


**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: July 1, 2008

SUBJECT: Fiscal Impact Statement: "City Market at O Street Tax Increment Financing Act of 2008"

REFERENCE: B17-0800

Conclusion

Funds are sufficient in the District's FY2008 budget, but funds are not sufficient in the District's FY2009 – FY2012 financial plan to implement the proposed act. From the information provided to the OCFO it is not possible to estimate the full extent of the proposed legislation's fiscal impact or the specific periods impacted because the final development plan and financing package are not completed. Based on that information three conclusions can be drawn with some degree of certainty.

1. There will be a cost to the District's budget of approximately \$3-5 million beginning in FY2012.
2. Additional funds would need to be budgeted beyond the financial plan period because the estimated taxes to be collected from this project are unlikely to cover the estimated debt service.
3. The project as presented to the OCFO cannot be financed as currently structured because the total project costs are greater than the total project sources.

Background

The proposed legislation would create a Tax Increment Finance (TIF) area and authorize the issuance of up to \$46.5 million in TIF bonds to pay for costs related to the development of the

City Market at O Street Project. The proposed project, located on 3.4 acres in the Northwest quadrant, contemplates a Giant Supermarket, 200-room hotel, market rate rental residential, senior affordable rental residential, market rate condominiums, retail and an underground parking garage. Roadside Development, LLC will finance and construct the supermarket, market rate residential, retail and parking portions of the project. The hotel and senior housing components will be developed separately.

Incremental sales and property taxes generated within the TIF area would be the primary source of funds to repay the bonds. In addition, the Act authorizes the use of the Downtown TIF Area to support the debt service on the TIF bonds if the incremental taxes are insufficient. Using the Downtown TIF Area to credit enhance the bonds will require including at least one year's debt service reserve in the budget. This reserve would be non-lapsing, would be used if revenues from the Downtown TIF Area become necessary, and would be replenished if used. Any replenishment would also have to be budgeted.

Risks/Costs to the District

The proposed transaction contains risks which may impact the budget. However, the full extent of these impacts cannot be measured at this time.

1. The financing gap cannot be determined – At this point, the District is the only outside party committing funds to the project. In a typical transaction, the developer requests funding from the District after securing equity commitments and assessing the availability of private debt. In this way, the developer documents that the project would not go forward "but for" the TIF, as a TIF subsidy should only fill the financing gap. In this project, design drawings have not been completed and final costs are unknown. Therefore, the amount of equity and private debt needed for and available to the project cannot be determined. The proposed legislation would commit the District to a certain level of TIF funds without knowing whether the project would otherwise move forward without the subsidy.
2. The incremental taxes may not be sufficient to support the proposed issuance amount – Approximately 44% of total incremental taxes will come from the proposed hotel. At this point, no agreements have been executed between Roadside and a hotel developer. Without an executed hotel development agreement, the OCFO cannot determine whether the projected taxes will support the proposed debt issuance.
3. Debt service must be included in the annual budget – The proposed legislation authorizes up to \$46.5 million in debt and the use of the Downtown TIF Area as an additional source to repay the bonds. In order to ensure funds will be available to pay bondholders, if needed, the District must include at least one year of debt service in the annual budget. For FY2012, it is anticipated that approximately \$3-5 million will need to be budgeted. For each subsequent year in which the incremental taxes are insufficient to pay debt

service, the District would need to include additional amounts in the budget to replenish the reserve. Based on the authorized issuance amount and our estimate of incremental taxes, some amount for debt service could be required for an additional three years, i.e., FY 2013 – FY 2015.

4. As presented the project cannot be financed –The current proposed sources of funds are insufficient to support the project costs. In order to move forward, the project would need to secure additional financing. It is not clear at this point whether the additional funds will be available to the project.

Also, we note that, until now, the OCFO's calculation of issued, authorized and proposed economic development debt included \$40 million for this project. Increasing the authorization to \$46.5 million will further reduce the amount of TIF, PILOT and revenue bond debt available for other projects by \$6.5 million.

Financial Plan Impact

Funds are sufficient in the FY2008 budget, but are not sufficient in the District's FY2009 – FY2012 financial plan to implement the proposed legislation. At this time it is not possible to estimate the full extent of the proposed act's fiscal impact or the specific periods impacted. However, authorizing the use of the Downtown TIF Area as an additional source of debt repayment would require the District to include in the budget an amount sufficient to pay one year of debt service. It is anticipated that approximately \$3-5 million will have to be budgeted in FY 2012.

Estimated Impact to the Financial Plan of the City Market at O Street Tax Increment Financing Act of 2008 (\$ in millions)				
FY 2009	FY 2010	FY 2011	FY 2012	Total
\$ 0.0	\$ 0.0	\$ 0.0	\$ 3.0 – 5.0	\$ 3.0 – 5.0