Good afternoon Chairpersons Evans and Jarvis, Members of the Council and staff.

My name is Dr. William Hall, Treasurer of the District of Columbia. I am joined by Lasana Mack, Associate Treasurer. I am pleased to appear before you today to present testimony for the Office of the Chief Financial Officer (OCFO) today regarding Tax Increment Financing (TIF) for the Mandarin Hotel Project (the "Project").

THE PROJECT

The Project will consist of a 5-Star, full-service 400-room luxury hotel with approximately 33,000 square feet of associated meeting and banquet space, two restaurants, a health spa with a fitness center totaling approximately 10,000 square feet, an approximately 90,000 square foot parking garage, and ancillary facilities.

FINANCING STRUCTURE

The total project cost is estimated to be $121 million, the maximum amount approved by this Certification. The financial structure of the Project is as follows:

- $24 million of proceeds provided for by the issuance of 20-year Tax-Exempt TIF Bonds;
- $5 million of proceeds provided for by the issuance of 10-year Taxable TIF Bonds on the condition that (i) the Applicant compensates the District of Columbia (the "District") for all debt service and (ii) in the event of the sale of the Project, the Applicant is required to redeem any outstanding amounts due on the taxable TIF bonds; and
- A minimum of $31.5 million in equity investment is to be obtained by the Applicant, and the balance of the Project Cost shall be funded by the Applicant with private debt.

TIF BOND STRUCTURE

Tax-exempt Bonds:

$31.5 million estimated amount of bonds to be issued

$24 million maximum amount bond proceeds contributed to the Project

$7.5 million estimated capitalized interest, debt service reserve and cost of issuance

7.5% estimated average interest rate

20 years final maturity

$3.4 million estimated Average Annual Debt Service

<u>Taxable Bonds</u>:

$7 million estimated amount of bonds to be issued

$5 million maximum amount bond proceeds contributed to the Project

$2 million estimated capitalized interest, debt service reserve and cost of issuance

10.4% estimated average interest rate

10 years final maturity

$1.1 million estimated Average Annual Debt Service

The total aggregate TIF bond issuance is estimated to be approximately $38.5 million.

The TIF Bonds will likely not be rated. The rating agencies typically do not provide investment-grade ratings to single-entity TIF Bonds. However, the OCFO will explore whether it is beneficial to issue the bonds unrated or with a below investment-grade rating. In any event, these bonds will carry higher interest rates than investment-grade rated bonds to compensate bondholders for the higher risks associated with this type of project.

The Applicant will compensate the District for the debt service on the taxable bonds. According to the terms of a loan agreement, the payments must be made to the District concurrently with the payments made to the Bondholders. Bondholders, however, will look solely to the tax increment revenues to satisfy the bond debt service. The interest on these bonds will be taxable because tax-exempt bonds cannot be issued for projects with private use and private assumption of debt service payments. The ability to successfully sell the proposed TIF bonds will be dependent on: (1) prospective purchasers' level of comfort with the credit and security structure of the bonds, and (2) market conditions at the time of the sale.

FINANCIAL FEASIBILITY

For a TIF Application to be certified, the TIF Act requires that the proposed project be determined financially feasible, and that the proposed project's total anticipated benefits to the District exceed the total costs anticipated to be incurred by the District.

The District's feasibility consultant, Katz Hollis, has determined that the Project is financially feasible. The OCFO and the District's financial advisors estimate that the projected incremental taxes will generate a minimum debt service coverage ratio for the TIF Bonds of approximately 1.5, which should allow for the successful sale of the TIF Bonds.

The projected net fiscal impact on the District over the first five-year period of operations, applying the Applicant's aggregate income data, is a positive $7.7 million.

Based on its analysis of the Project and the projected internal rate of return (IRR) on equity to the Applicant, the OCFO was initially only willing to support issuing TIF bonds for $24 million of project costs. The District agreed to the issuance of taxable TIF bonds to close the financing gap of $5 million on the condition that the Applicant bear the burden of paying the related debt service. An IRR on equity was calculated for the Project based on the currently proposed structure. Given certain assumptions, the result was a projected IRR of approximately 21%, which the OCFO and its advisors have determined to be reasonable for this type of investment.