

Government of the
District of Columbia



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District of Columbia
Unified Economic Development Budget
Report: Fiscal Year 2013 Year-End

Produced by the Office of Economic Development Finance,
Office of the Chief Financial Officer

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District of Columbia Unified Economic Development Budget Report

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District of Columbia Unified Economic Development Budget Report

METHODOLOGY

The Office of the Chief Financial Officer (OCFO) of the District of Columbia is pleased to present the Fiscal Year 2013 Year-End Unified Economic Development Budget Report (Report) which provides information on how economic development dollars were allocated in the District of Columbia during the prior fiscal year. The Report, which was mandated by the Unified Economic Development Budget Transparency and Accountability Act of 2010 (Act), identifies all economic development incentives over \$75,000 provided in Fiscal Year 2013¹. Based on definitions in the law and conversations with Council staff, the OCFO included economic development incentives of the following types:

- Issuances of, and payments for, tax increment financing (TIF) bonds
- Issuances of, and payments for, payment in lieu of taxes (PILOT) bonds
- Issuances of, and payments for, revenue bonds
- Grants, loans, and loan guarantees
- Fee waivers
- Land price subsidies
- Tax abatements, tax exemptions & tax credits
- Procured contracts (services, construction, reports, etc.)

The complete list of District agencies included in the Report data is:

District of Columbia Housing Enterprises (DCHE), a subsidiary of District of Columbia Housing Authority²

District of Columbia Housing Financing Agency (DCHFA)

District of Columbia Public Libraries (DCPL)³

District of Columbia Public Schools (DCPS)⁴

¹ Beginning on October 1, 2012 and ending September 30, 2013.

² Agency was contacted but had no FY 2013 expenditures to include.

³ Includes only capital expenditures for construction projects.

⁴ Includes only capital expenditures for modernization projects (as managed by Department of General Services).

Department of Housing and Community Development (DHCD)¹

Department of Insurance, Securities and Banking (DISB)²

Department of Employment Services (DOES)³

Department of Small and Local Business Development (DSLBD)

Office of the Deputy Mayor for Planning and Economic Development (DMPED)

Office of Tax and Revenue, Office of the Chief Financial Officer (OTR)

In the process of compiling the Report data, expenses from the District's financial reporting systems were sent to the fiscal officers and program staff in each of the agencies listed above. Agency staff provided additional expense descriptions and ward information. The Office of Economic Development Finance then reviewed and aggregated the data. As required under the Act, the Report aggregates expenditures by type of incentive, by ward, by granting body and by recipient.

¹Includes spending only in the following activities: Affordable Housing Project Financing; Development Finance Division Project Financing; Community Facilities Project Financing; Neighborhood-Based Activities; Community Services/Revitalization; Property Acquisition & Property Disposition.

² Agency was contacted but had no FY 2013 expenditures to include.

³ Includes only expenditures under the activity "Workforce Development."

FINDINGS

Dollars by Incentive Type

For FY 2013, the District spent approximately \$629 million on various economic development incentives. These expenditures include reductions to District revenue stemming from incentives such as tax abatements, exemptions and credits.

This Report also details incentives provided during FY 2013 that either have no impact on the District's budget or will impact a future year's budget. During FY13, such activity included bond issuances and new authorized tax abatements and exemptions¹.

The incentives were allocated by type as follows:

	AGGREGATE EXPENSES	ACTIVITY NOT IMPACTING THE FY13 BUDGET ¹	NUMBER OF COMPANIES/ INDIVIDUALS
Total	\$629,268,118	\$820,344,533	2,143 ²
Expenditures on Contracts	400,789,374		204
Grants	50,817,589		98
Land Price Subsidies	0		7
Payment in Lieu of Taxes (PILOT) Financing	11,752,550	0	3
Revenue Bonds	71,856,977	796,147,000	29
Tax Abatements and Exemptions	28,139,205	24,197,533 ³	1,720
Tax Credits (District)	23,414,174 ⁴	0	191
Tax Increment Financing (TIF)	42,498,249	0	16

Detailed information for the expenses aggregated above, including recipient and ward data, can be found in each of the Report's appendices.

Total spending on economic development incentives in FY 2013 increased approximately \$105 million, or 20%, over the prior fiscal year. The majority of the increase (\$93 million) was due to increased spending on contracts. For activity not impacting the FY 2013 budget, revenue bond issuances increased by 58% from FY 2012 to FY 2013.

¹ Future debt service on the revenue bonds issued under the Revenue Bond Program or by DCHFA is paid by third parties, and therefore is not included in the District budget. The cost of future tax abatements enacted in FY 2013 will be represented in future years as tax expenditures.

² Because some recipients received more than one type of incentive, the total is fewer than the sum of column.

³ Represents the estimated foregone revenue over the term of the abatement.

⁴ Value of some tax credits is from most recent income tax filings available (2011 filings received in FY12).

Change in Economic Development Incentives: FY13 vs. FY12

% INCREASE (DECREASE)		FY13	FY12
20%	Total Expenses	\$629,268,118	\$523,882,294
30%	Expenditures on Contracts	400,789,374	308,278,918
(4%)	Grants	50,817,589	52,960,503
(100%)	Land Price Subsidies	0	10,365,000
(9%)	Payment In Lieu Of Taxes (PILOT) Debt Service	11,752,550	12,858,541
3%	Revenue Bonds Debt Service	71,856,977	69,935,852
23%	Tax Abatements & Exemptions	28,139,205	22,850,746
105%	Tax Credits	23,414,174	11,424,000
21%	Tax Increment Financing (TIF) Debt Service	42,498,249	35,208,734
41%	Activity Not Impacting the Current Budget	\$820,344,533	\$583,429,997
(100%)	New Markets Tax Credit Investment	0	3,787,680
0%	PILOT Financing Issuance	0	0
58%	Revenue Bonds Issuance	796,147,000	504,689,317
(100%)	Tax Increment Financing (TIF) Issuance	0	48,650,000
(8%)	Future Tax Abatements & Exemptions Enacted	24,197,533	26,303,000

Dollars by Granting Body/Agency

The allocation of total economic development dollars by granting body, or agency, is provided in the table below and in Appendix II.¹ Just over half of the total expenditures were spent by DC Public Schools (DCPS) on contracts to modernize various schools throughout the District. The Deputy Mayor’s Office for Planning and Economic Development (DMPED) was responsible for the largest share of non-expense activity, issuing \$657 million of revenue bonds to support nonprofit organizations in the District.

Aggregate Economic Development Dollars by Granting Body/Agency

in millions

	None ¹	DCHFA	DCPL	DCPS	DHCD	DMPED	DOES	DSLBD	Misc. Funds
Total Expenses	\$50.9	\$0.0	\$16.3	\$343.3	\$50.7	\$36.8	\$3.8	\$1.5	\$126.1
Expenditures on Contracts			16.3	343.3	9.5	31.7			
Grants					41.2	4.3	3.8	1.5	
Land Price Subsidies									
PILOT Debt Service									11.8
Revenue Bonds Debt Service ²									71.9
Tax Abatements & Exemptions	27.4					0.7			
Tax Credits ³	23.4								
TIF Debt Service									42.5
Activity Not Impacting the FY13 Budget	\$24.2	\$138.8	\$0.0	\$0.0	\$0.0	\$657.4	\$0.0	\$0.0	\$0.0
Revenue Bonds Issuance ⁴		138.8				657.4			
Future Tax Abatements Enacted ⁵	24.2								

Notes

1. Tax Expenditures (abatements, credits, and exemptions) which impact the budget only as a revenue reduction are not attributed to any agency in this Report.
2. Includes Ballpark, Convention Center and Housing Production Trust Fund bonds.
3. Value of some tax credits is from most recent income tax filings available (2011 filings received in FY12).
4. Future debt service on the revenue bonds issued under the Revenue Bond Program or by DCHFA is paid by third parties, and therefore is not included in the District budget.
5. Estimated foregone revenue over the term of the abatement.

Agency Key

- DCHFA - District of Columbia Housing Finance Agency
- DCPL - District of Columbia Public Libraries
- DCPS - District of Columbia Public Schools
- DHCD - Department of Housing and Community Development
- DMPED - Office of the Deputy Mayor for Planning and Economic Development
- DOES - Department of Employment Services
- DSLBD - Department of Small and Local Business Development
- Misc. Funds - Tax transfer agencies in the District's budget (no employees)

¹ Tax expenditures (abatements, credits, and exemptions) which impact the budget only as a revenue reduction are not attributed to any agency in this Report.

Dollars by Ward

As required by the Act, this Report includes location data by ward of the projects for which the economic development dollars were provided. The Report separates data about the allocation of incentives among the District’s eight wards into two categories: (1) expenses, including debt service, and (2) activity not impacting the FY 2013 budget¹. The table below provides the dollars per ward for each type of incentive, while Charts 1 and 2 on the following pages summarize the overall data by ward.

in millions

	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8	Multiple
Total Expenses	\$110.3	\$75.3	\$19.0	\$23.5	\$92.4	\$108.4	\$26.9	\$95.7	\$77.7
Expenditures on Contracts	92.9	5.8	18.2	22.3	87.6	35.6	20.7	86.2	31.4
Grants	5.2	4.0		0.5	4.0	17.2	5.3	8.8	5.9
Land Price Subsidies									
PILOT Debt Service			0.8			11.0			
Revenue Bonds Debt Service		33.4				31.8			6.7
Tax Abatements & Exemptions	2.3	12.3		0.7	0.9	6.5	0.8	0.7	4.0
Tax Credits									23.4
TIF Debt Service	10.0	19.7				6.4			6.4
Activity Not Impacting the FY13 Budget	\$121.2	\$263.7	\$66.1	\$15.0	\$64.0	\$191.4	\$18.8	\$63.2	\$16.9
Revenue Bonds Issuance ¹	112.4	263.1	66.1	15.0	63.1	186.8	11.6	63.2	14.9
Future Tax Abatements	8.8	0.6			0.9	4.6	7.2		2.0

The highest share of economic development spending occurred for projects located in Wards 1 and 6. In Ward 1, a sizable portion of spending on economic development was designated for a contract to modernize Cardozo High School.

In Ward 6, much of this spending is attributable to debt service payments related to the Ballpark revenue bonds as well as the U.S. Department of Transportation and Waterfront Parks Projects Payment in Lieu of Taxes (PILOT).

Economic development expenditures in Wards 8 and 5 were also large relative to other wards. In Ward 8, \$18 million was spent to modernize and renovate Ballou High School, and \$14 million was spent on Hendley Elementary School for the same purpose. In Ward 5, Dunbar Senior High School modernization and renovation costs amounted to \$68 million.

¹ Future debt service on the revenue bonds issued under the Revenue Bond Program or by DCHFA is not paid from District funds, and therefore is not included in the District budget. In addition, the cost of future tax abatements enacted in FY 2013 will be represented in future years as tax expenditures.

Chart 1

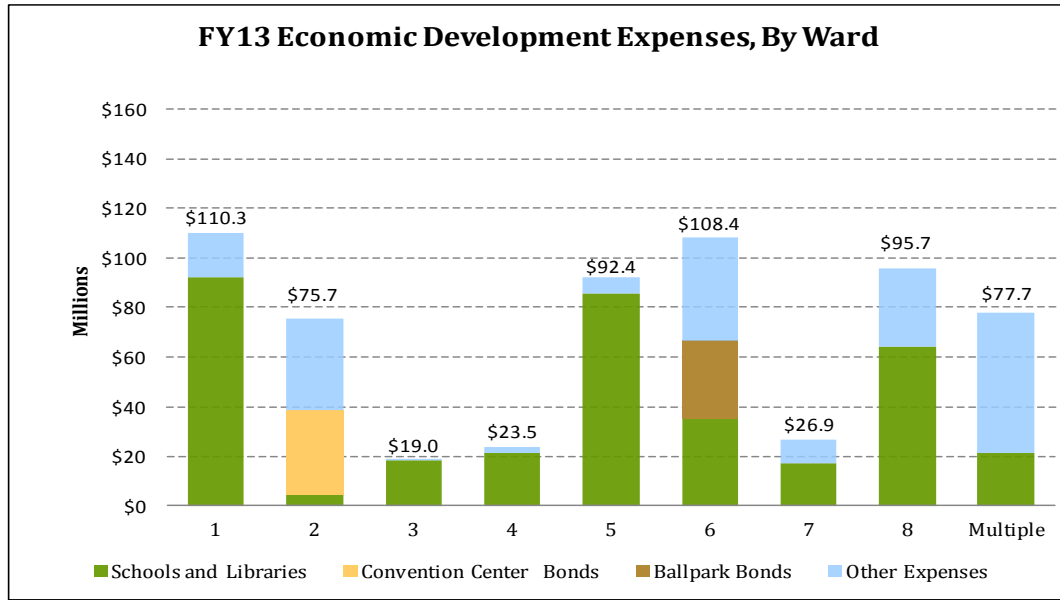
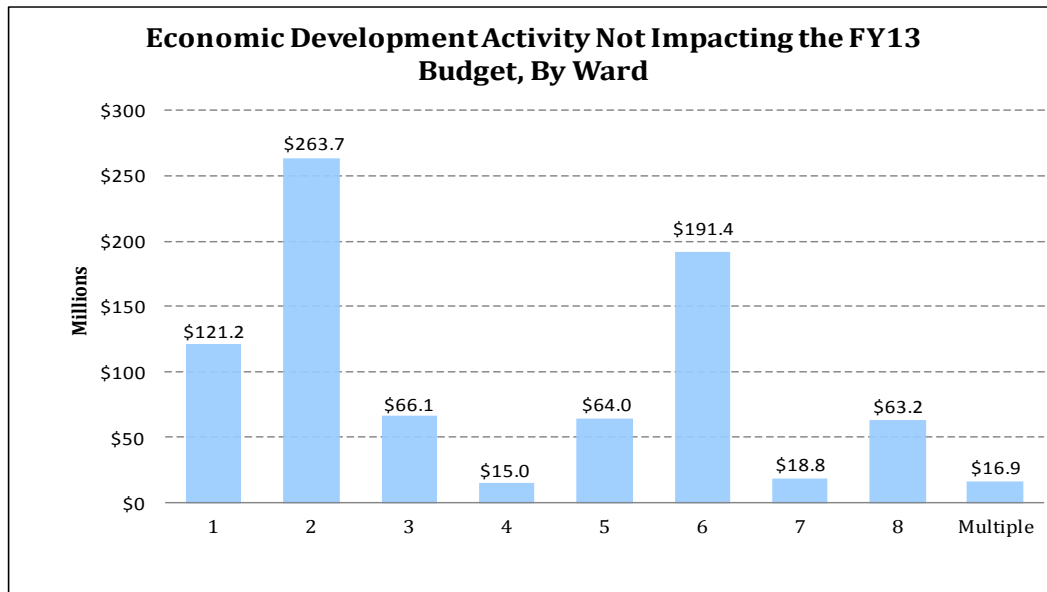


Chart 2 below summarizes FY 2013 non-expense activity. Revenue bond issuances represented a majority of the activity in Wards 2 and 6. In Ward 2, \$118 million was issued for the National Academy of Sciences and \$42 million for the Association of American Medical Colleges. In Ward 6, \$87 million was issued for National Public Radio and \$46 million for the housing development Tyler House.

Chart 2



The detailed list of ward-by-ward expenditures and other activity can be found in Appendix III, Itemized Economic Development Dollars by Ward.

BACKGROUND

The following is a brief explanation of each economic development category included in the Report.

Expenditures on Contracts

This category includes District expenditures on contracts related to economic development, such as construction, planning and asset management services provided by third parties, and may include both operating and capital budget dollars. The total expended in this category during FY 2013 is approximately \$401 million. The complete list of expenditures on contracts begins on page 2 of Appendix I.

Grants

District agencies awarded approximately \$51 million to 98 entities in FY 2013 as a grant or “soft” loan¹. Such dollars were provided to a wide range of entities through programs administered by DMPED, DHCD, DOES and DSLBD. The Report’s itemized list of grants begins on page 14 of Appendix I.

Land Price Subsidies

Page 20 of Appendix I lists seven parcels of land transferred for sale or ground-lease in FY 2013. In each case, DMPED has estimated the subsidy value to the purchaser as \$0. In estimating these values, DMPED made adjustments to appraised values to reflect final zoning approvals, use conditions, affordable housing covenants, and in-kind contributions negotiated by the District. Transfer prices for the parcels may not, therefore, equal appraised values based on the appraiser’s determination of highest and best use for the land. For additional information on the particular parcels included in the report, please refer to the legislative history of disposition approval resolutions.

Loans; Loan Guarantees; Fee Waivers

The District’s accounting systems classify certain loans as grants, and these have been included above (see note 1 on prior page). No other loans over \$75,000 were identified for the Report. No loan guarantees were identified for the Report. No fee waivers were identified for the Report.

¹ “Soft” loans are often used to provide gap financing in the event a project cannot obtain a mortgage loan sufficient to fund development costs. Such loans are only paid after mortgage loans or other debts are repaid, and may be recorded in the District financial system as a grant.

New Markets Tax Credit Investment

The District of Columbia Housing Authority has a subsidiary, DC Housing Enterprises (DCHE), which has received an allocation of federal New Markets Tax Credits. DCHE did not award any NMTCs in FY 2013.

PILOT bonds

PILOT (Payment in Lieu of Taxes) financing is used for economic development in the District in a similar manner to TIF bonds, relying on increases in the assessed value of a property generated by new construction as a source of bond repayment. The District did not issue any additional PILOT bonds in FY 2013; approximately \$12 million was paid for PILOT debt service (see page 21 of Appendix I).

Revenue Bonds

FY 2013 expenses for revenue bond debt service payments include payments on bonds issued to fund the construction of the District's Convention Center, Baseball Stadium, and Housing Production Trust Fund bonds. Some of the District's tax revenues have been dedicated to pay debt service on each of these bonds, which totaled \$72 million in FY 2013 and can be found on page 22 of Appendix I.

Revenue bond issuances during FY 2013 include new bonds issued under the District of Columbia Revenue Bond Program and by DCHFA. Bonds issued under the Revenue Bond Program support capital projects of a number of institutions based in Washington DC (including universities, schools, and national non-profits). DCHFA's revenue bonds support new construction and renovation of apartment developments, including many reserved as affordable apartments. Debt service for Revenue Bond Program bonds and DCHFA bonds is paid by the project sponsor, not from the District budget. The total amount of these types of bonds issued in FY 2013 was \$796 million.

Itemized bonds in this category are found on page 30 of Appendix I.

Tax Abatements and Tax Exemptions

The total value of economic development tax abatements and tax exemptions provided in FY 2013 was \$28 million. These incentives were primarily reductions of real property taxes provided under individual acts of Council in order to spur new development, including a number of residential developments. New tax abatements and exemptions authorized by Council during FY 2013 have a total estimated cost of approximately \$24 million in future foregone revenue, per assumptions outlined in OCFO fiscal impact

analyses (including a multiple year cost estimate). The complete list of future authorized tax abatements and exemptions can be found on page 29 in Appendix I; the FY 2013 cost of tax abatements provided begins on page 23 and the FY 2013 cost of tax exemptions provided begins on page 25.

Tax Credits (District)

The District's primary tax credit programs for economic development are the Qualified High Technology Credit (QHTC) and the Certified Capital Company (CAPCO) program. QHTC lowers corporate income taxes for qualifying companies that derive at least 51% of their gross revenue from technology-related goods and services and exempts certain high technology goods from sales taxes. Per most recent data available (2011 tax returns), approximately \$24 million was allocated for QHTC income tax credits.

The CAPCO program offers insurance companies credits against District premium taxes for investments of private capital in local businesses. The CAPCO investments are made through funds managed by professional venture capital investment managers, who selected the businesses receiving the investments. There were no CAPCO investments made in the District in FY 2013.

TIF bonds

FY 2013 expenses include \$42 million in tax increment financing (TIF) debt service and bond redemptions. TIF is used by the District to subsidize a variety of new development projects by dedicating the increased tax revenues provided by the project to repayment of the TIF debt. FY 2013 payments for debt service on these bonds come from a portion of the real property taxes and/or sales taxes generated from the site. During FY 2013, the District made TIF debt payments on various retail and commercial projects as indicated in the Report on page 28 of Appendix I.

Appendix V: Unified Economic Development Budget Transparency and Accountability Act

Excerpted From Public Law 18-0223, Effective September 24, 2010

SUBTITLE V. UNIFIED ECONOMIC DEVELOPMENT BUDGET TRANSPARENCY AND ACCOUNTABILITY ACT

Sec. 2251. Short title.

This subtitle may be cited as the "Unified Economic Development Budget Transparency and Accountability Act of 2010".

Sec. 2252. Definitions.

For the purposes of this act, the term:

(1) "Chief Financial Officer" means the Office of the Chief Financial Officer established by section 424 of the District of Columbia Home Rule Act, approved April 17, 1995 (109 Stat. 142; D.C. Official Code § 1-204.24a).

(2) "Economic development incentive" or "incentive" means any expenditure of public funds by a granting body for the purpose of stimulating economic development within the District of Columbia, including any bond issuance-including pilot bond, tax increment financing bond, and revenue bond issuances, grant, loan, loan guarantee, fee waiver, land price subsidy, matching fund, tax abatement, tax exemption, tax credit, and any other tax expenditure.

(3) "Granting body" means an agency, board, office, instrumentality, or authority of the District government that provides or authorizes an economic development incentive.

(4) "Recipient" means any non-governmental person association, corporation, joint venture, partnership, or other entity that receives an economic development incentive.

(5) "Tax expenditure" shall include any loss of revenue to the Government of the District of Columbia that is attributable to an exemption, abatement, credit, reduction, or other exclusion under District tax law.

(6) "Unified Economic Development Budget Report" or "Report" means the document that the Chief Financial Officer is required to create under section 2253.

Sec. 2253. Unified Economic Development Budget Report.

(a)(1) Not more than 3 months after the end of each fiscal year, the Chief Financial Officer shall compile and publish an annual Unified Economic Development Budget Report ("Report") with regard to the fiscal year just concluded. The report shall be produced in both printed and electronic form and shall be freely available in offices of all District agencies included in the report. A user-friendly electronic version of the report shall be posted on the Government of the District of Columbia's website in a central location that the public can easily locate.

(2) The comprehensive report shall provide the following information regarding the economic development incentives offered by the District:

- (A) The name of each recipient receiving one or more economic development incentives with a combined total value equal to or greater than \$75,000;
 - (B) The dollar value of each economic development incentive received by each recipient; provided, that any economic development incentive received by a recipient with a value less than \$75,000 shall not be itemized; the Chief Financial Officer shall report an aggregate dollar amount of those expenditures and the total number of recipients aggregated;
 - (C) The aggregate dollar amounts for each type of incentive;
 - (D) The aggregate dollar amounts expended per ward;
 - (E) The aggregate number of companies, groups, or individuals receiving each type of economic development incentive; and
 - (F) The total cost of all economic development incentives appropriated by each granting body categorized by the granting body's name.
- (b) The Chief Financial Officer shall submit annually, as part of the annual budget request to the Council, a single document estimating the costs of all economic development incentives for the fiscal year of the requested budget, including:
- (1) The total cost to the District resulting from the proposed economic development incentives, including the costs for each category of proposed tax expenditures, and the amounts of proposed tax expenditures classified by ward; and
 - (2) The cost to the District of all proposed appropriated funds for economic development incentives by District agency, instrumentality, or public institution of higher education.
- (c) Any granting authority agencies administering any economic development incentive shall cooperate and assist the Chief Financial Officer in the preparation of the Unified Economic Development Budget Report and all reporting requirements imposed by this subtitle.