

PUBLIC HEARING ON
BILL 17-0117, “VERIZON CENTER SALES TAX
REVENUE BOND APPROVAL ACT OF 2007”

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

The Honorable Jack Evans, Chairman

March 19, 2007, 2:00 p.m.
Room 120, John A. Wilson Building



Testimony of
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Natwar M. Gandhi
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. My name is John Ross, and I am Senior Advisor and Director of Economic Development Finance for the Office of the Chief Financial Officer (OCFO). I am here to testify for the OCFO on the “Verizon Center Sales Tax Revenue Bond Approval Act of 2007.”

The proposed bill authorizes the District to issue a revenue bond note to DC Arena LP in a principal amount of \$50 million for a 40-year period. The bill authorizes an increase in the sales tax rate on tickets and merchandise sold at the Verizon Center from 5.75% to 10%. The note will be repaid with tax revenue collected from the increase in the sales tax rate. DC Arena LP will use the note as security to borrow funds to improve and renovate the Verizon Center.

The bill also authorizes the District to credit enhance the note with available tax increment collected from the downtown tax increment financing (TIF) area. The Verizon Center note will be subordinate to the existing Gallery Place and Mandarin Oriental obligations.

The annual tax collections from the increase in the sales tax rate are estimated to be sufficient to make debt service payments. The OCFO currently estimates that collections will be approximately \$3.7 million on average during the 40-year period, while the average annual debt service is estimated to be approximately \$3.4 million. However, in order for DC Arena LP to be able to use the note as collateral for a loan, the District must credit enhance it with the downtown TIF area. To ensure that debt service is made in the case that revenue collections from

the increase in the sales tax rate are not sufficient, the District will need to include approximately \$3.4 million, on average, for 40 years in the annual budget to meet the Verizon Center revenue bond note obligation, depending on market conditions at the time of the sale of the note. The debt will be considered District tax-supported debt.

To minimize the District's exposure, it is our understanding that the District will obtain a commitment from DC Arena LP to extend the ground lease under which DC Arena LP operates the Verizon Center for another 20 years and to extend the Wizards license agreement by a similar term.

In addition, the OCFO has requested a technical change to the legislation as introduced. To ensure that current businesses operating at 601 F Street, NW, are not impacted by the sales tax rate increase, a section is included in the bill to exempt Vida Fitness, Bang Salon and Shimba Hills Coffee House from the increase (Section 15(b)(1)(A)(iii) of the bill).

Thank you for the opportunity to testify. This concludes my testimony, and I am happy to answer any questions you have at this time.