



NAVAL AIR STATION (NAS) PATUXENT RIVER

Potential EUL Project

Proposed Modernized Work Campus

Summer 2010

Frequently Asked Questions

For more information,
please contact:

Ed Zeigler

Director, Public Affairs
HQ, Naval District
Washington

Washington Navy Yard
1411 Parsons Ave. SE
Suite 212
Washington, DC
20374-5001

Edward.zeigler@navy.mil
202-433-2678



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NAS Patuxent River and its tenant commands are grateful for the strong community support we receive for the installation, its personnel and the vital missions that we perform on behalf of Navy.

We are pleased to partner with the St. Mary's community in opportunities to ensure that NAS Patuxent River remains a strong and effective facility that is capable of managing the in-bound missions and the personnel that support them.

We believe that the installation's potential development plans will ensure the right mix of workspace to both efficiently meet our mission requirements and to strengthen our partnership with the local economy.

Frequently Asked Questions

What is an Enhanced Use Lease?

- An Enhanced Use Lease (EUL) is a long-term lease by 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.
- Navy's EUL program leverages the unrealized value of underutilized property to achieve three primary goals that serve Navy's overall mission:
 - Increase partnership opportunities between the private sector, local community, and Navy.
 - Increase alternative energy sources.
 - Consolidate resources to reduce the overall Navy environmental footprint.

What does 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.



NAS PATUXENT RIVER

Potential EUL Project

Proposed Modernized Work Campus FAQs

What is the proposed EUL at NAS Patuxent River?

- An EUL at NAS Patuxent River could involve the possible redevelopment of installation land for a modernized work campus that would be compatible with the installation's mission as Navy's principal research, development, acquisition, testing, evaluation, engineering and fleet support activity for naval aircraft, engines, avionics, aircraft support systems and ship/shore/air operations.
- 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 more will be known after developer proposals are submitted in later 2010.

What are examples of potential EUL projects?

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

- 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.
- Hotels and conference centers.
- Golf courses.

Why is Navy pursuing an EUL at NAS Patuxent River?

- A recent internal Navy study indicated NAS Patuxent River has underutilized land or sites not being put to optimum use on-base.
- An EUL is one of several means to modernize and enhance Navy's assets to meet mission requirements, and the study indicated that an EUL could be appropriate at NAS Patuxent River.
- Navy is pursuing an EUL at NAS Patuxent River to help to ensure that NAVAIR's predicted growth in the coming years could best be managed and supported at the installation and in the surrounding community.
- The EUL could improve the efficiencies of research and development teams if they are able to work in closer proximity to each other and test facilities.

What Navy tenants are currently located at NAS Patuxent River and how many people work for them?

- NAS Patuxent River is home to over 22,000 personnel that includes the Naval Air Systems Command Headquarters, the Air Test Wing Atlantic, and the Naval Air Warfare Center Aircraft Division Commands.

What benefits does an EUL 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.



NAS PATUXENT RIVER

Potential EUL Project

Proposed Modernized Work Campus FAQs

What benefits does an EUL provide to the region surrounding Navy installation?

- The EUL may be a key efficiency driver that supports the continued military presence in the region.
- 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 EUL?

- 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 host community.
- The added security of operating on a military base is also attractive to potential EUL developers.

Under an EUL, 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.

Under what authority can Navy undertake an EUL?

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

- 1) Out-lease non-excess available land and facilities to a non-federal entity for up to five years (or longer with Service Secretary approval);
- 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.

Are there restrictions on what the activities the developer can undertake though an EUL?

- Through hold harmless protections, EUL projects may not compete with Naval Exchanges, AAFES, NEXCOM, DECA and Morale, Welfare and Recreation (MWR) activities unless the EUL project replaces the existing MWR revenue stream.
- Any EUL must be compatible with NAS Patuxent River's mission as Navy's principal research, development, acquisition, testing, evaluation, engineering, and fleet support activity for naval aircraft, engines, avionics, aircraft support systems and ship/shore/air operations.
- Any EUL must also be within Federal Aviation Administration height limits.



NAS PATUXENT RIVER

Potential EUL Project

Proposed Modernized Work Campus FAQs

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 is the EUL process?

Phase I

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

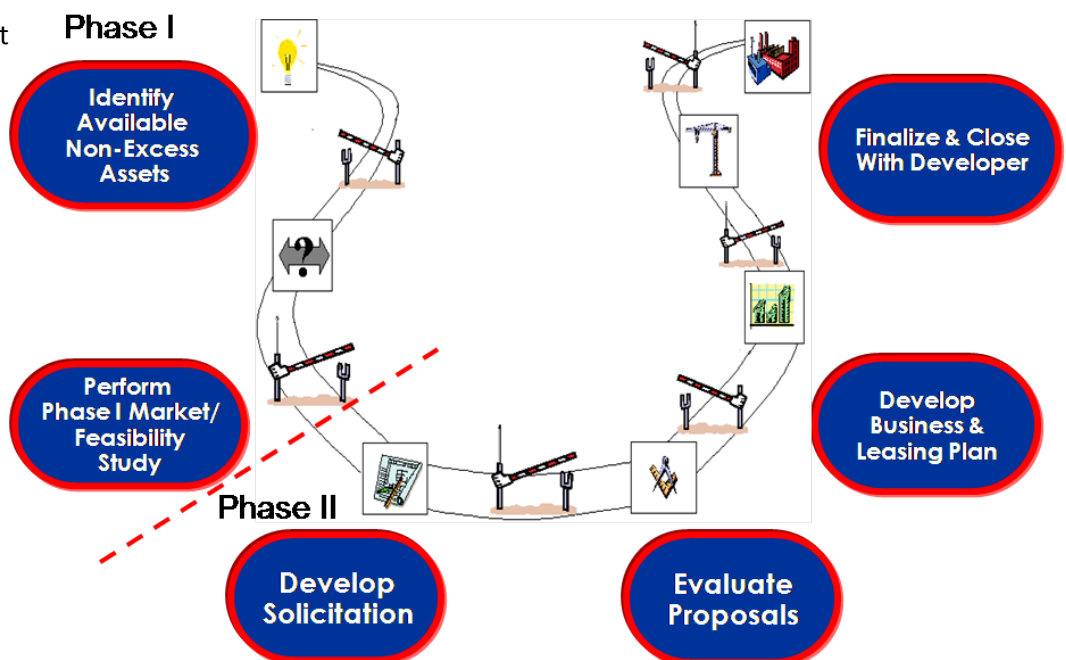
Phase II

1. Navy issues a RFQ (Request for Qualifications) and holds an industry forum to determine developer interest in the underutilized sites.
2. 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. Navy provides the opportunity to prospective offerors to state their interest in the EUL by responding to Navy’s RFQ.
4. Navy selects a qualified developer that shares Navy’s vision of modernizing facilities to better meet Navy’s mission for exclusive negotiations of a Business and Leasing Plan for the EUL opportunity.
5. Navy receives fair market value of the leasehold interest of land or facilities leased under an EUL. 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 Navy and the selected offeror.

Phase III

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

The graphic on the right depicts the EUL process:

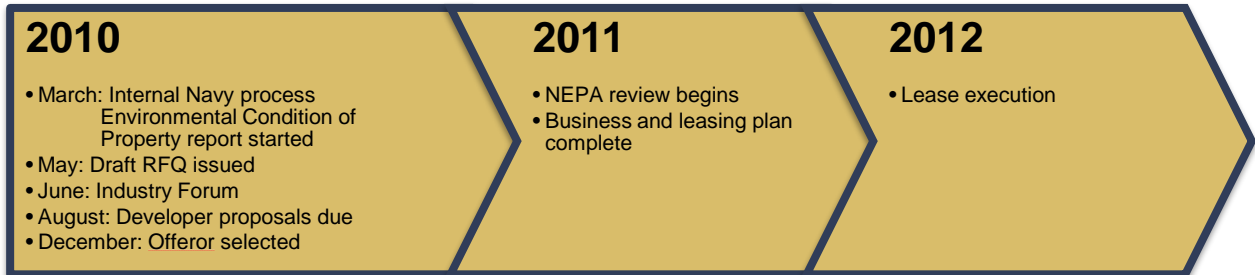




NAS PATUXENT RIVER Potential EUL Project Proposed Modernized Work Campus FAQs

What is the project timeline?

- The public will have opportunities to comment on the proposed EUL project through the National Environmental Policy Act (NEPA) review process. The timeline below shows some of the EUL decision points.



Is this a “done deal?”

- No. Navy plans to assess how to best utilize the assets at NAS Patuxent River 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 Assessment or Environmental Impact Statement).
- To complete the deal both the government and the developer will have to reach agreement.

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.
- 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?

- NAS Patuxent River 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 or EIS, and a mitigation plan, if appropriate, would be developed.



NAS PATUXENT RIVER

Potential EUL Project

Proposed Modernized Work Campus FAQs

Why is Navy pursuing an EUL for a modernized work campus on-base when there is office space vacancy in the surrounding community and available land near the installation?

- By co-locating government and contractor personnel, NAS Patuxent River will be better positioned to achieve business efficiencies.
- The installation has underutilized land or sites that are not put to their optimum use.
- Off-base sites do not currently meet Navy's Anti-Terrorism/Force Protection security requirements.

What are the Congressional reporting requirements associated with an EUL?

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 will 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 can be signed.

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

- If a waiver is sought, 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 or 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.
- Navy fully intends that any EUL at NAS Patuxent River would meet OMB requirements for such a project.