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

Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Jeffrey S. DeWitt** **Chief Financial Officer**
DATE:	**November 19, 2018**
SUBJECT:	**Fiscal Impact Statement – Rhode Island Avenue (RIA) Tax Increment Financing Act of 2018**
REFERENCE:	**Bill 22-986, Committee Print provided to the Office of Revenue Analysis on November 19, 2018**

Conclusion

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill authorizes the District to issue $56 million of tax increment financing (TIF) debt to support the redevelopment of the former Brentwood Village Shopping Center and the Brookland Manor housing complex. A portion of the proposed debt, $32 million, will be backed by tax revenues from the unrelated Downtown TIF area;[1] the District must identify $2.7 million to create a reserve that is equal to one year's debt service.

Background

Mid-City Financial Corporation will redevelop the Brookland Manor housing complex and the site of the former Brentwood Village Shopping Center, located in the Brentwood neighborhood. The project, which will be completed over three phases and will cost over $700 million, includes nearly 1,900 for-rent and for-sale residential units,[2] 100,000 square feet of retail space, and infrastructure improvements.[3]

[1] The bill authorizes this debt to be supported by the "Available Increment," which is the property and sales tax increments generated in the Downtown TIF as defined in the April 1, 2002 Reserve Agreement by the District, Wells Fargo Bank Minnesota, N.A., and Financial Security Assurance, Inc.
[2] Approximately 20 percent of the residential units will be affordable to individuals making 30 percent of the Area Median Income or less.
[3] New roadway closures and dedications were approved in 2016 through the Closing of Public Streets and Dedication of Land for Street and Alley Purposes in and abutting Squares 3953, 3954, 4024, 4025, and Parcel 143/45, S.O. 14-20537, Act of 2016, effective December 28, 2016 (D.C. Law 21-181; 64 D.C. Register 738).

The bill establishes a TIF area that encompasses the approximately 20-acre project and is roughly bordered by Brentwood Road, N.E., Rhode Island Avenue, N.E., Montana Avenue, N.E., Downing Street, N.E., and a to-be developed mid-block alley that runs in between and parallel to Saratoga Avenue, N.E. and Bryant Street, N.E.[4] The bill also establishes the RIA TIF Fund into which the District will deposit the incremental property and sales tax revenues generated from the TIF area. The incremental taxes will be calculated as the difference between the TIF area taxes and the base amount of taxes specified in the bill.[5]

The bill authorizes the District to use this tax increment to support the issuance of up to $56 million in TIF debt to fund development project costs, and it provides for the issuance of two classes of debt. First, the District is authorized to issue up to $32 million in Class A bonds backed by the Downtown TIF area. Second, the District is authorized to issue up to $24 million in Class B debt, which could take the form of a bond or a note and will not be backed by the Downtown TIF area. The District's authority to issue Class A debt will expire on September 30, 2025 if the District has not issued any debt by that date. The authority to issue Class B debt expires on September 30, 2029.

Any excess tax increment remaining the RIA TIF Fund each year will be equally divided between payment of outstanding principal on the TIF debt and transfers to the District's local fund.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill authorizes the District to issue up to $56 million in TIF debt, including $32 million of bonds for which the District's Downtown TIF area is authorized as a source of repayment. For this portion of the debt, the Mayor is required to appropriate and hold in reserve an amount equal to one year's debt service payment, or $2.7 million. The Mayor will pay debt service obligations from this reserve if the tax increment from the RIA TIF area is not sufficient to cover the debt service payment in any year until the bonds mature or are retired, and any use of the reserve must be replenished.

The $24 million of Class B debt is only backed by tax increment from the TIF area and its $2.4 million annual debt service does not require a reserve that needs to be budgeted in local funds.[6]

The District expects to issue the Class A bonds at the beginning of Phase 2 of the project in fiscal year 2021 and the Class B bonds at the project's conclusion, which is expected in fiscal year 2024. The combined debt service on the Class A and Class B debt is approximately $5.1 million and the District's obligation to pay this debt service must be included in the District's debt cap evaluation.[7]

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[4] The TIF area includes the properties currently known for tax assessment purposes as Square 3953, Lots 0028 and 0029; Square 3954, Lots 0003, 0004, 0800, 0801, 0802, and 0803 ; Square 4024, Lots 0001, 0800, 0801, 0802, 0803 and 0804; and Square 4025, Lots 0001, 0002, 0003, 0005, 0007, 0800, 0801, 0802, and 0803.

[5] The base property taxes will be $613,621, $618,864, $672,705, $731,230 and $753,167 for fiscal years 2018, 2019, 2020, 2021, and 2022 respectively and will grow 3.1 percent annually beginning in fiscal year 2023. The sales tax base is set at $0.

[6] The Class B debt is subordinate to the Class A debt.

[7] Limitation on Borrowing and Establishment of the Operating Cash Reserve Act of 2008, effective March 25, 2009 (D.C. Law 17-360; D.C. Official Code § 47-335.02).

The Office of Tax and Revenue (OTR) will need to track development progress and retail activity to allocate the tax revenues to the RIA TIF Fund. OTR can perform these activities with its existing resources.