



# Walter Reed Army Medical Center Re-Use

## Implementation Framework

November 3, 2011

Vincent C. Gray – Mayor of the District of Columbia  
Victor L. Hoskins – Deputy Mayor for Planning and Economic Development



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## Overview

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## Background and Context

## Development Approaches

## Potential Structures

## Implementation LRA Considerations

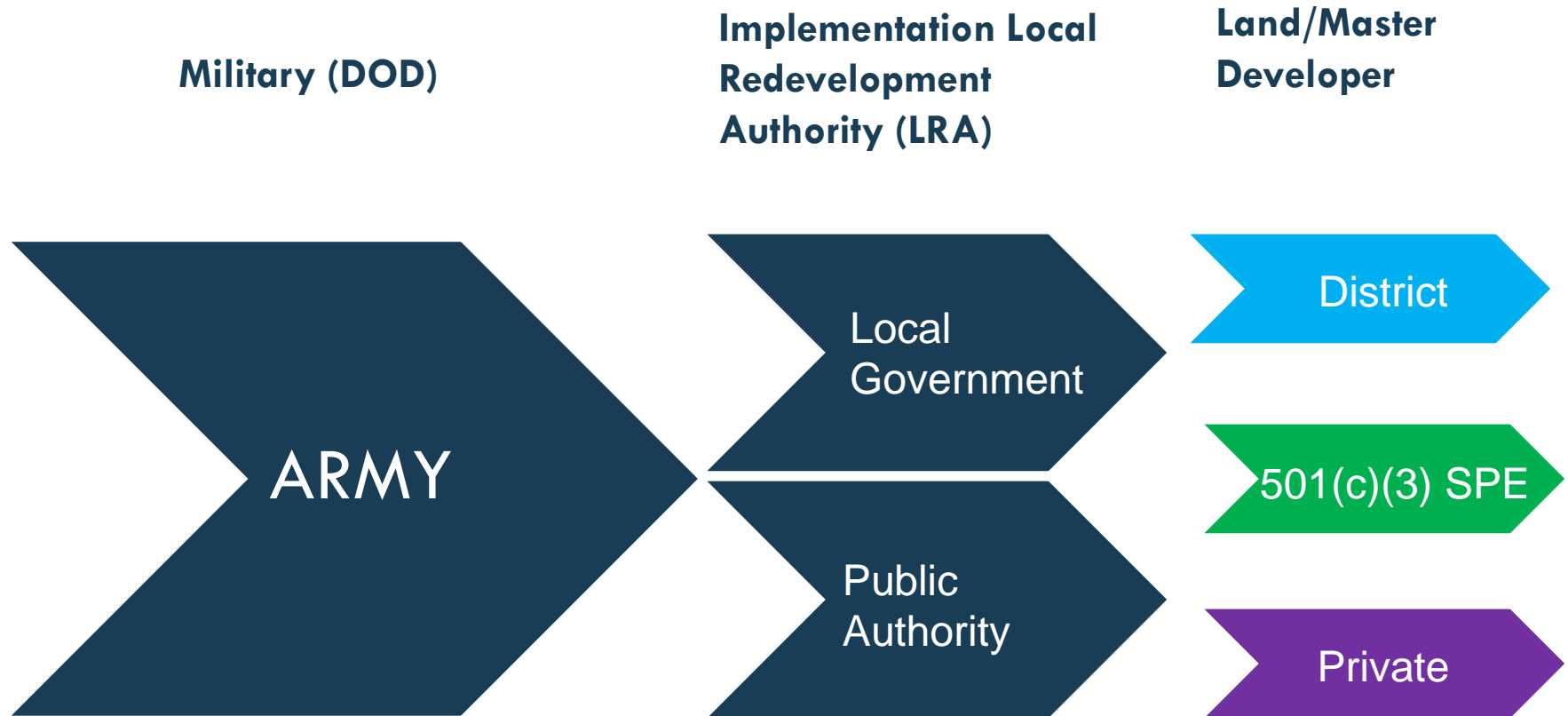
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## Motion

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On October 13, 2011, LRA Committee Members, Tim Shuy and Alice Giancola, introduced a motion to the Planning LRA requesting that the Deputy Mayor for Planning and Economic Development perform an analysis of development implementation options for the reuse of the Walter Reed Army Medical Center site. The analysis requested is to clearly outline advantages and disadvantages of each approach and address important implementation considerations – such as timing and financing.

# Implementation Considerations



Note: The Master Developer selection will assist in identifying the form of the Implementation LRA.

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## Goals

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- Conveyance of 67.5 acres of the WRAMC site at minimal up-front real property cost to the District, through an Economic Development Conveyance (EDC).
- Fast-track implementation and development to meet Reuse Plan goals.
- Minimize the need for District capital investment that has caused delay of other large scale projects (e.g., McMillan, Poplar Point, St. Elizabeth's).

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## Approach: Development approach determines form of Implementation LRA necessary to enable development to proceed

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- The Implementation LRA (ILRA) is the formal entity that will govern development of the site and the District should select the ILRA structure soon and seek DOD recognition quickly following the submission of the homeless/reuse plan to HUD (March/April 2012).
- The structure, timeline, necessary milestones, and responsibilities of the Implementation LRA differ depending on which Development Approach is chosen. These criteria should influence the preferred approach decision.
- The Implementation LRA should also ensure that the Master Developer is selected/in-place in time to inform the economic development conveyance (EDC) application and participate in negotiations with the Army on the economic development conveyance and with the ESCO/Utility provider.

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# Walter Reed's unique characteristics make a master development approach highly desirable for successful implementation

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## Factor

## Implication

### Factor 1: Federal Acquisition Process

- It is advantageous to have a single land developer – regardless of whether public or private – involved in the up-front conveyance negotiations with the Army, in order to ensure that the projected costs of site-wide infrastructure are taken into account in land value. Therefore, the issue is what, if any, components to make private.

### Factor 2: Site Infrastructure

- The extensive site-wide infrastructure needs on the site require coordinated investment, both up-front and on-going as development occurs. Many of the site-wide infrastructure components - such as a central utility plant and significant public open space – create value across the site and, therefore, must be implemented by a single land developer rather than individual parcel developers.

### Factor 3: Long-Term Project

- The 2+ year pre-conveyance period and the 10-20 year redevelopment period will require continuity of decision-making and funding for an extended period of time.

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Key Decisions – The form of Master Developer the District selects to take the lead to act as the land developer, conducting environmental remediation and installing site-wide infrastructure necessary to ready the site for redevelopment.

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## District

- “In-house” land development managed by relevant District agencies (DMPED, DGS, etc.).
- Funded by District sources (e.g., capital budget, TIF) and other grants; costs also offset by future parcel sales and leases.
- Subject to debt cap and anti-deficiency.

## SPE

- 501(c)3 non-profit development corporation with DC government Board representation contracted by the Implementation LRA to receive land and provide all master development services.
- Funded by private capital, federal and other grants; costs also offset by future parcel sales and leases.
- Not subject to debt cap or anti-deficiency.

## Private

- Private master developer competitively solicited by Implementation LRA to receive land and independently make all master development decisions.
- Funded by private capital, land value, federal and other grants; costs also offset by future parcel sales and leases.
- Not subject to debt cap or anti-deficiency

## Key milestones differ depending upon selected Development Approach in order for ILRA to be established and development to proceed

	<b>Option 1: District Agency (District Agency ILRA)</b>	<b>Option 2: SPE (Development Authority ILRA)</b>	<b>Option 3: Private Developer (either form of ILRA)</b>
<b>Steps Required Prior to Creation of Implementation LRA</b>	<ul style="list-style-type: none"> <li>Identify lead and supporting agencies</li> <li>Determine organizational structure, roles, staffing</li> <li>Identify internal funding for additional responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Draft legislation to establish Development Authority and authorize creation of SPE subsidiary</li> <li>Obtain Council approval of legislation</li> <li>Recruit SPE Board members, secure staff, locate offices, furniture, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Steps for appropriate ILRA creation</li> <li>Prepare RFP/RFQ and developer selection criteria</li> </ul>
<b>Steps Required after Implementation LRA is Recognized to Enable Development to Proceed</b>	<ul style="list-style-type: none"> <li>Develop dedicated operational capacity to execute on WRAMC goals and timelines</li> <li>Identify capital sources and approach to manage risk</li> <li>Build development and management capacity</li> </ul>	<ul style="list-style-type: none"> <li>Develop operational capacity</li> <li>Identify capital sources and/or obtain funding commitment from District</li> <li>Enter into joint venture agreement(s) with private developer(s) or build internal development and management capacity</li> </ul>	<ul style="list-style-type: none"> <li>ILRA issues developer RFP/RFQ</li> <li>Receive RFP/RFQ responses</li> <li>Select preferred partner(s)</li> <li>Negotiate contractual terms</li> </ul>

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## Overview

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Background and Context

**Development Approaches**

Potential Structures

Implementation LRA Considerations

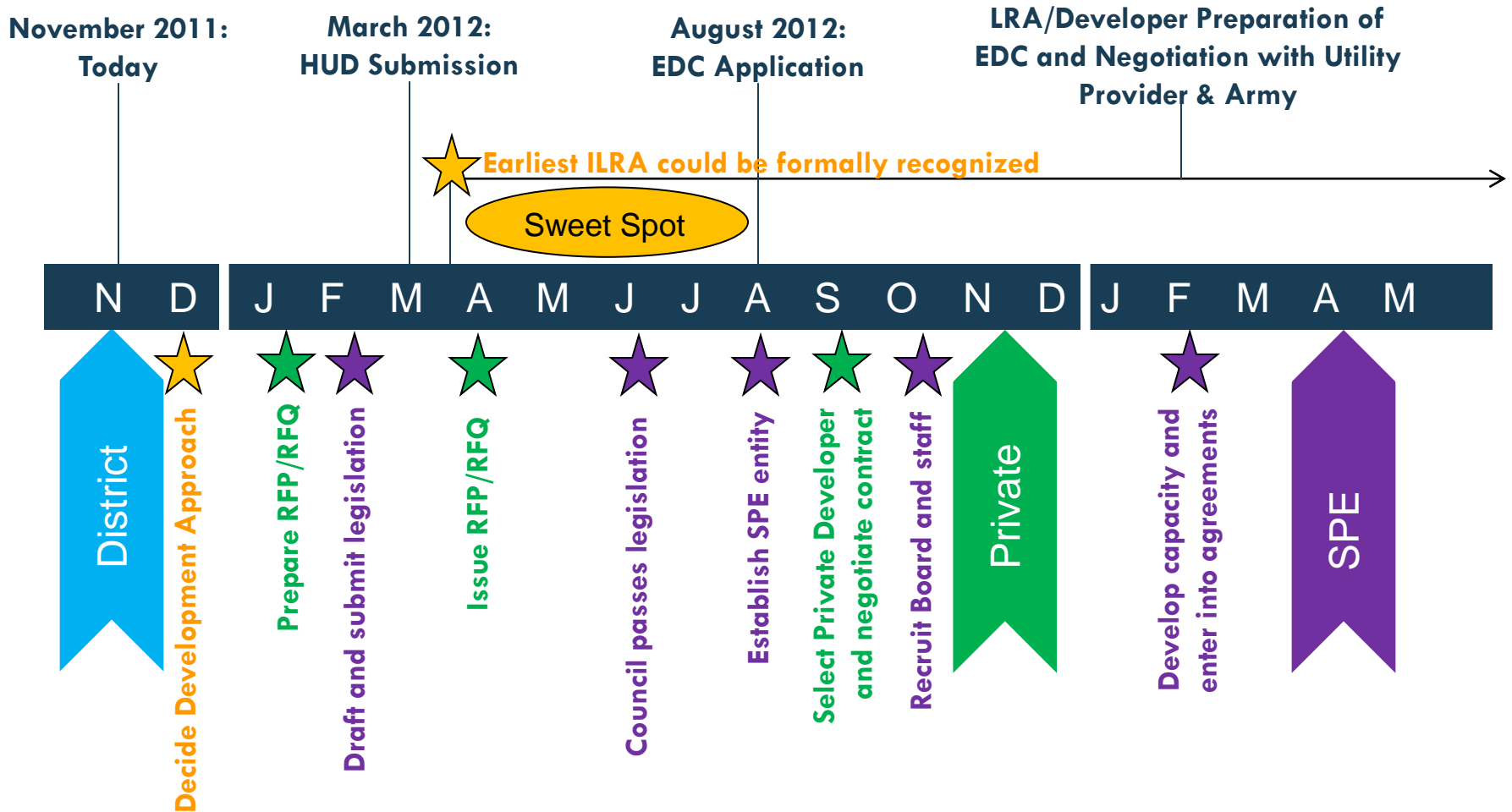
# Evaluation Criteria

Criteria	Definition
<b>Timing / Speed of Implementation</b>	<p>The choice of land developer may impact how quickly land and vertical development can occur on the site. The land development approach should help to achieve the Reuse Plan goal of accelerated implementation. Key considerations include:</p> <ul style="list-style-type: none"> <li>(1) Speed of operationalizing master development structure;</li> <li>(2) Commencement of land development, including securing capital funding;</li> <li>(3) Overall Phase I development timeline.</li> </ul>
<b>Functional Capacity to Implement Infrastructure</b>	<p>The land developer will need capacity to finance and project manage approvals and development of a wide range of infrastructure components, including central utilities, stormwater, roads, parking, and other specialized components. Focusing human and financial resources on the challenges of the Walter Reed redevelopment, and avoiding competition for resources with other projects will better ensure successful and timely implementation of the Reuse Plan.</p>
<b>Funding / Access to Capital</b>	<p>The land developer will require access to significant capital and ability to access a range of funding sources to implement the infrastructure.</p>
<b>District Control / Oversight</b>	<p>The expansive day-to-day operational and project management challenges of Walter Reed require a developer to act efficiently and effectively, while balancing the need for Implementation LRA oversight and accomplishment of a range of social goals imposed by District policies.</p>
<b>Operating Costs to the District</b>	<p>The development approach should balance operating costs to be incurred by the District with other benefits of each approach. Cost considerations include salaries and other operating costs.</p>
<b>Capital Costs</b>	<p>The development approach should balance costs with other benefits of each approach. Cost considerations include up-front costs to the District, and cost efficiency of different land development entities.</p>
<b>Risk Sharing</b>	<p>Different land development approaches will allow for different levels of risk sharing among the public and private sectors.</p>
<b>Legal / Regulatory Considerations</b>	<p>Site redevelopment will require input from a diverse set of District agencies including approvals for design, preservation and construction.</p>

# Timing / Speed of Implementation

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
<b>Advantages</b>	<ul style="list-style-type: none"> <li>- District has complete control of the timeline.</li> <li>- Does not require selection process for master developer or formation of SPE.</li> <li>- Timing for redevelopment is largely under the District's control as long as the District is willing to provide capital to develop the site and financial incentives to induce the market.</li> <li>- Uses controlled by the District.</li> </ul>	<ul style="list-style-type: none"> <li>- After initial capacity is established, may have ability to make decisions more quickly than public sector.</li> <li>- Balance of public and private sector governance will require decisions to be based on a combination of financial and public-sector considerations.</li> </ul>	<ul style="list-style-type: none"> <li>- Greater speed of internal decision-making, outside of public decision-making process.</li> <li>- Enhanced motivation to speed implementation due to financial commitment.</li> <li>- Decisions based solely on financial analysis.</li> <li>- Greater experience and expertise in land development → faster learning curve</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>- Decision-making timeline may be longer than for an independent and/or private entity.</li> <li>- District will need to make decisions based on a range of factors, including political factors, versus private developers who can make business decisions alone.</li> <li>- District will need to fund the full upfront development.</li> <li>- Appropriations risk for funding activities.</li> <li>- Requires RFP process for each parcel.</li> </ul>	<ul style="list-style-type: none"> <li>- Requires new entity to be created and to build capacity; may take the greatest amount of time during initial phases.</li> <li>- Balance of public and private sector governance will require decisions to be based on a combination of financial and public-sector considerations.</li> </ul>	<ul style="list-style-type: none"> <li>- Necessity of obtaining approvals from public sector.</li> <li>- Implementation timeline is largely outside of public control once land is conveyed.; developer timing may be set to some degree in Development Agreements, but timing clauses may difficult to enforce.</li> </ul>

# Timing / Speed of Implementation: Operationalizing Master Developer Structure



**NOTE:** Office of Economic Adjustment instructs that it is essential to the LRA's acquisition of the base from the military to have the developer involved before the conveyance is completed and advises that the LRA to begin the process of selecting a developer at least a year in advance of expected conveyance. See, "Use of Master Developers in Implementing Military Reuse Plans." P.5 (March 1999).

# Functional Capacity to Implement Infrastructure

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
Advantages	<ul style="list-style-type: none"> <li>- Existing capacity in a variety of specializations, and ability to coordinate with agencies for implementation and approvals.</li> <li>- Requires long-term commitment to provide resources, capacity, and authority within the District to develop the site.</li> <li>- Can hire development expertise through consultants or new staff.</li> </ul>	<ul style="list-style-type: none"> <li>- Human and financial resources can be dedicated solely to WRAMC.</li> <li>- Can hire development expertise through consultants or staff.</li> </ul>	<ul style="list-style-type: none"> <li>- Ability to dedicate resources to WRAMC.</li> <li>- Expertise of private developer is brought to the site.</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>- Human and financial resources not dedicated solely to WRAMC.</li> <li>- Human resources subject to turnover through electoral cycles.</li> <li>- Requires coordination amongst multiple agencies to make decisions and execute.</li> <li>- Procurement process more cumbersome.</li> </ul>	<ul style="list-style-type: none"> <li>- Requires new legislation to be negotiated and passed prior to developing functional capacities.</li> <li>- New entity will require immediate hiring or detailing of select staff from existing District offices to support initial functions. Will require start-up time and coordination.</li> </ul>	

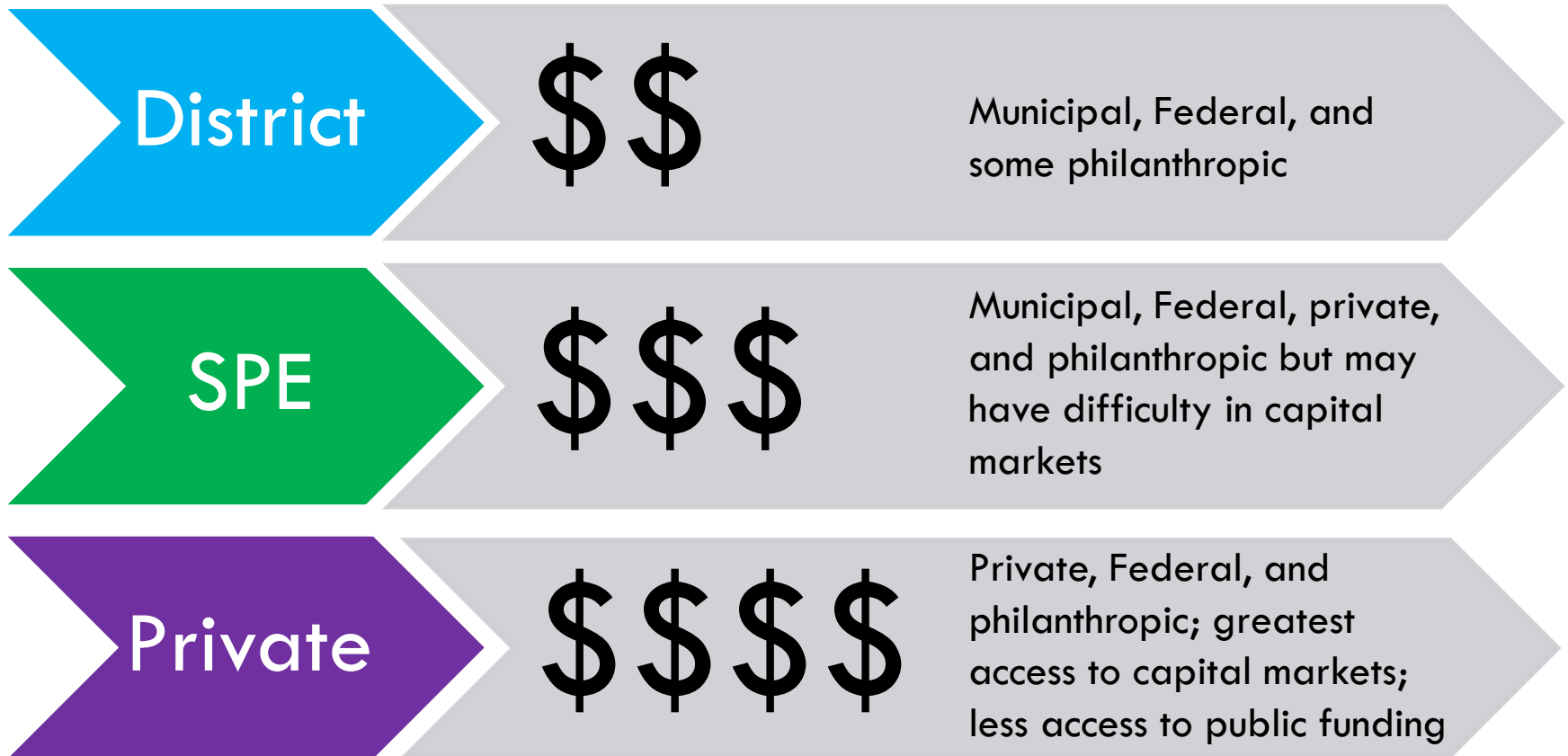
# Funding / Access to Capital

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
<b>Advantages</b>	<ul style="list-style-type: none"> <li>-Ability to access public financing.</li> <li>-Ability to use appropriations to fund the project.</li> </ul>	<ul style="list-style-type: none"> <li>-Ability to access a range of public, philanthropic, and private funding sources, including access to certain Federal and District programs, depending on the program for implementation.</li> <li>-Revenue generated by Walter Reed-specific activity will be allocated to the budget of the new SPE and therefore will be directly rededicated to functions related to Walter Reed.</li> </ul>	<ul style="list-style-type: none"> <li>-Access to private capital markets.</li> <li>-Less exposure to challenges associated with District's debt cap and anti-deficiency issues.</li> <li>-Ability to access a range of public, philanthropic, and private funding sources, including access to certain Federal and District programs, depending on the program for implementation.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>-Unlikely to attract philanthropic or private funding sources. Difficult to enter into joint-venture agreements with private entity(ies).</li> <li>-District debt cap and anti-deficiency could limit ability to finance project.</li> <li>-Revenue generated by Walter Reed-specific activity will be allocated to the budget for the office. The office may or may not choose to use those funds for the Walter Reed project.</li> </ul>	<ul style="list-style-type: none"> <li>-Does not necessarily have any dedicated funding streams, especially during initial phases before revenue is generated, unless public funds are specifically allocated to SPE by District or SPE enters into a joint-venture with a private entity.</li> <li>-New entity without explicit backing of District may have difficulty accessing capital markets.</li> <li>-Lack of access to public financing without involvement of public sector.</li> </ul>	<ul style="list-style-type: none"> <li>-Lack of access to public financing without involvement of public sector.</li> <li>-No access to OEA funds.</li> </ul>

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## Funding / Access to Capital

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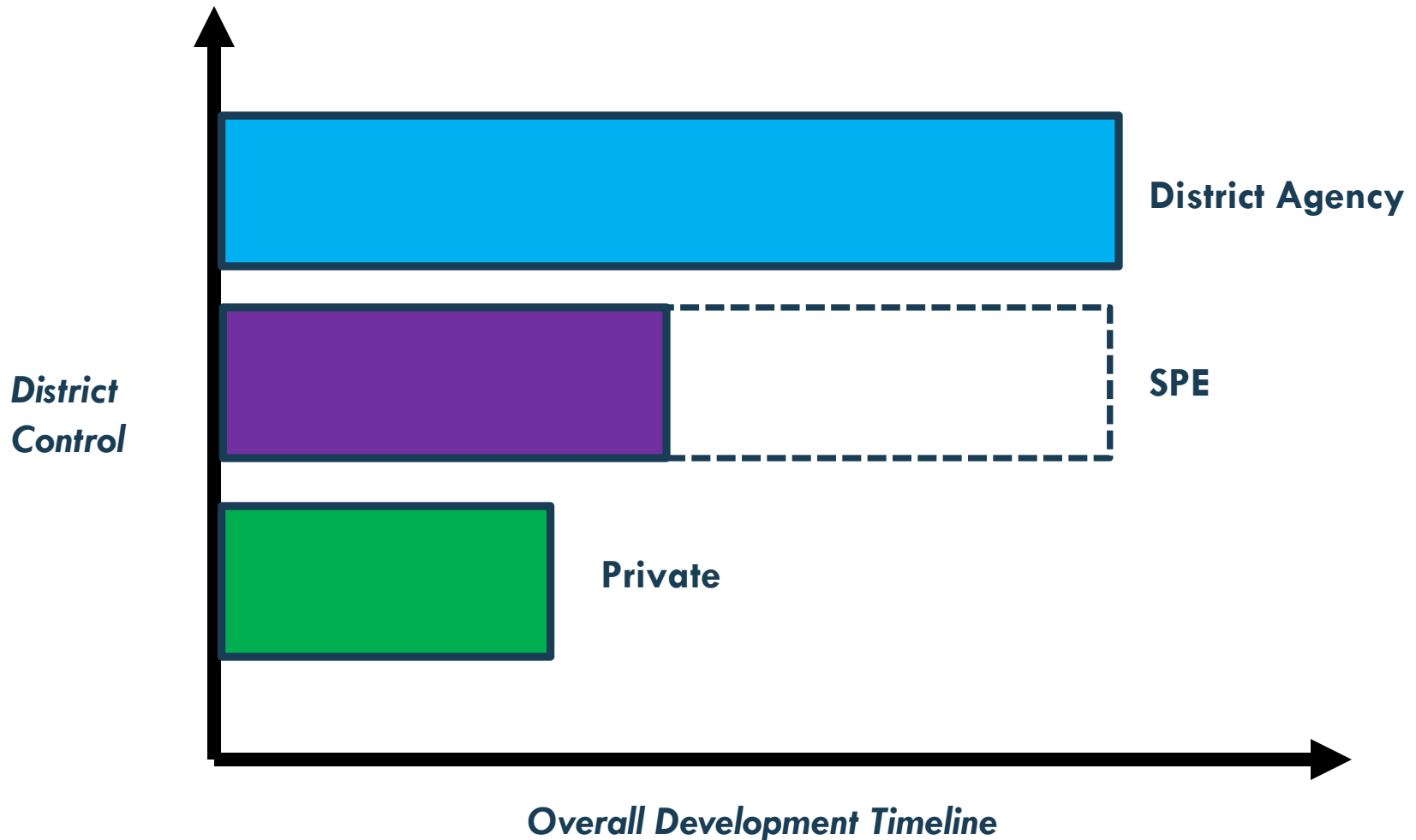
## District Control / Oversight

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
Advantages	<ul style="list-style-type: none"> <li>- Mayor and Council retain maximum control of infrastructure development, and of future parcel disposition.</li> <li>- The LRA will be subject to the same Mayoral and Council oversight as the office into which it may be placed.</li> </ul>	<ul style="list-style-type: none"> <li>- Balance of public accountability and private sector know-how. Mayor, Council, and CFO have equal governance representation as combined private sector representation.</li> </ul>	<ul style="list-style-type: none"> <li>- Oversight by District can be imposed through transaction documents.</li> <li>- Can better respond to market cycles.</li> <li>- Has potential to be more innovative in approach.</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>- Subject to political considerations in decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>- Potential to be subject to political considerations in decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of direct, day-to-day public sector control of implementation.</li> <li>- Less control by the District of development timeline after conveyance.</li> </ul>

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## District Control / Oversight

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# Operating Costs to the District

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
<b>Advantages</b>	<ul style="list-style-type: none"> <li>- Can utilize existing District resources.</li> </ul>	<ul style="list-style-type: none"> <li>- May be able to utilize existing District resources, if specifically devoted to SPE.</li> <li>- Ongoing operations costs can potentially be reduced by entering into a joint-venture with a private entity.</li> </ul>	<ul style="list-style-type: none"> <li>- Limited need for public resources.</li> <li>- Development agreement could stipulate that private developer pays specific District expenses.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>- Requires significant up-front public investment and, except for certain OEA funding, District would be compensated for capital and operating expenditures only as parcels are disposed of.</li> </ul>	<ul style="list-style-type: none"> <li>- New entity will require immediate hiring or detailing of select staff from existing District offices to support initial functions. Will require start-up time and coordination.</li> <li>- Extent of availability of District resources must be defined and negotiated through legislative process.</li> </ul>	<ul style="list-style-type: none"> <li>- Ability of private developer to pay specific District expenses could be limited by residual land value.</li> </ul>

# Development Cost Efficiency

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
<b>Advantages</b>	<ul style="list-style-type: none"> <li>- Can utilize lower-cost public financing.</li> </ul>	<ul style="list-style-type: none"> <li>- Can enter into joint-venture with private entity(ies) to share costs.</li> </ul>	<ul style="list-style-type: none"> <li>- Could limit District's capital investment.</li> <li>- Limited need for public resources.</li> <li>- More nimbleness in procurement could reduce costs.</li> <li>- Developer responsible for maintenance and development costs.</li> <li>- Development agreement could stipulate that private developer pays specific District expenses.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>- Requires significant up-front public investment and, except for certain OEA funding, District would be compensated for capital and operating expenditures only as parcels are disposed of.</li> <li>- Disposition of parcels will be subject to market conditions.</li> </ul>	<ul style="list-style-type: none"> <li>- As new entity without track record or explicit backing of District or private entity, cost of capital may be greatest.</li> <li>- Up-front capital sources to support operations must be identified and secured; may require public investment or raising of philanthropic or other sources.</li> </ul>	<ul style="list-style-type: none"> <li>- Limit to availability of private funds.</li> </ul>

# Risk Sharing

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
<b>Advantages</b>	<ul style="list-style-type: none"> <li>- District could realize a long-term reward from up-front investment. Depending on the structure of the deal with the private developer(s), the District could get a return on its equity by sharing in proceeds at the back end.</li> </ul>	<ul style="list-style-type: none"> <li>- Ability to enter joint ventures and other development structures with private entities to share risk and profit of development.</li> </ul>	<ul style="list-style-type: none"> <li>- Ability to shift majority of development risk away from public sector.</li> <li>- Very little, if any, on-going expense exposure for the District.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>- Development risk retained within public sector.</li> </ul>	<ul style="list-style-type: none"> <li>- In order to effectively contain risk from District, requires entity to be initially capitalized through funding sources or joint venture agreements which will need to be secured.</li> </ul>	<ul style="list-style-type: none"> <li>- Undeveloped land is likely to have minimal, and potentially negative, land value due to the level of infrastructure investment needed. The District would receive less revenue from land sale as a result of the need for private sector capital risk.</li> </ul>

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## Legal / Regulatory Issues

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	<b>Option 1: District Agency</b>	<b>Option 2: SPE</b>	<b>Option 3: Private Developer</b>
<b>Advantages</b>	-Ability to coordinate approvals across relevant agencies.		- Fewer legal and regulatory requirements for conveying parcels or obtaining funds.
<b>Disadvantages</b>	- Procurement process to convey individual parcels.	<ul style="list-style-type: none"><li>- Requires new legislation to be negotiated and passed.</li><li>- New legislation will be subject to interpretation given minimal precedence of non-profit SPE structures in District.</li></ul>	

# Overall Comparison

	Option 1: District Agency	Option 2: SPE	Option 3: Private Developer
<b>Timing / Speed of Implementation</b>		Initial  Ongoing	
<b>Capacity to Implement Infrastructure</b>			
<b>Funding / Access to Capital</b>			
<b>Control / Oversight</b>			
<b>Operating Costs to the District</b>			
<b>Development Cost Efficiency</b>			
<b>Risk Sharing</b>			
<b>Legal / Regulatory Considerations</b>			

Most Effective in Fulfilling Criteria    
 Moderately Effective in Fulfilling Criteria    
 Less Effective in Fulfilling Criteria    
 Least Effective in Fulfilling Criteria

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## Option 1 – District Agency: Governance

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### Policy and Project Management

Mayor

Office of the  
CFO

City  
Administrator

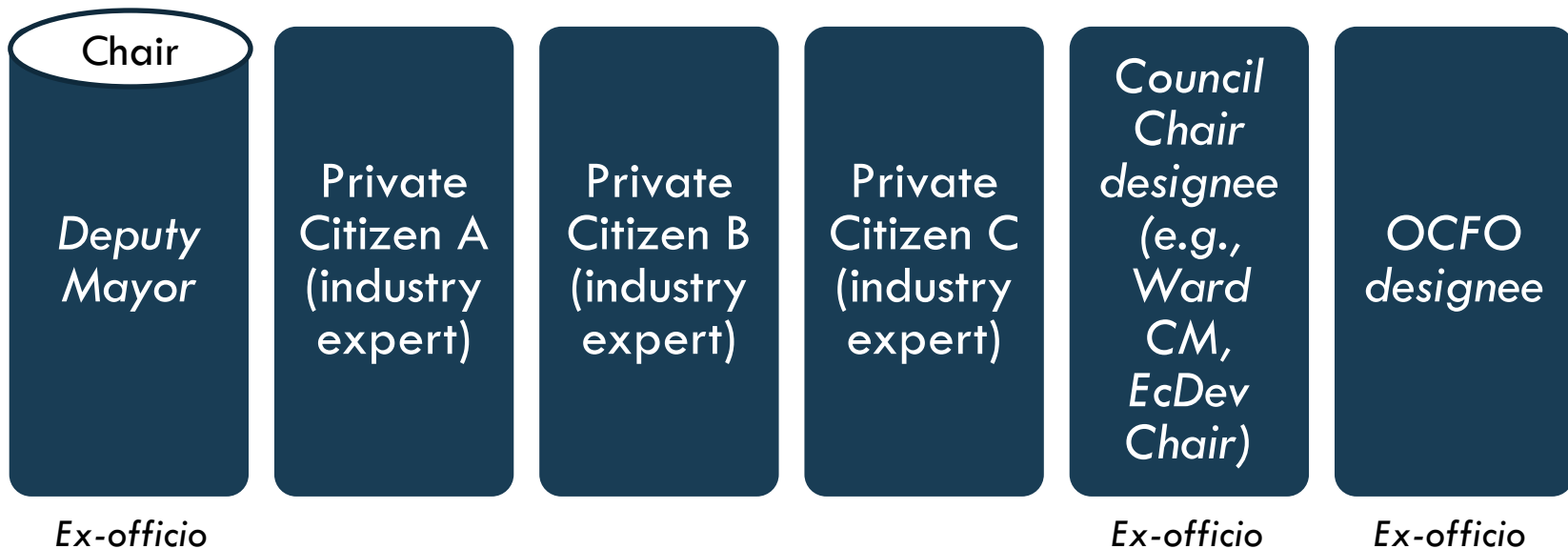
Deputy  
Mayor for  
Planning and  
Economic  
Development

### Approvals

City Council

## Option 2 – SPE: Governance

### SPE Board



- Private Citizens would have 3-year terms, staggered with initial Private Citizen A serving a 2-year term
- Private Citizens would need to meet certain professional qualifications
- An ex-officio Advisory Board can provide input from other initiative stakeholders (e.g., local community, Federal partners)

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## Option 3 – Private Developer: Governance

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**Negotiation and  
Approval of  
Development  
Agreement**

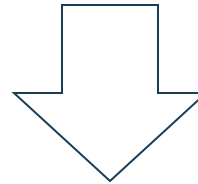
Mayor

Office of the  
CFO

City  
Administrator

Deputy  
Mayor for  
Planning and  
Economic Dev

City Council



**Planning and  
Development**

Private Developer Board of Directors

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# Characteristics of a 501(c)(3) SPE

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## Legislative

- An SPE will be authorized by **Council approval of proposed legislation** to create a Development Authority with the ability to create subsidiary SPEs.

## Governance

- An SPE will be **overseen by a Board of Directors**. The Board may include a selection of ex-officio members, as well as private citizens with particular expertise related to the redevelopment. Typically the organization is run on a day-to-day basis by a chief executive.

## Authorities

- An SPE may be exempt from certain District requirements, such as CBE contracting requirements.

## Operations

- An SPE **may operate independently of District administration** and agencies with **varying degrees of autonomy**.

## Funding

- Initially, in the absence of public funding commitments, the SPE will have no dedicated sources of funding.
- The SPE may leverage a variety of funding sources including Federal and non-government funding, as well as entering Joint Ventures to leverage the value of the property to obtain private equity.

## Oversight

- **District may retain some oversight of an SPE** by virtue of the presence of ex-officio members on the SPE board or through the development contract with the Implementation LRA.

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# Characteristics of a Private Master Developer: The agreement between the Implementation LRA and the master developer will define the master developer's requirements and role.

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## Legislative

- **Council approval** will be required for final selection of private master developer.

## Governance

- A private master developer will **privately govern and manage** the development. The development transaction will be governed by a development agreement between the private master developer and the Implementation LRA>

## Authorities

- A private master developer **can not be granted authorities directly**. All authorities must lie with the Implementation LRA.

## Operations

- A private master developer would **operate independently of the District and/or the Implementation LRA**.
- The contract with the Army must be administered by the Implementation LRA. The Army will not agree to an assignment of the EDC agreement, except to another entity that meets the Implementation LRA requirements – like the District.
- A private master developer would not be subject to public outreach requirements; those requirements would lie with the Implementation LRA.

## Funding

- May leverage a **variety of funding sources** including federal and non-government funding.
- In addition, may leverage other municipal funding sources such as TIFs, PILOTs, and Special Assessment funds, through mechanisms created by the Implementation LRA.
- May leverage revenue bonds - the issuer would be a District authority that issues bonds with a revenue pledge from the project.

## Oversight

- The Implementation LRA can express oversight of a private master developer in selected ways through the **development agreement**. The development agreement can include development timing requirements, although these can be difficult to enforce. The agreement can also include audit requirements that are in alignment with the audit requirements that will be imposed as part of the conveyance agreement between the Army and the Implementation LRA.

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Key Decisions - “Implementation LRA” is the only party authorized to acquire property through an Economic Development Conveyance.

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Implementation  
LRA

- District Government
- Development Authority

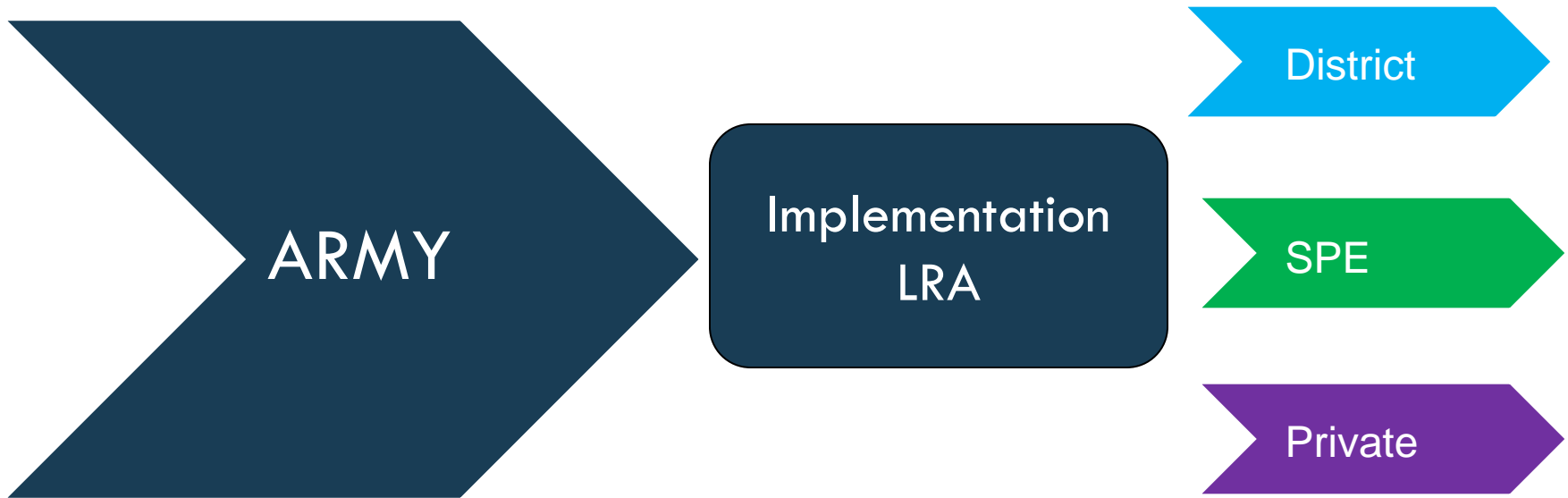
*Note: The current Planning LRA is the District Government. Structure of the Implementation LRA is to be determined by the District based on the legal, regulatory, economic, and other requirements necessary for an ILRA.*

The Implementation LRA must be accountable to its respective governmental jurisdictions, as well as the public, over the long term; have the authority to enter into legal commitments, hold title, incur debt, and manage real property; have the ability to pledge “full faith and credit”, be responsible for implementing all or part of the redevelopment plan; and a city, county, or some other local public entity will be able to assume the obligations of the LRA if it is dissolved.

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The selection of a Master Development approach will assist in identifying the form of the Implementation LRA.

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The selection of a Master Development approach will assist in identifying the form of the Implementation LRA.

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**Master Development Approach**

District

Private

Private

SPE

**Implementation Local Redevelopment Authority (LRA)**

District

Public Authority

## Precedents of BRAC Implementation LRA approaches

Local-Government	Separate Development Authority
<ul style="list-style-type: none"> <li>•City of Alameda</li> <li>•Village of Glenview Fort</li> <li>•City of Indianapolis</li> <li>•City of Long Beach</li> <li>•City of Orlando</li> <li>•City of San Diego</li> <li>•Town of Stratford</li> <li>•City of Vallejo (Mare Is.)</li> <li>• Village of Rantoul (Chanute)</li> <li>• Rickebacker Port Authority</li> <li>•Sacramento County (Mather)</li> <li>•City of San Francisco (Hunters Point)</li> <li>•City of Tustin (MCAS Tustin)</li> <li>•Miami Dade County, FL</li> <li>•City of New Orleans</li> </ul>	<ul style="list-style-type: none"> <li>•Charleston Redevelopment Authority</li> <li>•Harrison Redevelopment Authority</li> <li>•Mass. Development Finance Agency (Devens)</li> <li>• Fort Ord Reuse Authority (multiple jurisdictions)</li> <li>•Public Authority/Airport Authorities</li> <li>•Castle Joint Powers Authority</li> <li>•England Authority</li> <li>•Inland Valley Development Authority (Norton)</li> <li>•Pease Development Authority</li> <li>• Williams Gateway Authority (with university partner)</li> </ul> <p><u>Nonprofit Development Corporation/Authorities</u></p> <ul style="list-style-type: none"> <li>•Griffiss Local Development Corporation</li> <li>•Philadelphia Industrial Development Corporation</li> </ul>

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## Implementation LRA Funding

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- The Implementation LRA's activities will initially be funded by an OEA grant to develop the EDC application and undertake base transition activities.
- The Implementation LRA will also ask the selected master developer (unless it is the District) to pay for out of pocket expenses that are not covered by the OEA funding during the negotiations with the Army and the initial acquisition of the land (depending upon the value of the land).