

PUBLIC HEARING ON

Bill 22-987, “Reunion Square Tax Increment Financing Act of 2018”

**Before the
Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chairman
November 14, 2018
10:00 AM
John A. Wilson Building, Room 412**



**Testimony of
Wharton Berger
Director of Economic Development Finance
Office of the Chief Financial Officer**

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

Good morning Chairman Evans and members of the Committee on Finance and Revenue. My name is Wharton Berger, and I am Director of Economic Development Finance for the Office of the Chief Financial Officer. I am here to testify on Bill 22-987, the “Reunion Square Tax Increment Financing Act of 2018” (the “Bill”).

The proposed Reunion Square Tax Increment Financing (“TIF”) Area will include approximately 560,000 square feet of mixed-use buildings being developed in the Anacostia neighborhood of Ward 8. The project development team is Four Points, LLC, Curtis Investment Group, and Blue Sky Housing, LLC. Within the TIF Area, the development team will construct three new buildings, including a Class-A office building of approximately 280,000 square feet, anchored by a District government lease; a multifamily residential building with approximately 133 rental units, comprised of 27 affordable rental units and 106 market rate rental units; and a hotel with approximately 180 rooms. These three buildings will also contain approximately 40,000 square feet of retail and approximately 519 parking spaces. The TIF project’s total construction cost is projected to be \$295 million.

Four Points, on behalf of the development team, submitted a request for tax increment financing in March 2017. At the request of the Mayor, my office reviewed the application and determined that if District policymakers support this project as proposed, the \$60.8 million subsidy to the project is necessary and the TIF's projected tax increment revenues will be sufficient to pay debt service on the corresponding TIF bond.

The proposed legislation authorizes the issuance of two classes of TIF bonds. First, the legislation authorizes up to \$37.3 million in "Class A" TIF bonds, which will fund the Project as well as amounts needed for reserves, capitalized interest, and costs of issuance. Debt service on the Class A 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 of paying debt service on the Class A 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 \$3.2 million.

The proposed legislation also authorizes the issuance of up to \$23.5 million in “Class B” Bonds, to fund the Project as well as amounts needed for reserves, capitalized interest and costs of issuance. Like the Class A 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 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 Bonds.

The legislation also authorizes the Mayor to execute a financing agreement governing the terms of TIF. A term sheet between the development team and the District has been finalized, and the District is commencing negotiations on the financing agreement.

In addition, the legislation includes an expiration date. If the Project does not start construction and meet other conditions of issuance before September 30, 2021, the authority to issue debt under the proposed legislation will expire.

Finally, if the legislation is adopted, the Chief Financial Officer will incorporate the Reunion Square TIF bonds into the debt cap beginning in Fiscal Year 2019.

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