PUBLIC HEARING ON

"LIBRARY TRANSFORMATION ACT OF 2006"

Before the

Committee on Education, Libraries and Recreation
Council of the District of Columbia

The Honorable Kathy Patterson, Chairperson

June 15, 2006, 10:00 a.m.
Council Chamber, John A. Wilson Building

Testimony of
John Ross
Senior Advisor and Director of Economic Development Finance
Office of the Chief Financial Officer

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

Good morning, Chairperson Patterson and members of the Committee on Education, Libraries and Recreation. My name is John Ross, 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 a proposed bill that would authorize the financing and construction of a new central library on the site of the old convention center and the issuance of tax revenue bonds for the payment of capital project costs for District libraries.

The "Library Transformation Act of 2006" would authorize the District to lease the current Martin Luther King, Jr. central library, to exempt the building from property taxes, and to require the lessee to make payments in lieu of property taxes. It also establishes a tax increment finance (TIF) area on the site of the old convention center. This bill authorizes an aggregate principal bond amount of up to $90 million. Net bond proceeds of up to $50 million would support the construction of a new central library on the site of the old convention center. Net bond proceeds of up to $40 million would support capital projects in branch libraries throughout the District.

The OCFO agrees with the Deputy Mayor for Planning and Economic Development's findings that the current central library site could be leased for an up-front payment of approximately $61 million. Requiring an up-front payment for the lease reduces the value of the site by approximately $8.5 million, from approximately $69.5 million to $61 million.

The OCFO has also reviewed the amount of payment-in-lieu-of-taxes (PILOT) bonds that could be supported by the payments in lieu of taxes the District could expect to receive from the current central library site. The OCFO estimates that the payments would support approximately $40 million in PILOT bond proceeds, $10 million less than the amount estimated by the Office of the Deputy Mayor for Planning and Economic Development.

Finally, the OCFO has analyzed whether the District could issue bonds, backed by the tax increment expected from the future development of the old convention center site, sufficient to yield net proceeds of $40 million for capital projects related to District branch libraries. Once that site is developed, the tax increment could be as much as $15 million per year, which would be more than adequate to support bond proceeds of $40 million.

To obtain investment grade ratings for the PILOT and TIF bonds, the District may have to guarantee the debt service payments, at least until there is a track record of satisfactory debt service coverage. This will not be known until a proposal is fully developed for presentation to the rating agencies. In this case, the annual debt service on the bonds would have to be included in the budget each year so that, in the event of a shortfall in the offsetting PILOT or TIF payment in any year, the District could pay the debt service from the general fund.

At this time, the OCFO does not have sufficient information to determine whether the PILOT bonds would be considered tax-supported debt. Rating agencies are still developing their criteria for analyzing debt supported by payments in lieu of taxes. However, the rating agencies will likely count the $40 million in TIF debt as District tax-supported debt.

If a District guarantee is required and the debt is considered tax-supported, the District would have to consider the best form of debt for a project like this. As a rule, general obligation borrowing will always provide the lowest cost of capital, and will, therefore, have the least effect on debt ratios, including debt per capita, debt to full property value, and debt service to total revenues. Library funding is traditionally viewed as a legitimate core government expenditure for municipalities, and general obligation (GO) bonds are customarily issued for library capital projects. If the TIF and PILOT debt will count as District debt, it would be more cost effective to issue GO bonds and pay the debt service from the TIF and PILOT revenues, creating an "internally self-supporting" GO debt.

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