream.
- Any EUL must be compatible with NRC Solomons' mission of providing morale, welfare and recreation activities.
- Any EUL must also be within Federal Aviation Administration height limits.

Will the EUL help prevent future installation realignment under the BRAC process?

- No. The BRAC process is very complex with many factors taken into consideration when installations are recommended for realignment, so the EUL cannot "BRAC-proof" the installation.
- EULs help to utilize an installation's land and resources to the highest and best use, making them more efficient than without the EUL; an installation's ability to efficiently meet mission requirements can be an important consideration in the BRAC process.

What will happen to the industrial area at the southern end of NRC Solomons?

- The potential areas for development may include the industrial area, depending on the nature of proposals that developers submit in late 2010.
- It is possible that the EUL could utilize the majority of available land at NRC Solomons or a smaller portion.

Under what authority can the Navy undertake an Enhanced Use Lease?

Per Title 10 U.S.C. 2667, the Department of the Navy can:

- 1) Out-lease non-excess available land and facilities to a non-federal entity for up to five years (or longer if approved by the Service Secretary);
- 2) Receive cash or in-kind consideration equal to or no less than the fair market value of the leasehold interest in the property; and
- 3) In-kind consideration could include the alteration, repair, improvement or property or existing facilities; construction or acquisition of new facilities; facility leasing; payment of utility services; and/or real property maintenance services.

What is the Enhanced Use Lease process?

Phase I

1. The Navy identifies installation sites that are underutilized, meaning the sites are not utilized physically or functionally for its highest and best use or for its intended use.
2. The Navy conducts a market and feasibility analysis of underutilized sites to determine their highest and best use and potential market value.

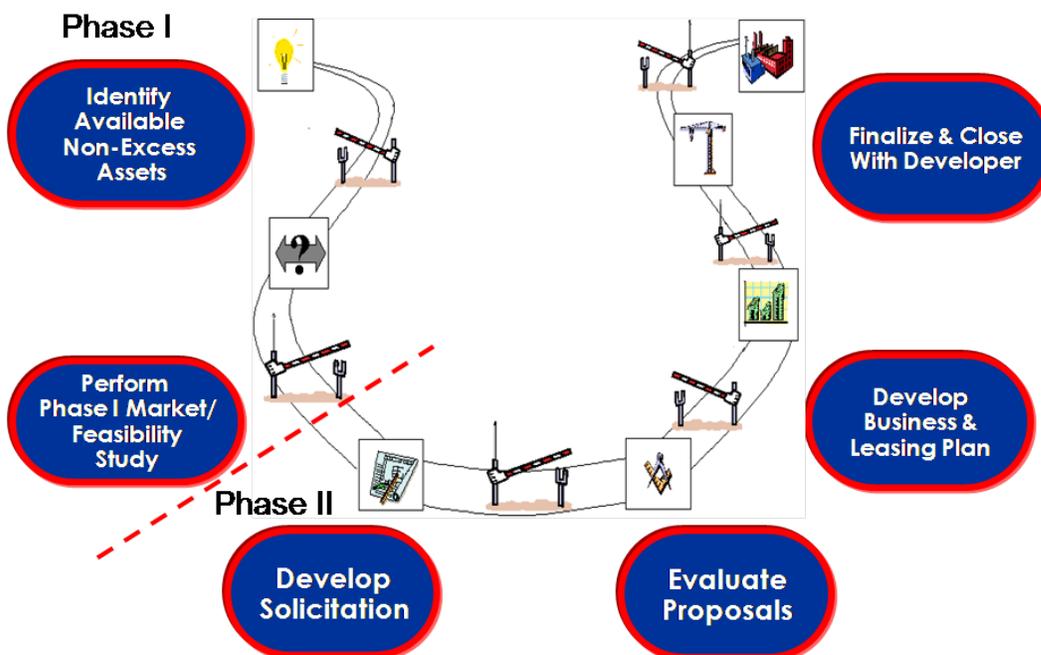
Phase II

1. The Navy issues a RFQ (Request for Qualifications) and holds an industry forum to determine developer interest in the underutilized sites.
2. The Navy works to ensure program compliance with the National Environmental Policy Act, the National Historic Preservation Act, the McKinney Act and Office of Management and Budget and Congressional reporting requirements.
3. The Navy provides the opportunity to prospective offerors to state their interest in the EUL by responding to the Navy's RFQ.
4. The Navy selects a qualified developer that shares the Navy's vision of modernizing facilities to better meet the Navy's mission for exclusive negotiations of a Business and Leasing Plan for the EUL opportunity.
5. The Navy receives fair market value of the leasehold interest of land or facilities leased under an EUL. The Navy can be paid in cash or in-kind consideration for facilities and/or services.
6. Phase II culminates in the execution of a lease agreement between the Navy and the selected offeror.

Phase III

1. The Navy monitors the lease and prepares status reports to federal authorities such as the U.S. Congress and Office of Management and Budget.

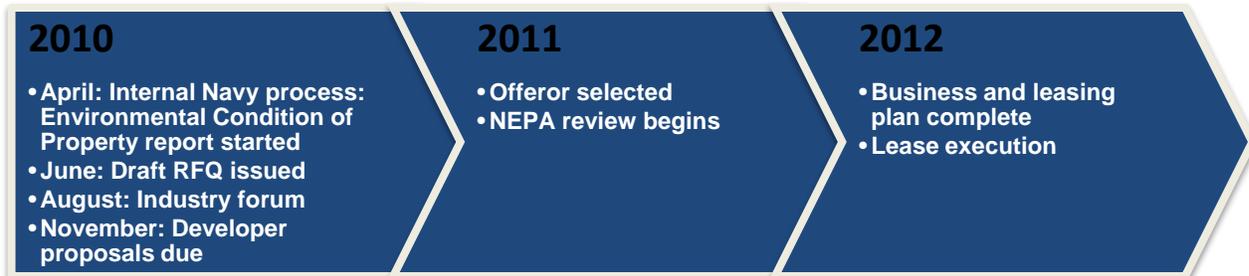
The graphic below depicts the EUL process:





What is the project timeline?

- The public will have opportunities to comment on the proposed EUL project throughout the EUL process. The timeline below shows some of the key EUL decision points.



Is this a “done deal?”

- No. The Navy plans to assess how to best utilize the assets at NRC Solomons to meet mission requirements.
- The project timeline (above) could be extended depending on which land the potential developer proposes for the EUL and the time it would take to identify and negotiate with the private developer and to complete any National Environmental Policy Act review (i.e., prepare an Environmental Impact Statement or Environmental Assessment).
- To “complete the deal” both the government and the developer will have to reach agreement.
- There are many points along the path in which the public will be able to comment.

How will the community be compensated for costs incurred due to the EUL? What taxing authority does the local government have with respect to land leases on military bases, the developments that are constructed on the installation, and the tenants which occupy the leased land?

- 10 USC 2667 specifically waives federal immunity from state and local property taxes for real property leased under an EUL so state or local governments may tax the developer’s interest in the leased land or enter into a payment in lieu of taxes agreement (PILOT) with the developer.
- In Maryland, an EUL leasehold interest is taxable by state and local governmental units, except
 - If the leaseholder is a not for profit.
 - If it is used for a governmental purpose including homeland defense and military housing.
 - If the government or the for-profit leaseholder enters into a PILOT agreement.
- It is expected all EUL offerors will address this issue as part of their proposals and these are issues that would be specifically worked through during the development of the EUL proposal and the negotiations with an EUL developer.
- The Navy is committed to working with the selected EUL developer and local community to ensure fair and equitable community outcomes as a result of the proposed EUL project.

What will the installation do about possible community and environmental impacts?

- NRC Solomons is proud of its reputation as a good environmental steward and neighbor and will continue to be both.
- Any EUL project would be evaluated under the National Environmental Policy Act and, if appropriate, an Environmental Assessment (EA) or Environmental Impact Statement (EIS) would be prepared.
- Any unavoidable environmental impacts, such as those on installation wetlands, would be identified in the EA/EIS, and a mitigation plan, if appropriate, would be developed.



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How will the potential EUL developer take into consideration the shortage of groundwater supplies?

- Any potential EUL developer will address this issue in the proposals submitted to the Navy in late 2010.
- It is too early to speculate how the potential developer could resolve this issue, but the Navy understands that the issue is critical in moving forward with any EUL project at NRC Solomons.

What are the Congressional reporting requirements associated with an Enhanced Use Lease?

The Congressional reporting requirements are as follows:

INITIAL NOTICE: 30-day Congressional Notice prior to issuing an EUL solicitation when cash or in-kind consideration would exceed \$750,000 per year. This notice will include:

- Description and duration of the lease.
- Description of any Navy participation in the lease.
- Office of Management and Budget Scoring Analysis.
- Rationale for why the proposed land is not considered “excess.”
- Description of local taxation issues.
- Description of local development issues.

FINAL NOTICE: 30-day Congressional Notice prior to entering into a lease, including:

- Detail on any departures from the Initial Notice.
- Copy of the Initial Notice.

ENERGY PROJECT NOTICE: Applies if the lease involves energy production and lease term exceeds 20 years, including:

- Consistency with 10 USC 2911: EUL is consistent with Department of Defense performance goals and plan.
- Secretary of Defense must submit similar certification to Congressional Defense committees which have a 30-day comment period before the lease could be signed.

COMMUNITY SUPPORT FACILITIES AND SERVICES NOTICE: Hold harmless protection to AAFES, NEXCOM, Marine Corps Exchanges, DECA and MWR activities from competing EULs. Protections can be waived.

- If a waiver is sought, the Navy must notify Congress.
- Notify Congress of all leases that include a community support facility or services.

COMPETITIVE PROCEDURE FOR SELECTION OF CERTAIN LESSEES NOTICE:

- 45-day notice, prior to entering into a lease, that details the competitive procedures used to select the lessee or public benefit served by not using competitive procedures.



What role does the federal Office of Management and Budget play in the EUL process?

- The Office of Management and Budget (OMB) is responsible for determining budgetary activities of the federal government, including evaluating government leases to determine whether they are capital leases or operating leases.
- Section 2667 out-leases (such as EULs) are not scored as a capital lease, unless they include a lease-back to the government or a guarantee that the government would use the facility. In other words, the EUL is supposed to be a market-based decision the EUL developer makes.
- If an EUL involves a government in-lease of space, then the in-lease will be scored even if it is part of in-kind consideration. If lease scoring is triggered, then a determination is made whether it is a capital lease or an operating lease.
- A capital lease is a long-term, high dollar value lease allowing the lessee to recover construction or acquisition costs during the term of the lease and is scored up-front in its entirety.
- An operating lease is a temporary rental of general purpose space or a temporary payment for services without substantial lessee recovery of construction or acquisition costs and is scored annually.
- The Navy fully intends that any EUL at NRC Solomons would meet the OMB requirements for such a project.