GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

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CHAIRMAN CROPP

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Linda W. Cropp** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	JUN - 1 2006
SUBJECT:	**Fiscal Impact Statement: "Payment in Lieu of Taxes Revenue Bonds Southeast Federal Center Project Approval Resolution of 2006"**
REFERENCE:	**Draft Bill- No Number Assigned**

Conclusion

The final terms of the PILOT Agreement and the financing have not yet been negotiated for the Southeast Federal Center Project. Because the proposed resolution states that the financing can have no recourse to the District, there would be no fiscal impact on the FY 2007 budget and the FY 2007 through 2010 financial plan.

There are currently two options under discussion for financing the infrastructure for the Southeast Federal Center. Under one option, a note backed by the future PILOT payments could be placed with the developer. The developer has indicated that they are willing to take a 30 year note at an interest rate of approximately 8%. The average annual debt service on this note would be approximately $7.3 million and the present value of the debt service payments would be approximately $86 million.

Alternatively, the District could issue 20 year revenue bonds to support the infrastructure costs for the Southeast Federal Center. These bonds must be investment grade. The OCFO currently estimates average annual debt service to be approximately $5.5 million per year, with a present value of approximately $51 million, which is $35 million less than if the District issued a note to the developer. However, to achieve investment grade, the OCFO believes the District or the developer would need to guarantee the debt service payments for the term of the bonds. If the developer guarantees the debt service, there would be no impact on the FY 2007 budget and the FY 2007 through 2010 financial plan.

If the District guarantees the debt service, it would be required to budget an amount equal to the annual debt service on the bonds, which is estimated at an average annual amount of approximately $5.5 million. This would require additional Council action and have a fiscal impact on the FY 2007 budget and the FY 2007 through 2010 financial plan, as it would require budgeting the debt service each year.

Background

The proposed resolution would authorize the District to enter into an agreement with Forest City/SEFC, L.L.C., to exempt the Southeast Federal Center from property taxes and to require Forest City to make payments in lieu of property taxes equal to the amount of real property tax they would have otherwise made for up to thirty years. This resolution authorizes an aggregate principal amount of bonds of up to $90 million, resulting in net bond proceeds to Forest City of up to $48 million (in 2006 dollars) to support public infrastructure for a 42-acre site along the Anacostia Waterfront.

The resolution specifically states that the Payment-in-Lieu-of-Taxes (PILOT) bonds authorized by this resolution, "shall be nonrecourse to the District, shall not be a pledge of and shall not involve, the faith and credit or taxing power of the District (other than the PILOT or any other security authorized by the PILOT Act), shall not constitute a debt of the District, and shall not constitute lending of the public credit for private undertakings as prohibited in section 602(a)(2) of the Home Rule Act."

Based on past experience and on information received to date, there are two options currently under discussion. Either Forest City can take the PILOT payments to secure privately placed financing of a PILOT note or the District could issue revenue bonds backed by the PILOT payments. The OCFO has compared these two financing strategies. Under the Forest City proposal, the cost to the District would be approximately $35 million more than if the District issued revenue bonds. Rather than the $35 million dollars in future revenues coming to the General Fund, the District would pay this money to Forest City or the noteholder.

For investment grade PILOT revenue bonds to be issued without a budgetary impact, Forest City would have to guarantee to make PILOT payments equal to the amount they would have otherwise paid in property tax (essentially guaranteeing that the Southeast Federal Center development will be completed as scheduled). In addition, if the PILOT payments were not sufficient to pay the debt service, Forest City would have to agree to pay any shortfall between the debt service and the PILOT payment. If Forest City does not agree, then in order to sell investment grade bonds, the District would have to guarantee the payments. The annual debt service on the bonds would have to be included in the budget each year.

Financial Plan Impact

Funds are sufficient in the proposed the FY 2007 budget and the FY 2007—2010 budget and financial plan to implement this bill because the resolution requires that the bonds must be nonrecourse to the District. However, if the District issues a note to Forest City, the District would pay at least $35 million more in debt service payments. If the District is required to guarantee debt service payments, the Council would need to take action and the average annual debt service payments of approximately $5.5 million would have to be included in the budget each year. Depending on how the bonds are structured, the repayment could begin as early as FY2007, but no later than FY2010.