JOINT PUBLIC ROUNDTABLE ON

PR 15-860, "SKYLAND PROJECT RETAIL PRIORITY AREA APPROVAL RESOLUTION OF 2004" AND PR 15-861, "FISCAL YEAR 2004 CONSOLIDATED PLAN ACTION PLAN AMENDMENT AUTHORIZING THE USE OF SECTION 108 LOAN GUARANTEE FUNDS FOR THE SKYLAND COMMUNITY DEVELOPMENT BLOCK GRANT SECTION 108 LOAN GUARANTEE APPLICATION RESOLUTION OF 2004"

Before the

Committee on Finance and Revenue
Committee on Economic Development
Council of the District of Columbia

The Honorable Jack Evans and The Honorable Harold Brazil, Chairmen

June 17, 2004, 2:00 p.m.
Room 123, John A. Wilson Building

Testimony of
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Good morning Mr. Chairmen and members of the committees on Finance and Revenue and Economic Development. My name is John Ross. I am the senior advisor and director of the Chief Financial Officer's Office of Economic Development Finance. I am here to testify on PR 15-860, the "Skyland Project Retail Priority Area Approval Resolution of 2004" and PR 15-861, the "Fiscal Year 2004 Consolidated Plan Action Plan Amendment Authorizing the Use of Section 108 Loan Guarantee Funds for the Skyland Community Development Block Grant Section 108 Loan Guarantee Application Resolution of 2004."

The Retail Incentive Act

The Retail Incentive Act of 2004, recently passed by the Council, established an alternative procedure for tax increment financing (TIF) decision-making in a number of significant ways.

First, under the old rules, each project required certification by the Chief Financial Officer (CFO) to receive TIF funding. The CFO would determine if: a) there was a funding gap requiring public subsidy for the project to go forward; and b) the project would generate sufficient new tax revenues to repay the bonds issued to finance the project. This certification is no longer a part of the process. Instead, the Retail Incentive Act of 2004 requires the Mayor to submit to the Council findings of the CFO that the proposed Retail Priority Area (not project) is "not inconsistent with the financial plan and budget" – that is, that the budget and financial plan can support any expenditures that may be needed for the TIF project now and within the next four years – and that there is room to issue the bonds within the $300 million bond volume cap. No certification of revenue generation or financial sufficiency throughout the life of the bonds is required.

Second, under the old rules the Council approved each TIF project. Now, the Council must approve the creation of TIF areas. Projects within those areas are approved by the Mayor, but not necessarily submitted to Council for approval.

The Skyland Retail Priority TIF Area is the first such TIF area brought before the Council under these new rules.

Background on PR 15-860

The Skyland Project Retail Priority Area Approval Resolution authorizes the District to provide the National Capital Revitalization Corporation (NCRC) with two TIF Notes. The Notes are to support redevelopment of the Skyland shopping center and other projects in Wards 7 and 8. The Notes total $25.7 million. The debt service would be payable from tax increment revenue from a redevelopment of the Skyland shopping center.

The first TIF note would be for up to $17.22 million and would carry a 10 percent interest rate. The term of the note would initially be 15 years, but could be extended for another five years. The second TIF Note would be for $8.5 million. The second Note would carry no interest and the term would be unlimited. The resolution requires that of the available increment, 20 percent would flow to the General Fund, 60 percent would flow to repayment of the first TIF Note and 20 percent to the second TIF note.

The debt service expense may need to be included in the financial plan as early as FY 2007. Total debt service for the two notes, if paid over 15 years, would be about $45.2 million, or $2.83 million annually.

Financial Plan Impact of PR 15-860

Plans for redevelopment of the Skyland shopping center are in an early stage and are subject to change. As a result, the sufficiency of funds in FY2005-2008 to implement the Skyland Project Retail Priority Area Approval Resolution cannot be determined. During its early stages the project will have a negative impact on the budget and financial plan.

1. Possibly beginning as early as FY 2005, the project will result in a reduction of $250,000 in real property tax revenue annually because the property NCRC acquires will not be subject to real property taxation.
2. Currently there is no detailed plan for spending the $8.5 million grant. Until such a plan is developed, we cannot determine if tax revenues will increase as a result of spending this money.
3. Sales taxes may be reduced for a period of time as the existing stores are closed. Currently, the Skyland stores pay about $400,000 in sales taxes annually. The net impact on sales tax collections during the financial planning period cannot be determined because it depends on whether Skyland shoppers instead shop at stores in the District or elsewhere.
4. The District normally borrows at an interest rate of about 5 percent. We will pay 10 percent on $17.22 million of these notes. The difference between 5 and 10 percent is a grant to NCRC and has a direct budget impact.

Note that a successful redevelopment could result in growth in sales tax collections beyond the current financial planning period. It is too early in the redevelopment to predict growth in a meaningful way.

Background on PR 15-861

PR 15-861, the Section 108 financing resolution, permits the use of Section 108 financing to provide interim financing for the redevelopment of the Skyland shopping center. The District would borrow $27.9 million and loan up to $24.9 million to the National Capital Revitalization Corporation. The NCRC would repay the loan from proceeds from the sale of the Government Printing Office property and other sources.

Financial Plan Impact of PR-861

Section 108 financing presents risks to the District. The U.S. Department of Housing and Urban Development requires future allocations of Community Development Block Grant (CDBG) funds to be pledged for repayment of the Section 108 loan. In the event that the NCRC fails to repay the loan, the District would lose some of its CDBG funding. To the extent that the budget and financial plan include expenditures tied to these allocations of CDBG funding, other expenditures may need to be reduced at that time.

Funds are sufficient in the FY 2004 budget and the FY 2005 through FY 2008 budget and financial plan to implement the provisions of PR-861.

Conclusion

The uncertainty of the financial commitments and development plans makes it difficult to predict how the financial plan will need to change. However, there is time to make any needed changes to the budget and financial plan as NCRC continues to redevelop Skyland.

I will be pleased to answer any questions you may have.

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