

Audit Report

For
Adams Morgan Hotel Owner, LLC
dba
Adams Morgan Hotel DC

**Prepared for
Adams Morgan Hotel Owner LLC**

December 10, 2018



Pantera Management Group
700 Pennsylvania Avenue SE
Second Floor
Washington, DC 20003
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December 10, 2018

Mr. Jake Lamstein
Chief Development Officer
Sydell Group

AUDIT REPORT - “ADAMS MORGAN HOTEL”

Dear Mr. Lamstein:

Pantera Management Group LLC (PMG) is pleased to submit our audit of record keeping efforts to gauge the progress and status of the developers of “Adams Morgan Hotel”, and its sub-contractors, to achieve the requirements as set forth by the District of Columbia.

The following information is based on our findings after reviewing a combination of documents submitted by Adams Morgan Hotel Owner LLC, conducting on-site reviews, and using the District of Columbia Geographic Information System (DC GIS) to verify city addresses. We have added Exhibits as either evidence of our findings or as a reference to applicable legislation and/or DC statutes that prompt specific actions.

We will avail ourselves to answer any questions you have regarding our findings after you have had a chance to review. Please feel free to contact me (202) 904-3876 or e-mail at robert.summers@panteramgt.com.

Sincerely,

Robert Summers
President & CEO
Pantera Management Group, LLC

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Pantera Management Group LLC

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Project Background – “Adams Morgan Hotel”

As stipulated by DC statute, construction and development projects that receive a City “benefit” must adhere to local inclusionary requirements. As it pertains to the “Adams Morgan Hotel”, the specific “benefit” is an approximately \$46 million tax abatement spread over 20 years. In order for the “Adams Morgan Hotel” to receive this abatement, the owners were mandated to meet certain City requirements. For this audit, we will specifically review the following four (4) requirements the “Adams Morgan Hotel” was required to meet (**Exhibit 1**):

Requirement #2

- “At least 51% of construction hours shall be filled by District residents and a minimum of 342 construction full-time equivalent employees”

Requirement #3

- “At least 51% of permanent jobs in the hotel shall be filled by District residents with a minimum of 51% of the District resident jobs reserved for Ward One residents”

Requirement #5

- “A job training program, funded by the developer, shall be established through a District non-governmental organization, trade union, or non-profit organization whose core mission is to train and employ District residents”

Requirement #6

- “The developer shall work with an outside auditor or trade union to ensure that local hiring minimums are being met and maintained

The information contained in the following report is based on findings conducted by Pantera Management Group (PMG) based on information PMG received from the owner of the “Adams Morgan Hotel” as well as Goodwill Industries of Greater Washington. The owner, Adams Morgan Hotel Owner LLC, provided PMG with all records the owner had its disposal. PMG reviewed the information and paired it against the requirements the owner was obligated to meet in order for the owner to receive a \$46 million dollar tax abatement spread over 20 years.

Each of the 4 requirements was looked at individually. The report highlights and explains the information PMG received. Following the explanations are PMG’s findings and conclusions.

Summary – “Adams Morgan Hotel”

PMG’s findings are as follows:

Requirement #2 – **REQUIREMENT SATISFIED**

- “At least 51% of construction hours shall be filled by District residents and a minimum of 342 construction full-time equivalent employees”
- Of the 524,355 hours worked on this project, a total of 270,425 (**51.6%**) were worked by DC residents. 670 construction full-time equivalent employees were verified.

Requirement #3 – **REQUIREMENT SATISFIED**

- “At least 51% of permanent jobs in the hotel shall be filled by District residents with a minimum of 51% of the District jobs reserved for Ward One residents”
- Of the 132 permanent jobs filled at the hotel, 88 or **67%** have been verified as DC residents and 53 or **60%** of DC residents have been verified as residents of Ward 1

Requirement #5 - **REQUIREMENT SATISFIED**

- “A job training program, funded by the developer, shall be established through a District non-governmental organization, trade union, or non-profit organization whose core mission is to train and employ District residents”
- A job training program was established with Goodwill of Greater Washington. The program was funded by the owner in the amount of \$100,000 as evidenced by a commitment letter stating this amount as well as a copy of the invoice submitted by Goodwill of Greater Washington to the owners of the Adams Morgan Hotel.

Requirement #6 - **REQUIREMENT SATISFIED**

- “The developer shall work with an outside auditor or trade union to ensure that local hiring minimums are being met and maintained”
- Adams Morgan Hotel Owner entered into a contract with PMG on August 27th, 2018 to conduct an audit of the requirements set forth in the tax abatement legislation for the Adams Morgan Hotel project as further detailed in this report.

Requirement 2

At least 51% of construction hours shall be filled by District residents and a minimum of 342 construction full-time equivalent employees

This requirement has two parts that will be broken-out accordingly as

- 51% Construction Hour Requirement
- 342 Construction Full-Time Equivalent Employees Requirement

Part I - 51% Construction Hour Requirement

Per the tax legislation, this project is referred to as the “Adams Morgan Hotel”. The legislation (**Exhibit 1**) states that “At least 51% of construction hours shall be filled by District residents and a minimum of 342 construction full-time equivalent employees.”

Per this report, the following was used to define construction hours and full-time equivalents (aka – FTEs)

Construction jobs: Any positions worked in connection with the design, entitlement, building and oversight of the project. This includes, but is not limited to, general contractors, sub-contractors, trade laborers, project managers, design/technical services, consultants and accountants, or anyone whose primary workload supported the construction of the project.

Full-time equivalent (FTE): FTE reporting is based upon the compliance form provided by the Department of Employment Service (DOES) titled “**Subcontractor Tax Abatement Contract Compliance Form**” which was certified by the filing party and submitted to DOES on a monthly basis throughout the project.

The owner provided a composite summary sheet titled “**The Line DC – Construction Jobs and Hours through May 2018**” (**Exhibit 2**) that highlighted the construction hours of each subcontractor. Per the owner, each of the subcontractors included in this report supported the project as outlined in the aforementioned guideline of construction hours.

Project Total

Per the “**The Line DC – Construction Jobs and Hours through May 2018**” summary sheet (**Exhibit 2**), the combined total indicates that of the 524,352 hours worked on this project, a total of 270,422 were worked by DC residents. This equates to approximately **51.6%** of the total work hours.

Our Findings

In order to validate this information, PMG reviewed the supporting documents supplied by the owner to cross reference the numbers reflected in their composite summary. The supporting documents were forms submitted by the subcontractors to DOES. Specific to this project, DOES created a form for the “Adams Morgan Hotel”. The form was titled “Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form” (**Exhibit 3**). The form had the following instructions – ***“To be completed and submitted by the 10th day of each month until completion of the project period. All subcontractors on-site providing direct labor, regardless of the level of tiered subcontractor, must submit monthly reports. Prime contractors are responsible for timely submissions for all tiered subcontractors under them.”***

The forms required each subcontractor to identify themselves by name, contact information, EIN number and projected start and end date of its time on the project. Each subcontractor also had to complete the following information to reflect cumulative hours worked:

1. Total Hours for Current Month
2. Total DC Resident Hours Current Month
3. Total Cumulative Hours
4. Total DC Resident Cumulative Hours
5. Tax Abatement Legislative Requirement (%)
6. Actual %
7. Total Employee Count
8. Total DC Employees

While reviewing the supporting documents, we were able to validate the numbers for the subcontractors that provided accompanying supporting documents. The following information is reflective of that information.

PMG cross-referenced the information from the “**The Line DC – Construction Jobs and Hours through May 2018**” summary sheet (**Exhibit 2**) with the forms “**Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form**” (**Exhibit 3**) that were submitted by each company affiliated with the project based on the aforementioned definition of construction jobs and restated below:

Construction jobs: Any positions worked in connection with the design, entitlement, building and oversight of the project. This includes, but is not limited to, general contractors, sub-contractors, trade laborers, project managers, design/technical services, consultants and accountants, or anyone whose primary workload supported the construction of the project.

While reviewing the supporting documents, we were only able to validate the numbers of the subcontractors that had supplied supporting documents. For the information we were unable to validate, the reasons why are noted below (**Exhibit 4**):

- 1 company was a supplier thus had no hours to report
 - o Precision Doors and Hardware
- Could not validate 2 companies which had demobilized from the site prior of being made aware of the reporting requirement, though no hours or jobs were reported.
 - o Two Rivers Site Development, Inc.
 - o Griffin Dewatering Mid Atlantic, LLC

Using the data for those companies we were able to validate using the **Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form**” (**Exhibit 3**), we found the following (**Exhibit 5**):

- There were **524,355** hours worked on the project
- **270,425** of the hours were worked by DC Residents
- **51.6%** of the hours were worked by DC Residents

Therefore, PMG concludes that this requirement was met based on the evidence as submitted and that the supporting documentation required to provide evidence this requirement was met was the successful submission of **Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form**” (**Exhibit 3**).

Part II - 342 Construction Full-Time Equivalent Employees Requirement

Per the tax legislation, this project is referred to as the “Adams Morgan Hotel”. The legislation (**Exhibit 1**) states that “At least 51% of construction hours shall be filled by District residents and a minimum of 342 construction full-time equivalent employees.” The owner provided a composite **summary** sheet that highlighted the number of **Total Employees** and the number of **Total DC Employees** per each subcontractor (**Exhibit 2**).

Per the “**The Line DC – Construction Jobs and Hours through May 2018**” summary sheet (**Exhibit 2**), the combined total indicates there were **1,478** employees that worked on this project, with a total of **672** being DC residents.

Our Findings

In order to validate this information, PMG reviewed the supporting documents to cross reference the numbers reflected in the composite summary supplied by the owner. For this report, the supporting document was a form submitted by the subcontractors to DOES. Specific to this project, DOES created a form specific to the “Adams Morgan Hotel”. The form was titled “Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form” (**Exhibit 3**). The form had the following instructions – *“To be completed and submitted by the 10th day of each month until completion of the project period. All subcontractors on-site providing direct labor, regardless of the level of tiered subcontractor, must submit monthly reports. Prime contractors are responsible for timely submissions for all tiered subcontractors under them.”* The forms required each subcontractor to identify themselves by name, contact information, EIN number and projected start and end date of its time on the project. Each subcontractor also had to complete the following information to reflect cumulative hours worked:

1. Total Hours for Current Month
2. Total DC Resident Hours Current Month
3. Total Cumulative Hours
4. Total DC Resident Cumulative Hours
5. Tax Abatement Legislative Requirement (%)
6. Actual %
7. Total Employee Count
8. Total DC Employees

While reviewing the supporting documents, we were only able to validate the numbers of the subcontractors that had supplied supporting documents. For the information we were unable to validate, the reasons why are noted below (**Exhibit 4**):

- 1 company was a supplier thus had no employees to report
 - o Precision Doors and Hardware
- Could not validate 2 companies which had demobilized from the site prior of being made aware of the reporting requirement, though no hours or jobs were reported.
 - o Two Rivers Site Development, Inc.
 - o Griffin Dewatering Mid Atlantic, LLC

Using the data for those companies we were able to validate using the **Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form” (Exhibit 3)**, we found the following (**Exhibit 5**):

- There were **1,461** employees who worked on the project
- **670** of the employees were DC Residents, almost as twice as many the 342 requirement

Therefore, PMG concludes that this requirement was met based on the evidence as submitted and based that the only supporting documentation required to provided evidence this requirement was met was the successful submission of **Government of the District of Columbia Subcontractor Tax Abatement Contract Compliance Form” (Exhibit 3)**.

Requirement 3

At least 51% of permanent jobs in the hotel shall be filled by District residents with a minimum of 51% of the District jobs reserved for Ward One Residents

As stipulated in the legislation for the Adams Morgan Hotel Real Property Tax Abatement (**Exhibit 1**), as amended, Section 798, Chapter 46 of Title 47 (c) (3) of the District of Columbia Official Code – “At least 51% of permanent jobs in the hotel shall be filled by District residents with a minimum of 51% of the District jobs reserved for Ward 1 residents.”

DOES is the District agency responsible for tracking this information. Employers are responsible to for submitting monthly reports to DOES. The reports are normally submitted into a system called First Source Online Registration and Reporting System (FORRS). FORRS tracks information by project and identifies the employer, the individuals employed by Name, State, Ward in which they live (for DC residents), Zip Code, Reporting Month, Reporting Year and Date Record was created.

For this requirement, the owner supplied a spreadsheet (**Exhibit 6**) that includes the Name, Employment Status, Hire Date, Department, Position, Address, Resident Status, and Ward of all employees. The spreadsheet indicates that there are a total of 132 full time employees for the Adams Morgan Hotel. The employees were broken down as follows:

<u>Total Employees</u>	132	
Total DC Employees	88	67%
Total Ward 1 Employees	53	60% (of DC Employees)

Our Findings

To validate the information from the Excel sheet, we used information from the following sources:

1. Copies of identification cards (IDs), W4 tax forms, a U.S. Department of Homeland Security Employment Verification Form, and a residential lease document of the employees that were provided from the Adams Morgan Hotel and;
2. Copies of payroll reports and/or paystubs from the Adams Morgan Hotel (**Exhibit 7**)

PMG also used the District of Columbia Geographic Information System (DC GIS) website to verify Ward I residential addresses (<http://dcatlas.dcgis.dc.gov/mar/search.aspx>)

By using the aforementioned sources PMB was able to validate the residential status of the employees that were listed on the excel sheet provided by Adams Morgan Hotel Owner, LLC.

Based on this review here is a summary of our findings:

The Adams Morgan Hotel has met its requirement to hire at least 51% of its permanent jobs to DC residents. Of the 132 total employees, 88 are confirmed as District residents or 67% of the

total employees. Of the 88 District residents were confirmed as hotel employees from the information used to validate DC residents. In this instance, **67%** of the employees were DC residents.

Of the 88 District residents, 53 were identified and confirmed as Ward 1 residents or **60%** of the total of DC residents. This number establishes that at least 51% of the District jobs were reserved for Ward 1 residents per the requirement.

Requirement 5

A job training program, funded by the developer, shall be established through a District non-governmental organization, trade union, or non-profit organization whose core mission is to train and employ District residents

As stipulated in the legislation for the Adams Morgan Hotel Real Property Tax Abatement (**Exhibit 1**), as amended, Section 798, Chapter 46 of Title 47 (c) (5) of the District of Columbia Official Code – “A job training program, funded by the developer, shall be established through a District non-governmental organization, trade union, or non-profit organization whose core mission is to train and employ District residents.”

Our Findings

Per information provided by the owner, a job training program was established with Goodwill of Greater Washington. The program was funded by the owner in the amount of \$100,000 as evidenced by a commitment letter stating this amount as well as a copy of the invoice submitted by Goodwill of Greater Washington to the owners of the Adams Morgan Hotel identified as “LINE” per the invoice (**Exhibit 8**).

As stated in the terms of Goodwill’s commitment, Goodwill would provide the following:

- Hospitality Training for fifty (50) District residents, twenty-six from Ward 1 using a curriculum developed by the American Hotel and Lodging Educational Institute (AHLEI)
- Instructional Tracks focused on customer service, soft-skill training, and interviewing and resume preparation
- One-on-one services of a Career Coach and develop Individual Employment Support Plans which outlines challenges and goals for each participant

- A dedicated Job Development Team and interview prep that works to place participants in jobs that best meet their skills and abilities.
- Private industry specific job fairs and application and interview sessions to introduce graduates to LINE as a prospective employer.
- \$5 daily transportation stipends for participants to encourage prompt attendance.
- Drug and background screenings
- Upon successful completion of training, participants will receive Customer Service Gold certification
- A dedicated Employee Service Manager

On November 14, 2018, PMG’s Robert Summers visited the offices of Goodwill of Greater Washington at 2200 South Dakota Avenue NE 20018. During the visit Mr. Summers met with Goodwill representative Mr. Donnell Jones. Both Mr. Jones and Mr. Summers reviewed the roster of the participants that graduated from Goodwill’s program. The review consisted of matching the names of the trainees along with the corresponding copies of their identification cards that are maintained at the offices of Goodwill (**Exhibit 9**).

Per information provided by the owner, 50 people graduated from the program and 18 of the 50 were hired by the LINE as full time employees.

From the review conducted on the November 14, 2018, the following was confirmed:

- Training consisted of two cohorts
 - 1st cohort was conducted from Jan – Feb and consisted of 24 trainees
 - 2nd cohort was conducted from and consisted of 26 trainees
- We confirmed that 49 out of the 50 were residents of the District of Columbia
 - 1 out of 50 had recently relocated from Charlotte NC but claimed the DC address of a relative until DC residency was officially established

PMG concludes that the owner met the requirement as prescribed by the City. The owner hired the services of Goodwill of Greater Washington. Goodwill of Greater Washington is a non-governmental agency which has a core mission to train District residents. Goodwill trained 50 individuals for potential opportunities at the Adams Morgan Hotel. Of the 50 individuals, 49 were confirmed residents of the District of Columbia. The one (1) outlier was a recent transplant from Charlotte, NC who had not officially established residency in the District of Columbia at the time of training. However, the requirement to train 50 residents was established between Goodwill and the Owner of the Adams Morgan Hotel. This number was not established by the City thus not a City goal for this requirement.

Requirement 6

The developer shall work with an outside auditor or trade union to ensure that local hiring minimums are being met and maintained

Adams Morgan Hotel Owner entered into a contract with PMG on August 27th, 2018 to conduct an audit of the requirements set forth in the tax abatement legislation for the Adams Morgan Hotel project and as such, comply with this requirement (**Exhibit 10**).