PUBLIC HEARING

ON

Bill 17-0800 "City Market at O Street Tax Increment Financing Act of 2008"

Before the
Committee on Finance and Revenue
Council of the District of Columbia
Councilmember Jack Evans, Chairman

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John A. Wilson Building, Council Chambers

Testimony of
John Ross
Senior Advisor to the Chief Financial Officer
For Economic Development Finance

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Evans, and members of the Committee on Finance and Revenue. I am John Ross, Senior Advisor to the Chief Financial Officer for Economic Development Finance. I am pleased to testify today on Bill 17-0800, the City Market at O Street Tax Increment Financing Act of 2008.

The proposed bill approves the issuance of up to $46.5 million in TIF debt to pay for costs related to the development of a portion of the City Market at O Street Project. It also approves the use of tax increment from the Downtown TIF Area to pay debt service on the bonds, if sufficient project revenues are unavailable.

The project proposal contemplates a supermarket, 200-room hotel, market rate residential condominiums, an underground parking garage and senior affordable housing. Roadside Development will finance and construct the supermarket, market rate residential, retail and parking portions of the project. The hotel and senior affordable housing components will be financed and developed separately.

First, the OCFO strongly supports the development of the Shaw Neighborhood. This is an important opportunity to revitalize an underutilized urban parcel and to leverage our existing investment in the Convention Center. We have been and will continue to work with the Mayor and the Council to support a development that contributes to the long-term revitalization of this part of the city, in a manner that is fiscally prudent for the city.

That said, the project is not sufficiently developed for the OCFO to estimate the full extent of its fiscal impact on the budget. The project has not yet completed design drawings, so final project costs cannot be determined. Private equity and debt financing commitments have not been secured. Further, based on the pro-forma provided by the developer, the proposed sources of funding are not sufficient to construct the project. Finally, there is no executed hotel agreement even though the repayment of TIF debt is dependent on the taxes generated by a hotel.

The OCFO has provided the Council with a Fiscal Impact Statement. In our Fiscal Impact Statement we estimate that funds are sufficient in the FY 2008 budget, but there will be a fiscal impact to the FY 2009 – FY 2012 financial plan. More specifically, $3 – 5 million would need to be included in FY 2012 budget because the Downtown TIF Area would be used to back the bonds. In addition, some amount of debt service may need to be budgeted for an additional three years, i.e., FY 2013 – FY 2015 because the OCFO estimates incremental tax revenue may not be sufficient compared to annual debt service.

Conclusion

Funds are sufficient in the District's FY 2008 budget but are not sufficient in the FY 2009 – FY 2012 financial plan to implement this legislation. The OCFO estimates approximately $3-5 million will need to be included in the FY 2012 budget. In addition, there are other issues that the Council may want to consider when reviewing this legislation:

1. The subsidy is being committed before the financing gap, if any, can be determined. Because the developer does not yet have project designs or debt or equity commitments, we cannot know for sure the scale of the project financing gap. Therefore, we are essentially putting our equity in before a market assessment of how much financing is available.

2. Without an executed hotel agreement, repayment of TIF debt is uncertain. Although the hotel will be financed and developed by a separate entity, the hotel tax increment will be pledged to repay TIF debt. Since the hotel generates approximately 44% of the total increment, the availability of revenues sufficient to pay debt service depends heavily on the success of the hotel component. At this point, Roadside has not yet executed a hotel development agreement.

Without an executed hotel agreement, the OCFO cannot determine whether the incremental taxes will be sufficient to support the projected debt issuance.

3. Private financing for the project will have to be revised. The current pro-forma provided by the developer lists project costs that exceed the total sources of funds. Even with the proposed District subsidy, it is not clear that project can attract sufficient debt and equity to allow the project to move forward.

4. There is an impact on future projects. As indicated in the OCFO's letter to council on June 20, 2007, the District's borrowing capacity is limited. The letter recommended a maximum of $1.5 billion in economic development debt. The OCFO's calculations of proposed economic development debt issuances have previously included $40 million for this project. Increasing the authorization to $46.5 million will reduce the amount of TIF, PILOT and revenue bond debt available for other projects by $6.5 million.

Thank you for this opportunity to comment. I would be glad to answer any questions you may have.