

Government of the
District of Columbia



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District of Columbia
Unified Economic Development Budget
Report for Fiscal Year 2011

**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 2011 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 under the Unified Economic Development Budget Transparency and Accountability Act of 2010 (Act), identifies all economic development incentives over \$75,000 provided in Fiscal Year 2011¹. 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.)

In reviewing agency expenditures, the OCFO assumed all expenditures by the Office of the Deputy Mayor for Planning and Economic Development and the Department of Small & Local Business Development could be considered “economic development.” For the Department of Employment Services, the Report includes only expenditures under the activity “Workforce Development.” Expenditures of the Department of Housing and Community Development included in this Report were limited to 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.

The complete list of District agencies that provided data for the Report is:

- Department of Employment Services (DOES)
- Department of Housing and Community Development (DHCD)
- District of Columbia Housing Authority (DCHA)
- Department of Insurance, Securities and Banking (DISB)

¹ beginning on October 1, 2010 and ending September 30, 2011

Department of Small and Local Business Development (DSLBD)

District of Columbia Housing Financing Agency (DCHFA)

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

Office of Tax and Revenue, Office of the Chief Financial Officer

In the process of compiling the Report data, the fiscal officers and program staff in each of the agencies listed above were asked to provide all economic development spending over \$75,000 that occurred within the past fiscal year, including program and ward information. The Office of Economic Development Finance then reviewed and aggregated the data to provide comprehensive information regarding economic development spending. As required under the Act, the Report aggregates expenditures by type of incentive, by ward, by granting body and by recipient.

For the estimation of land price subsidies implied in property dispositions, the OCFO reviewed the legislative history of the disposition approval resolutions. The OCFO estimated a subsidy value by taking into account appraisals (when available and provided to Council); the purchase price or lease terms; the condition of the property; and restrictions on the use of the property following transfer (such as affordable housing or community use covenants). The subsidy was estimated at \$0 if either disposition terms were stated to be at market value, or if the cost of fulfilling covenants or alleviating property conditions was greater than the purchase price or lease value.

FINDINGS

Summary: Dollars by Incentive Type

For FY 2011, the District spent approximately \$278 million on various economic development incentives. These expenditures include reductions to District revenue stemming from tax abatements and tax exemptions.

This Report also details incentives provided during FY 2011 that either will have no impact on the District's budget or will impact a future year's budget. Such activity includes bond issuances, New Market Tax Credit investments, and new authorized tax abatements or exemptions¹. During FY 2011, the District and the District of Columbia Housing Finance Agency (DCHFA) issued \$961 million of economic development bonds. In addition, the District enacted economic development tax abatements with an estimated future cost of \$62 million². Finally, a subsidiary of the District of Columbia Housing Authority invested approximately \$11 million of private funds through the sale of federal New Markets Tax Credits.

The incentives were allocated by type as follows:

Incentive Type	Aggregate Expenses	Activity Not Impacting the FY11 Budget ¹	Aggregate by Number of Companies/Individuals ³
Expenditures on Contracts	\$43,472,774		53
Grants	\$77,269,785		133
Land Price Subsidies	\$0	\$0	7
New Markets Tax Credit Investment		\$10,963,829	3
Payment in Lieu of Taxes (PILOT) Financing	\$12,933,988	\$0	4
Revenue Bonds	\$69,266,100	\$771,062,000	20
Tax Abatements and Exemptions ²	\$28,897,582	\$62,468,243	1,844
Tax Credits (District)	\$7,250,719	\$0	52
Tax Increment Financing (TIF)	\$38,893,846	\$189,837,076	16
TOTAL	\$277,984,794	\$1,034,331,148	2,113

¹ Future debt service on the revenue bonds issued under the Revenue Bond Program or by DCHFA will be outside of the District budget. TIF bond issuances and revenue bonds issued by EventsDC will be reflected in future years' budgets as an expense when debt service on the bonds is paid. The cost of future tax abatements enacted in FY2011 will be represented in future years as tax expenditures. New Markets Tax Credits investment represents private funding.

² These estimates represent the total foregone tax revenue. Estimates for future years are reported per assumptions outlined in OCFO fiscal impact analyses and they take into account the maximum authorized aggregate abatement (if specified in the law), the sum of the estimated annual cost through the term authorized, or, for those exemptions with an indefinite term, the sum of the estimated annual cost through FY2025.

³ Some recipients received more than one type of incentive.

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 2011 declined approximately \$48 million, or 15%, over the prior fiscal year. A significant portion of the decline can be attributed to decreased capital spending on projects overseen by the Office of the Deputy Mayor for Planning and Economic Development. For incentives provided that were not items of the current year’s budget, the District increased bonds issued under the District’s Revenue Bond Program, while authorizing significantly fewer future tax abatements and exemptions.

Change in Economic Development Incentives: FY11 vs. FY10			
Incentive Type	FY11	FY10	% Increase (Decrease)
Expenditures on Contracts	\$43,472,774	\$95,248,107	(54%)
Grants	\$77,269,785	\$104,140,133	(26%)
Land Price Subsidies	\$0	\$0	0%
Payment In Lieu Of Taxes (PILOT) Debt Service	\$12,933,988	\$11,351,564	14%
Revenue Bonds Debt Service	\$69,266,100	\$68,923,242	0%
Tax Abatements & Exemptions	\$28,897,582	\$15,255,151	89%
Tax Credits (District)	\$7,250,719	\$7,599,832	(5%)
Tax Increment Financing (TIF) Debt Service	\$38,893,846	\$24,328,106	60%
Total Expenses for Fiscal Year	\$277,984,794	\$326,846,135	(15%)
New Markets Tax Credit Investment	\$10,963,829	\$0	100%
PILOT Financing Issuance	\$0	\$41,860,000	(100%)
Revenue Bonds Issuance	\$771,062,000	\$596,236,987	29%
Future Tax Abatements & Exemptions Enacted	\$62,468,243	\$166,052,693	(62%)
Tax Increment Financing (TIF) Issuance	\$189,837,076	\$0	100%
Total Activity Not Impacting the Current Budget	\$1,034,331,148	\$804,149,680	29%

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 II¹. The majority of FY11 dollars flowed through the Office of the Deputy Mayor for Planning and Economic Development (\$47 million of expenses and \$880 million of bond issuance). Miscellaneous funds, which are shown as “agencies” in the District’s budget (with no employees) and are used to account for dedicated taxes, accounted for the largest share of expenses. These expenses represent the debt service payments on the District’s tax increment financing and payment in lieu of taxes bonds, ballpark revenue bonds, convention center bonds, and Housing Production Trust Fund bonds. The largest portion of grants (\$58 million) was provided by the Department of Housing and Community Development.

Aggregate Economic Development Dollars by Granting Body/Agency									
	<i>in millions</i>								
	none (tax expenditure)	DCHA	DCHFA	DHCD	DMPED	DOES	DSLBD	Misc. Funds	TOTAL
Expenditures on Contracts		\$1.1		\$1.7	\$39.0	\$1.4	\$0.2		\$43.5
Grants				\$58.0	\$7.3	\$6.8	\$5.2		\$77.3
Land Price Subsidies				\$0.0	\$0.0				\$0.0
Payment In Lieu Of Taxes (PILOT) Debt Service								\$12.9	\$12.9
Revenue Bonds Debt Service ¹								\$69.3	\$69.3
Tax Abatements and Exemptions ²	\$28.0				\$0.7			\$0.2	\$28.9
Tax Credits (District) ²	\$7.3								\$7.3
Tax Increment Financing (TIF) Debt Service								\$38.9	\$38.9
Total Expenses	\$35.2	\$1.1	\$0.0	\$59.7	\$47.0	\$8.3	\$5.4	\$121.3	\$278.0
New Markets Tax Credit Investment		\$11.0							\$11.0
PILOT Financing Issuance					\$0.0				\$0.0
Revenue Bonds Issuance ³			\$80.8		\$690.3				\$771.1
TIF Issuance					\$189.9				\$189.9
Future Tax Abatements & Exemptions ²	\$57.5							\$5.0	\$62.5
Total Activity Not Impacting the FY11 Budget	\$57.5	\$11.0	\$80.8	\$0.0	\$880.1	\$0.0	\$0.0	\$5.0	\$1,034.4

Notes

1. Includes Ballpark, Convention Center and Housing Production Trust Fund bonds
2. Estimate of total foregone tax revenue
3. \$698 million of revenue bonds included here will not repaid from future District budgets

Agency Key

- DCHA - District of Columbia Housing Authority
- DCHFA - District of Columbia Housing Finance Agency
- 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 data on the ward location 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 2011 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.

Incentive Type	<i>in millions</i>										Total
	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8	Multiple	Not specified	
Expenditures on Contracts	\$8.1			\$0.9	\$3.7	\$15.5	\$7.3	\$3.5	\$4.5		\$43.5
Grants	\$4.5	\$10.0	\$0.2	\$9.5	\$5.7	\$1.0	\$7.9	\$7.7	\$30.8		\$77.3
Land Price Subsidies											\$0.0
Payment In Lieu Of Taxes (PILOT) Debt Service			\$0.8			\$12.1					\$12.9
Revenue Bonds Debt Service		\$33.5				\$31.0			\$4.8		\$69.3
Tax Abatements & Exemptions	\$1.3	\$4.4		\$0.9	\$0.7	\$15.7	\$0.1	\$0.2	\$0.1	\$5.5	\$28.8
Tax Credits (District)		\$2.3					\$0.3			\$4.6	\$7.3
Tax Increment Financing (TIF) Debt Service	\$8.4	\$26.3							\$4.1		\$38.8
Total Expenses	\$22.3	\$76.5	\$1.0	\$11.3	\$10.1	\$75.3	\$15.6	\$11.4	\$44.3	\$10.1	\$277.8
New Markets Tax Credit Investment ¹	\$7.0					\$4.0					\$11.0
Revenue Bonds Issuance ¹	\$346.0	\$212.4		\$19.0	\$50.7	\$8.5	\$8.7	\$5.0	\$120.7		\$771.1
Tax Increment Financing (TIF) Issuance ¹	\$4.0	\$185.8									\$189.8
Future Tax Abatements & Exemptions Enacted ¹	\$46.0	\$5.9				\$6.6	\$0.6	\$2.7	\$0.6		\$62.5
Total Activity Not Impacting the FY11 Budget	\$402.9	\$404.2	\$0.0	\$19.0	\$50.7	\$19.1	\$9.4	\$7.7	\$121.4	\$0.0	\$1,034.3

¹ Future debt service on the revenue bonds issued under the Revenue Bond Program or by DCHFA will be outside of the District budget. TIF and EventsDC bond issuances will be reflected in future years as an expense when debt service on the bonds is paid. The cost of future tax abatements enacted in FY2011 will be represented in future years as tax expenditures. New Markets Tax Credits investment represents private funding.

Similar to the FY10 results, the highest economic development spending occurred for projects located in Wards 2 and 6. These results are highly impacted by existing debt service on the Convention Center (Ward 2) and the Ballpark (Ward 6). Other significant Ward 2 expenditures were for TIF debt service to repay bonds used for financing of the Shakespeare Theatre’s Sidney Harman Hall, and a grant for 1417 N Street NW Tenants’ Association under the District’s Tenant Opportunity to Purchase Acquisition program.

Top expenditures in Ward 6 include debt service for the District’s US Department of Transportation PILOT bonds, which funded District park and infrastructure initiatives along the Anacostia Waterfront, as well as real property tax abatements for the Constitution Square mixed-use development in the District’s NOMA area.

Chart 1

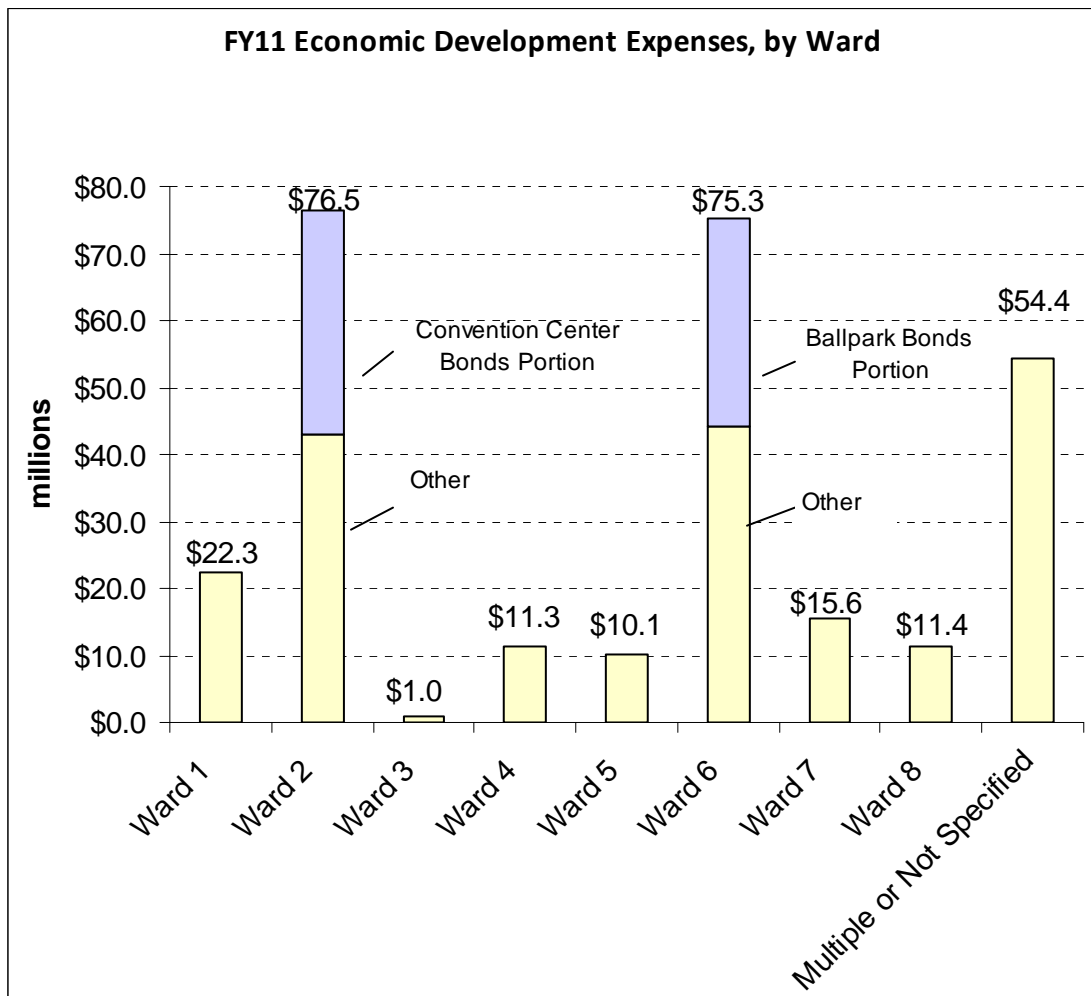
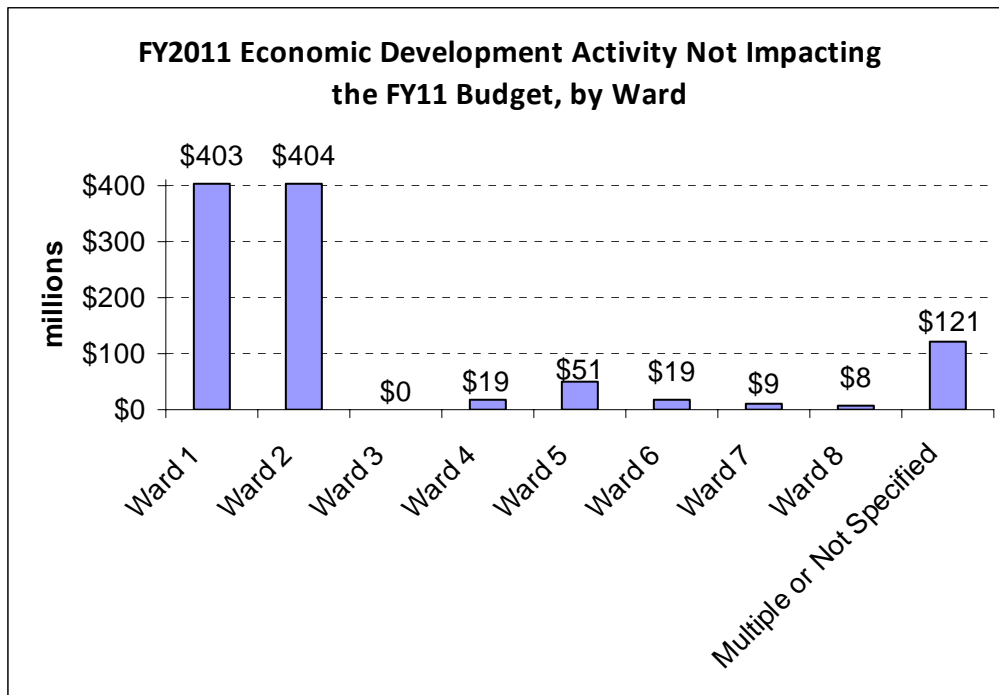


Chart 2 below summarizes FY 2011 non-expense activity. In Ward 1, Howard University benefitted from a \$290 million bond issuance under the District’s Revenue Bond Program (such bonds are repaid by the project sponsor, not the District budget), while a \$46 million future real property tax abatement was authorized for a hotel proposed in the Adams Morgan neighborhood. In Ward 2, the Washington Convention and Sports Authority (now EventsDC) issued \$249 million of bonds, primarily to support the Headquarters Hotel currently under construction. Ward 2 also was the location of several nonprofits assisted under the District’s Revenue Bond Program, including the Association of American Medical Colleges and the Center for Strategic and International Studies.

Chart 2



The detailed list of ward-by-ward expenditures, bond issuances and future authorized tax abatements 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 2011 is approximately \$43 million. The complete list of expenditures on contracts begins on page 1 of Appendix I.

Grants

District agencies awarded approximately \$77 million to over 100 entities in FY 2011 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 5 of Appendix I.

Land Price Subsidies

Page 11 of Appendix I lists parcels of land transferred by sale or ground lease in FY 2011. For each parcel, the land price subsidy has been reported at \$0. Two Ward 2 parcels have been transferred under a long-term ground-lease at a market rate: the “Old Convention Center Site,” for the CityCenter mixed-use development project, and the “Convention Center Hotel Site,” for the Headquarters Hotel. One property (reservations 129, 130 & 299) was transferred under terms of a settlement of outstanding litigation against the District. The remaining four properties were transferred for community or affordable/supportive housing purposes.

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.

Loans; Loan Guarantees; Fee Waivers

The District's accounting systems classify certain loans as grants, and these have been included in section "D" 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.

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 approved the allocation of tax credits for three projects, facilitating the investment of approximately \$10 million of private funds toward the projects. The projects are listed on page 21 of Appendix I.

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 2011; approximately \$12.9 million was paid for PILOT debt service (see page 12 of Appendix I).

Revenue Bonds

FY 2011 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. Certain of the District's tax revenues have been dedicated to pay debt service on each of these bonds, which totaled \$69.3 million in FY 2011. Itemized expenses in this category are found on page 13 of Appendix I.

Revenue bond issuances during FY2011 include new bonds issued under the District of Columbia Revenue Bond Program and by the District of Columbia Housing Financing Agency (DCHFA) and EventsDC. 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) through lower interest-rate financing terms. 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 are paid by the project sponsor, not from the District budget. The total amount of these types of bonds issued in FY 2011 was \$698.2 million. In

addition, \$72.8 million of bonds issued by EventsDC for construction of the Headquarters Hotel have been included in new revenue bond issuances.

Detailed information on revenue bonds issued on page 22 of Appendix I.

Tax Abatements and Tax Exemptions

The total value of tax abatements and tax exemptions over \$75,000 provided in FY 2011 was approximately \$28.9 million. These incentives were primarily reductions of real property taxes provided under individual acts of Council in order to spur new development, including for a number of recent residential developments. New tax abatements and exemptions authorized by Council during FY 2011 have a total estimated cost of approximately \$62 million in future foregone revenue, per assumptions outlined in OCFO fiscal impact analyses. The estimates include the maximum authorized aggregate abatement (if specified in the law), the sum of the estimated annual cost through the term authorized, or, for those exemptions with an indefinite term, the sum of the estimated annual cost through FY2025. The complete list of future authorized tax abatements and exemptions can be found on pages 20 in Appendix I; the FY 2011 cost of tax abatements provided begins on page 14 and the FY 2011 cost of tax exemptions provided begins on page 17.

Tax Credits (District)

The District's primary tax credit program for economic development are the Qualified High Technology Credit and the Certified Capital Company (CAPCO) program. The Qualified High Technology Credit 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. Due to the lag in corporate reporting and integration into the District database, the OCFO included data from corporations' 2009 tax filings. These filings show 49 corporate franchise companies took the Qualified High Technology Credit against their 2009 reported income, for a sum of approximately \$4.6 million.

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. The three CAPCOs operating in the District collectively made investments over \$75,000 to three local businesses in FY 2011, earning approximately \$3.3 million in tax credits. The list of these businesses can be found on page 16 of Appendix I.

TIF bonds

FY 2011 expenses include approximately \$38.9 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. Fiscal Year 2011 payments for debt service on these bonds come from a portion of the real property taxes and/or sales taxes generated from the site or from the District's Downtown TIF Area. During FY 2011, the District made a one-time payment to fully repay TIF bonds issued for the construction of Shakespeare Theatre's Sidney Harman Hall. Other TIF debt payments funded various retail and commercial projects as indicated in the Report on page 19 of Appendix I. New TIF bonds were issued during FY 2011 for the Convention Center Headquarters Hotel project, the Howard Theatre renovation, and the Clydes Restaurant and Forever 21 retail projects (see page 24 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:

District of Columbia Unified Economic Development Budget Report

- (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.