

PUBLIC HEARING ON
“The Reunion Square Tax Increment Financing Act of 2019,”
Bill 23-351

Before the
Committee on Business and Economic Development
Council of the District of Columbia
The Honorable Kenyan McDuffie, Chairman
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Virtual Meeting Platform



Testimony of
Nancy Fox
Office of Finance and Treasury
Office of the Chief Financial Officer

Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia

Good morning Chairman McDuffie and members of the Committee on Business and Economic Development. My name is Nancy Fox, Senior Policy Analyst in the Office of Finance and Treasury for the Office of the Chief Financial Officer. I am here to testify on Bill 23-351, the “Reunion Square Tax Increment Financing Act of 2019” (the “Bill”).

The Bill authorizes the issuance of Tax Increment Financing (TIF) Bonds for the Reunion Square Project. The introduced bill provides TIF authorization for Phase 1 of the project. The proposed markup of the Bill, provided by the Deputy Mayor for Planning and Economic Development, increases the TIF authorization to include both the first and second phases of the project. The Reunion Square project development team is Four Points, LLC, Curtis Investment Group, and Blue Sky Housing, LLC.

Phase 1 consists of a building to be constructed on Square 5784, Lots 899, 900, and 1101 in the Anacostia neighborhood of Ward 8. The building, known as Building 4, will contain approximately 280,000 gross square feet of office space and an additional 10,000 square feet of space for retail tenants. Council has approved the execution of a lease for DC Health to

occupy 205,000 rentable square feet of office space in Building 4. Phase 1 is expected to start construction in 2021 and be ready for occupancy in 2023.

Phase 1 is part of a larger proposed mixed-use development project. The development team's initial application for the proposed Reunion Square TIF project, submitted in 2017, included two additional buildings, known as Buildings 5 and 8, to be constructed on Square 5783, Lot 1018 and Square 5772, Lots 827, 829, 984, 1017, and 1020. Changes to the development plans for Buildings 5 and 8 were not finalized as of the time of introduction of the Bill in June 2019. Subsequently, the development team submitted revised plans for Buildings 5 and 8, as Phase 2 of the project. The Office of Finance and Treasury included all three buildings in our evaluation and is testifying today on the proposed markup of the Bill that includes all three buildings. This markup is attached to the testimony.

As part of Phase 2, the development team's proposal for Building 5 is a mixed-use building that will include a 120-room hotel and approximately 58,000 gross square feet of office space and 10,000 square feet of ground floor retail space. Building 8 is proposed as a multifamily rental building for seniors. The residential portion of the property will be income-restricted and

is anticipated to be exempt from real property taxes. Building 8 is also planned to include approximately 23,000 square feet of ground floor retail space that will generate incremental taxes that can contribute to the repayment of the TIF bonds.

My office reviewed the development team's application and determined that if the District would like to support Phase 1 and Phase 2 as proposed, a \$45.8 million subsidy is warranted and projected tax increment revenues will be sufficient to pay debt service on the corresponding TIF bonds.

The proposed legislation authorizes the issuance of two classes of TIF bonds. The legislation will authorize up to \$16.9 million in "Class A" TIF bonds. The "Class A" TIF bonds are intended to fund the Phase 1 office building well as amounts needed for reserves, capitalized interest, and costs of issuance. Debt service on the Class A TIF bonds would be paid from the incremental sales and property taxes generated within the newly created Reunion Square TIF Area. The bill authorizes revenues from the Downtown TIF Area as a secondary source for paying debt service on the Class A TIF bonds in the unlikely event that the incremental project revenues are insufficient. Authorizing the Downtown TIF Area as an additional revenue

source requires the District to reserve in its budget an amount equivalent to one year of debt service. This reserve would be non-lapsing and, if used in any year, would be required to be replenished. Based on current market conditions, one year of debt service is estimated to be approximately \$1.32 million.

The markup to the proposed legislation also authorizes the issuance of up to \$28.9 million in “Class B” Bonds, which are intended to provide additional subsidy to complete the project, as well as to pay other costs associated with the issuance. Like the Class A TIF bonds, debt service on the Class B Bonds would be paid from the incremental sales and property taxes generated within the newly created Reunion Square TIF Area. However, the Downtown TIF Area would not be a secondary source of repayment for Class B Bonds, and repayment of Class B Bonds from incremental sales and property tax revenues would be subordinate to repayment of the Class A TIF bonds.

Section 4(c)(2) of the Bill defines the base value of the taxable real property in order to determine the Available Real Property Tax Revenues that can be

dedicated to TIF debt service. As currently drafted, the base amount increases annually.

The Bill includes an expiration date. If the Project does not start construction and meet other conditions of issuance before September 30, 2025, the authority to issue debt under the proposed legislation will expire. The OCFO has incorporated the TIF bonds for the Reunion Square project into the debt cap as a project under consideration, and if the Bill is enacted, the anticipated debt service will remain in the debt cap model.

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