PUBLIC HEARING

ON

Bill 17-0591, “Southwest Waterfront Bond Financing Act of 2008”

Before the
Committee on Finance and Revenue
Council of the District of Columbia

Councilmember Jack Evans, Chairman

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John A. Wilson Building, Council Chambers

Testimony of
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Good morning, Chairman Evans, and members of the Committee on Finance and Revenue. I am John Ross, Senior Advisor to the Chief Financial Officer for Economic Development. I am pleased to testify today on Bill 17-0591, the Southwest Waterfront Bond Financing Act of 2008.

The proposed bill approves the issuance of up to $198 million in TIF/PILOT debt to pay for infrastructure and other costs related to the development of the Southwest Waterfront Project. It also creates a TIF/PILOT Area and a Special Assessment District to support debt service for these bonds and approves the use of tax increment from the Downtown TIF Area to pay debt service on the bonds, if sufficient project revenues are unavailable.

Through a land disposition resolution currently before council, the District would also contribute the land assessed at approximately $95 million to the project developers. This, in addition to the TIF/PILOT, would bring the total subsidy to this project to approximately $293 million.

First, let me say that the OCFO strongly supports the development of Southwest Waterfront. This is an important opportunity to revitalize a large, underutilized urban parcel and to enhance the other development projects along and near the river in

Southeast and Southwest. We have been and will continue to work with the Mayor and the Council to support a development that contributes to the long-term revitalization of this greatly underutilized part of the city, in a manner that is fiscally prudent for the city.

That said, this project is not sufficiently developed at this time for the OCFO to provide reliable and timely estimates of its fiscal impact on the budget. This legislation requests that the Council approve a financing of almost $200 million before the area is zoned, before the land disposition agreement is complete, before the final size and configuration of the development is known, before the developer brings any equity and debt commitments to the project, and before the amount of TIF/PILOT funds actually needed for the project can be estimated.

The OCFO has provided the Council with a Fiscal Impact Statement based on preliminary concept plans, as well as preliminary tax estimates and feasibility studies. In our Fiscal Impact Statement we state that, based on the information in the legislation and the executed non-binding Term Sheet, funds are sufficient in the District's FY 2008 and FY 2009 budgets to implement the legislation. However, the fiscal impact on the District's FY 2009 – FY 2012 budget and financial plan will be up to $4 million per year, beginning in 2010, as currently collected sales taxes are transferred from the general fund to support the project. Because the LDA, the Financing Agreement and the negotiations with current leaseholders are not complete, we cannot say if there will be other impacts during the planning period.

Beyond the financial plan period, the budget will be impacted by an inclusion of up to $20 million. Because the legislation proposes to use the Downtown TIF Area to back the bonds, one year of debt service must be available in the budget. Since the current legislation could lead to a taxable issuance, the amount needed could be as high as $20 million.

The bonds may be issued in phases over a number of years, depending on how fast the overall development is completed. It is not possible to estimate at this time precisely how much of that $20 million will actually be required for debt service payments or when it must be budgeted. The budgeted funds would be non-lapsing, would be used if revenues from the Downtown TIF Area become necessary, and would be replenished if used. Any replenishment would also have to be budgeted.

Conclusion

Funds are sufficient in the District's FY 2008 and FY 2009 budgets to implement this legislation. There are, however, issues that the Council may want to consider when reviewing this legislation.

1) Overall debt capacity of the city. As indicated in the OCFO's letter to council on June 20, 2007, the District's borrowing capacity is limited. The letter recommended a maximum of $1.5 billion in economic development debt. So far, issued, authorized, and proposed economic development debt issuances have now reached approximately $1.4 billion, including this project. Committing $198 million for this project at this time means TIF, PILOT, and Revenue bond debt for other projects may not be available.

2) Committing to a level of subsidy for the project early in the process. Because the developer does not yet have debt or equity commitments, we cannot know for sure the scale of the project financing gap. Therefore, we are essentially putting our equity in before a market assessment of how much private equity is available. Investors generally look at the returns on the overall project, and decide how much they are willing to invest. An alternative approach would be that the District could assess how much the project needs after the Developer knows exactly how much equity investors are willing to put in.

3) Prioritizing projects. There are many large and small economic development projects in the pipeline. The Council may want to consider prioritizing them rather than making decisions on a first-come first-serve basis.

Thank you for this opportunity to comment. I would be glad to answer any questions you may have.