GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

Natwar M. Gandhi
Chief Financial Officer

November 18, 2004

The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Ave, NW
Suite 504
Washington, DC 20004

Dear Chairman Cropp:

Thank you for the opportunity to review BW Realty Advisors' proposed "Innovative Approach to Financing Sports Facilities." Based on the information contained in this proposal, I cannot certify the validity of this financing arrangement; however, I can recommend a path to possible certification.

The proposed financing requires the District to buy the land for the new stadium, complete any necessary environmental cleanup, provide all required infrastructure, and renovate RFK. BW Realty Advisors estimates the costs of these activities at $125 million. The District would lease the land for the ballpark to a group of private investors for a period of 65 years. A ground lease payment beginning at an estimated $7 million per year would be owed to the District for a period of 25 years. No money would actually change hands during that period. At the end of 25 years the District would receive either a payment of $438 million or the stadium.

Private investors would fund, build, and own the new stadium. The costs for building and financing the stadium is estimated at $405 million, with approximately $75 million coming from equity and about $330 million from taxable bonds. Taking all of the funding sources together, the total amount available for the project would be $530 million.

The private investors would be repaid by the baseball team owners through yearly lease payments of about $29.9 million. BW Realty estimated $24.5 million of that amount would come from District taxes on game day activities and some additional game day parking revenues. Additionally, the team would make a rent payment of $5.5 million to the owners of the stadium. Finally, the private investors would receive approximately $10 million per year in Federal tax losses that could be used as tax deductions against taxable income derived from other sources.

The proposed financing plan raises four issues that must be resolved before the OCFO could certify its viability.

1. Is The Innovative Financing Proposed By BW Realty Advisors Legal? Before the OCFO can certify the tax legality of this proposal, my office must have evidence that the entity owning the stadium (private stadium owner) under the BW proposal would actually be entitled to the tax benefits associated with this ownership for Federal and D.C. tax purposes. BW's proposal projects losses for the first 24 years of operation. The proposal also depends on the District agreeing to defer the receipt of annual ground lease payments from the private stadium owner for 24 years, and assumes that the baseball stadium will be worth at least $438 million at the end of that period. The private stadium owner is entitled to the above tax benefits if it can show (a) that it has a reasonable expectation of deriving more than a de minimis pre-tax profit from its investment, or (b) that it entered into the stadium transaction for an appreciable non-tax business reason, apart from the tax benefits. As a condition to considering further the above proposal, the OCFO will require BW to pay for the cost of engaging a private law firm selected by the OCFO to render the OCFO an opinion on this matter.

2. Will The Ballpark Activities Produce Sufficient Revenues To Cover The Estimated Debt Service Payments? Under the District's current agreement with Major League Baseball the baseball team is obligated to pay stadium rent to the District averaging about $5.5 million per year. The BW proposal assumes that the ballpark will produce revenues of approximately $24.5 million. As shown in the table, the OCFO projects these revenue streams to generate $14.4 million, or 41 percent less than the BW projections. The BW projections anticipate about $5.0 million in revenues from player payroll taxes and $3.9 million in non-game parking revenues. The OCFO does not believe that these revenue sources will be significant.

   The BW Realty Advisors proposal makes the team owners responsible for the entire debt service payment of $29.9 million per year. At a minimum, under this proposal the team owners would be responsible for an additional $10.0 million per year in rent. For this proposal to be considered valid BW will have to identify a new revenue stream to cover this $10.0 million.

Comparison Revenue Estimates at the Ballpark

Revenue Items	Projected by BW ($M)	ORA Analysis ($M)*
Ticket Tax	4.4	4.4
Player Payroll Tax**	5.0	0.0
Parking Tax	1.4	0.8
Concession Tax	3.4	2.9
Game Day Parking	6.3	6.3
Non-Game Parking***	3.9	0.0
Primary Revenue	24.5	14.4
Team Rent	5.5	5.5
Total Revenue	30.0	19.9
Finance Lease Payment	29.9	29.9
Surplus/(Deficit)	0.0	-10.0

* ORA estimates are based on BWRA's projection of revenue.
** ORA assumes that none of the players will reside in the District.
*** ORA assumes that the non-game parking revenue would be negligible.

3. Can BW Realty Advisors Actually Raise The Promised Capital At The Interest Rates And Rates Of Return Assumed In The Proposal? Under this proposal the debt service payments would be $26.2 million annually assuming an interest rate of 6.25 percent. The rate is optimistic for a taxable bond and will heavily depend upon the credit of the team owners. For every additional 1 percent increase in the interest rate on the $330 million bond issue, the debt service would increase by $2.5 million annually or 9.5 percent. Before the OCFO could proceed, BW would need to give the District a binding commitment from a credit-worthy source such as Lehman Brothers that guaranteed the placement of the debt at the assumed interest rate or provide a plan for covering the additional debt service if the interest rate is higher than assumed.

   The plan also assumes that private investors will be willing to provide $75 million in equity and will require a return on that investment of 8.97 percent. Again, the rate of return is optimistic. For each additional 1 percent increase in return required by investors, the annual after tax cash flow would have to increase by 4 percent. BW would need to secure an equity placement agent to guarantee that the $75 million could be raised at 8.97 percent or develop a plan for covering the additional costs if a higher rate of return is required.

4. Does This Proposal Require Major Changes In The District's Current Agreement With Major League Baseball? This proposal requires the owners of the new baseball team to guarantee yearly payments of $29.9 million per year to the private owners of the ballpark. The current agreed upon rent averages about $5.5 million. The proposal would also require the owners of the team to take on additional expenditure responsibilities such as property tax and insurance payments.

Before this plan could be certified Major League Baseball would have to agree to make these additional payments.

Because of these concerns, I cannot at this time certify the validity of BW Realty Advisors innovative approach to financing a baseball stadium. If, however, BW Advisors is willing to work with the OCFO on the steps outlined above, I will be able to provide an answer on certification in the near future.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer