

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: October 11, 2017

SUBJECT: Fiscal Impact Statement – Union Market Tax Increment Financing Act of 2017

REFERENCE: Bill 22-382, Draft committee mark-up as circulated on October 10, 2017

Conclusion

Funds are not sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The bill authorizes the District to issue \$82.4 million of tax increment financing debt for infrastructure improvements and structured parking construction in the Union Market district. A portion of the debt will be backed by revenues from outside the Union Market district¹, so the District must identify \$3 million to create a reserve that can be available for debt service, if needed.

Background

The bill establishes a 45-acre tax increment financing (TIF) area² around Union Market and roughly bordered by New York Avenue, NE, Florida Avenue, NE, Gallaudet University, and Brentwood Park. The bill also establishes the Union Market TIF Fund ("Fund") into which the District will deposit the incremental³ sales and property tax revenues generated from the TIF area. The bill authorizes the District to issue up to \$82.4 million of debt for the purposes of infrastructure improvements and structured parking construction.

¹ The bill, per Section 6(b), authorizes up to \$36 million of the TIF debt to be supported by "Available Increment" from the District's Downtown TIF Area, however this amount may be increased provided the Development Sponsor advances the reserve required to be held in the District's budget. "Available Increment" consists of sales and property tax increment and is defined in the Reserve Agreement, dated as of April 1, 2002, by and among the District, Wells Fargo Bank Minnesota, N.A., and Financial Security Assurance, Inc.

² Consisting of 120 lots, as provided in Section 4(a) of the legislation.

³ The increment is calculated after "base year" amounts are deducted from tax collections; see footnote 7 for more details.

The TIF debt will be used by the Union Market Infrastructure Corp., a group of developers and owners of some of the property in the proposed TIF district.⁴ The developers have proposed new development for the TIF area including approximately 3,500 apartment units, 707,000 square feet of new commercial space, a 155-room hotel, and 170,000 square feet of renovated retail space.⁵ The TIF area will also encompass existing properties such as the Union Market food hall, commercial office space, a PNC bank, a Motel 6, an Angelika movie theater, and retail and warehouse spaces in the historically-designated Florida Avenue markets.⁶

The bill establishes the base tax amounts.⁷ Revenues above the base tax amounts are the incremental tax revenues deposited in the Fund and pledged to repay the bonds. Any excess tax increment remaining in the Fund each year will be equally divided between payments 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 2018 through fiscal year 2021 budget and financial plan to implement the bill. The Office of the Chief Financial Officer (OCFO) estimates that the total annual debt service on the \$82.4 million TIF debt will be \$6.4 million annually and that the tax increment above the bill's established base amounts will cover the debt payments. However, the bill authorizes the District's Downtown TIF Area as a source of repayment on up to \$36 million of the debt, and the Mayor is required to appropriate and hold in reserve an amount equal to one year's debt service payment on this portion, which is \$3 million. The Mayor will pay debt service obligations from this reserve if the tax increment from the Union Market 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 remaining \$46.4 million of potential debt issuance may be backed by the Downtown TIF Area if the developer funds a reserve and therefore does not require the Mayor to appropriate any additional funds.

Accounting of TIF-area real property and sales tax revenues pledged for debt service will require the Office of Tax and Revenue (OTR) to track development progress and vendor openings, create site-specific vendor accounts for sales tax remittances, and perform outreach to vendors on TIF-area filing compliance. Due to the high number of existing vendors, the number of development parcels and the number of property owners included in the Union Market TIF Area, such activities will be more complex than existing TIF areas. The OCFO can manage these activities with existing staff and resources, but the complexity of this TIF area will require monitoring and could necessitate additional resources in the future.

⁴ Members of the coalition include EDENS, LCOR, Trammell Crow Residential, JBG Smith and Gallaudet University

⁵ Development already under construction includes a 432-unit apartment building and a retail renovation.

⁶ The portion of the proposed TIF area bounded by 4th Street, NE, Florida Avenue, NE, 5th Street, NE, and Penn Street, NE was designated historic in 2016

⁷ Base real property taxes will be \$3,746,069 in fiscal year 2018, \$4,858,887 in fiscal year 2019, \$6,202,452 in fiscal year 2020, \$7,488,037 in fiscal year 2021 and inflate thereafter at 3.0% annually. Base sales taxes will be \$2,644,943 in fiscal year 2018, \$4,924,957 in fiscal year 2019, \$5,984,737 in fiscal year 2020, \$6,529,609 in fiscal year 2021 and inflate thereafter at 3.6% annually.