

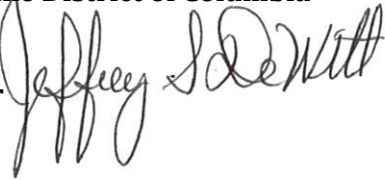
Government of the District of Columbia  
Office of the Chief Financial Officer



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:** December 17, 2014

**SUBJECT:** Revised Fiscal Impact Statement – District of Columbia Soccer Stadium Development Act of 2014

**REFERENCE:** Bill 20-805, revised amendment in the nature of a substitute, shared with the Office of Revenue Analysis in draft form on December 15, 2014

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*This fiscal impact statement reflects the changes in the amendment in the nature of a substitute circulated on December 15, 2014. This statement replaces the one issued by the Office of the Chief Financial Officer on November 13, 2014.*

**Conclusion**

Funds are sufficient in the FY 2015 through FY 2018 budget and financial plan to implement the bill. The bill will cost an estimated \$141 million in FY 2015, and approximately \$180 million in capital and operating costs over the financial plan period. Combined with the recent supplemental budget request the Mayor has submitted to the Council for approval,<sup>1</sup> the bill provides sufficient resources to pay for its costs. The funding plan requires additional borrowing of approximately \$107 million.

The Council should note that parts of the sources that pay the operating and tax abatement costs are one-time and not available outside the financial plan period. Once FY 2019 falls in the financial plan period—beginning FY 2016—the District must identify these amounts in its operating budget. In FY 2019 and forward, recurring costs are approximately \$16 million per year. The funding plan has \$6 million of recurring resources; this means the District must identify another \$10 million,<sup>2</sup> of which \$4.4 million are tax abatements, in its operating budget each year beginning FY 2019.

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<sup>1</sup> Draft “Fiscal Year 2015 Revised Budget Request Emergency Adjustment Act of 2014,” shared with the Office of Revenue Analysis on December 15, 2014.

<sup>2</sup> These include real property tax abatement, the amounts for debt repayment, the expenses for extending the Circulator service to Waterfront, the cost of the Workforce intermediary and the safety costs for game days.

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We do not know with certainty the condemnation costs (should the District use eminent domain) and environmental remediation costs (which we assumed in our cost estimate to be comparable to costs incurred per square foot at the Nationals ballpark stadium). The current funding plan for this bill sets aside \$12 million for cost contingencies.<sup>3</sup> However, if court-ordered condemnation payments, environment costs, and other legal costs exceed the resources set aside for the project, the District must absorb the costs by cutting its budget elsewhere or by raising the required revenue.

Additionally, the team agreed to contribute \$2.5 million towards this part of the project and the bill dedicates the \$15.8 million the District will receive for the 1<sup>st</sup> and K Street property to the project. These two resources are not currently in the financing plan, so they will also be set aside to protect the District from cost overruns or to provide funding for recurring costs beyond FY 2019.

## **Background**

The bill authorizes the District to support the construction of a 20,000-seat soccer stadium for the D.C. United soccer team at Buzzard Point. The bill caps the amount the District can spend on land purchases at \$88.9 million in capital costs; overall support for the horizontal development of the project cannot exceed \$150 million.<sup>4</sup> The bill also authorizes the District to use eminent domain to assemble the land if the District and the owners of the lots identified in the bill cannot agree on a purchase price.

The bill provides the structure for a public-private partnership between D.C. United and the District for the construction of the stadium. The District will provide the land (Squares 603S, 605, 607, 611N, 661, and parts of 665) and be responsible for the site preparation and the associated infrastructure work. D.C. United will be responsible for the construction and the operating of the Stadium.

The Mayor negotiated a series of land exchange agreements, a development agreement, and a ground lease agreement, and transmitted the bill to the Council on May 23, 2014 for approval of these agreements. The Council approved on December 2 an amendment in the nature of a substitute, which changes the Mayor's proposed financing structure in the following ways:

### *Assembly of the land*

The Mayor's proposed financing structure relied on land exchange agreements between the District and owners of the lots that comprise the stadium site. The financial terms of these exchanges were as follows:

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<sup>3</sup> This amount is comparable to standard contingency amounts put aside for large infrastructure projects. It includes \$5 million for unknown or unidentified costs, and \$1.25 million for engineering contingencies (25 percent of \$5 million set aside for that reason). The remainder \$5.76 million is a catchall 20 percent contingency over all costs.

<sup>4</sup> The cap only refers to the site preparation and infrastructure investment. It excludes the value of the tax abatements and other operating expenditures, such as security costs for games.

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| Parcel  | Value Paid      | Swap Property | Value Received | Due to/ (Due from) |
|---|-----------------|---------------|----------------|--------------------|
| Akridge<br>SSL 0607 0013  | (\$21.2)        | Reeves Center | \$55.6         | \$34.5             |
| Pepco <sup>1</sup><br>SSL 0661 0804<br>SSL 0661 0805<br>SSL 0665 0024 | (40.0)          | 1st & K St NW | 15.8           | (24.2)             |
| Rollingwood <sup>2</sup><br>SSL 0605 0007                             | (10.5)          | N/A           | 0              | (5.6)              |
| Super Salvage<br>SSL 0605 0802  | (17.1)          | N/A           | 0              | (17.1)             |
| <b>TOTAL<sup>3</sup></b>  | <b>(\$88.9)</b> |               | <b>\$71.4</b>  | <b>\$12.4</b>      |

**Table Notes**

<sup>1</sup>Cost for turbine removal (\$1.0 million) reflected in site preparation estimate.

<sup>2</sup>DC United and Akridge contributions (\$2.4 million each) applied towards the cost of the Rollingwood parcel.

<sup>3</sup>Any difference between sum of the rows and total shown is due to rounding.

The Council’s amendments to the bill:

- Authorizes the Mayor to spend up to \$88.9 million to assemble the land for the stadium site
- Authorizes the Mayor to exercise eminent domain to acquire any lots if the District cannot agree with the owners of the lots within the \$88.9 million cap authorized in this bill.
- Disapprove the land exchange agreement for the Akridge lot (607) and bans the exchange of the Reeves Center to assemble the soccer stadium Site.
- Authorizes the Mayor to exchange the 1<sup>st</sup> and K Street property (Lot 82 in Square 559) for Pepco lots as envisioned in the land exchange agreement the Mayor negotiated with Pepco—the 1<sup>st</sup> and K Street property would be valued at \$15.8 million in this exchange.

Agreements between the District and D.C. United

The District and DC Stadium LLC, the company owned by D.C. United, have executed a development agreement and a ground lease agreement. The development agreement outlines how the District and DC Stadium, LLC will share the costs of construction. The District would be responsible for horizontal development, which includes site preparation, environmental cleanup, and the installation of the necessary utility and transportation infrastructure. DC Stadium LLC is responsible for the vertical construction of the stadium. The ground lease agreement outlines the terms under which DC Stadium LLC will lease the soccer stadium land from the District. The agreement approves a 30-year ground lease for a nominal amount, with three options to extend the lease for five-years each.

The Council’s amendments to the bill maintain these agreements in place but pushes out the deadlines agreed between the Mayor and D.C. United by six months to a year, to account for the delays that might be caused by the land agreements. It also requires that D.C. United enter in a labor peace agreement for the construction of the stadium.

Tax Abatements for the project

The bill introduced by the Mayor authorized tax abatements for the owner and operators of the soccer stadium. These included real property tax abatement,<sup>5</sup> a deed recordation abatement on all

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<sup>5</sup> The bill abates real property taxes fully for the first five years of the abatement term and then on a declining schedule for an additional fifteen years (75 percent abatement for years 6 to 10, 50 percent abatement for

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transfers of property at the soccer stadium site for the life of the ground lease, and a sales tax abatement. The Council's amendments eliminated the sales tax abatement, modified the deed transfer abatement so the deed transfer abatements only apply to D.C. United's ground lease, and not to the current owners of the lots that comprise the stadium site, and made the real property tax abatement for the team effective middle of Fiscal Year 2016 to match the revised timeline.

### Revenue Sources

The amendment in the nature of a substitute creates the Soccer Stadium Financing Fund to hold the following revenues:

- A \$15 million payment from the District of Columbia Water and Sewer Authority (DC Water), pursuant to a Memorandum of Understanding (MOU) signed on December 15, 2014;<sup>6</sup>
- The \$15.8 million the District would receive for the disposition of 1<sup>st</sup> and K Street property; and
- The \$2.5 million D.C. United would contribute towards site preparation.

The fund will pay for the expenditures of the stadium project until it is exhausted. The Deputy Mayor for Planning and Economic Development will manage the fund.

### Other provisions

The Council's amendment in the nature of a substitute has the following community benefits riders that must now be funded in conjunction with the bill:<sup>7</sup>

- Reopening the Convention Center- Southwest Waterfront Circulator line;
- A workforce intermediary program for residents in the stadium neighborhood; and
- Capital improvements to the Randall Recreation Center in Ward 6 and an ongoing operations and programming funding for the Randall Recreation Center in Ward 6.

### **Financial Plan Impact**

Funds are sufficient in the FY 2015 through FY 2018 budget and financial plan to implement the bill.

The bill will cost an estimated \$141 million in FY 2015, and approximately \$180 million over the financial plan period. There are three components to these costs:

- Tax abatements and fee waivers approved by the bill will reduce revenue by approximately \$1.5 million in FY 2015 and \$12 million over the four-year financial plan period.<sup>8</sup>

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years 11 to 15 and 25 percent abatement for years 16 to 20), provided that a major league soccer team occupies the stadium.

<sup>6</sup> The 2014 MOU settles a dispute relating to in-lieu taxes and right-of-way fees.

<sup>7</sup> The bill also aligns the proposed soccer stadium with some of the operational rules in effect at other entertainment venues in the District, such as RFK Stadium and the Ballpark. These provisions are present in both the introduced version and the Council's amendment in the nature of a substitute. These include authorizing MPD to establish a barrier around the stadium to control the movement of people, prohibiting individuals from bringing a disposable glass or metal container into the stadium, prohibiting individuals from entering the field of play, and authorizing access to a class Arena C/X alcoholic beverage license for the stadium owner and operator.

<sup>8</sup> These include the real property and deed recordation tax abatements, and the waiver of permit fees. The deed recordation tax abatement will also reduce the resources at the Housing Production Trust Fund.

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- The District must increase its operating budget by \$29 million over the four-year financial plan period. Operating costs include the debt service for the borrowing planned to pay for the land purchase and construction costs, a one-time payment to the developer for workforce development, ongoing security needs at the soccer stadium, and the costs associated with operating the Circulator line between the Convention Center and the Southwest Waterfront.
- Finally, the capital costs imposed by the bill are currently set at \$140 million (With a \$150 million cap.) over the four-year financial plan period. These costs include assembly of the stadium site land and site preparation, such as utility relocations, environmental remediation, and infrastructure upgrades.

Combined with the recent supplemental budget request the Mayor has submitted to the Council for approval,<sup>9</sup> the bill provides sufficient resources to pay for its costs. The sources include the following items:

- A one-time reprogramming of \$2 million in the FY 2015 budget, which was initially set aside to pay for the relocation of the traffic operations center from the Reeves Center. Since the Reeves Center is no longer a part of the deal, these amounts are not needed.
- A reprogramming of \$6 million in recurring expenditures in the budget beginning FY 2015;
- The \$15 million payment from DC Water pursuant to a Memorandum of Understanding signed on December 15, 2014;
- \$32.6 million in capital funds from prior years that have not yet been used; and
- \$107 million in additional borrowing.

These amounts combined can pay for the costs of the bill over the financial plan period.

The recurring expenditures imposed by the bill (the real property tax abatement and the debt service for borrowing) will continue to have an impact outside of the financial plan. The real property tax abatement will reduce District revenue by \$79 million between FY 2019 and FY 2037. The debt service payments will cost an estimated \$175 million during the same period.<sup>10</sup> The District's financing plan for the stadium identifies only \$6 million in recurring revenues. Beginning FY 2016, which is the first year FY 2019 falls in the financial plan, the District must identify additional recurring resources to full pay for the cost of the abatements and debt service.

The table on the next page summarizes the sources and uses of funds for this bill.

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<sup>9</sup> Draft "Fiscal Year 2015 Revised Budget Request Emergency Adjustment Act of 2014 shared with the Office of Revenue Analysis on December 15, 2014

<sup>10</sup> Assuming repayments over 25 years at an interest rate of 5.5 percent.

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| District of Columbia Soccer Stadium Development Act of 2014  |                    |                   |                   |                   |                    |
|--|--------------------|-------------------|-------------------|-------------------|--------------------|
| Estimated Cost of Bill 20-805 (\$ thousands)                 |                    |                   |                   |                   |                    |
| FY 2015 – FY 2018  |                    |                   |                   |                   |                    |
|  | FY 2015            | FY 2016           | FY 2017           | FY 2018           | Total              |
| <b>SOURCES OF FUNDS<sup>1</sup></b>                          |                    |                   |                   |                   |                    |
| <b>Operating Budget</b>                                      |                    |                   |                   |                   |                    |
| One-time reprogramming (TRF01C)                              | \$0                | \$2,000           | \$0               | \$0               | \$2,000            |
| Recurring reprogramming <sup>2</sup>                         | \$6,007            | \$6,007           | \$6,007           | \$6,007           | \$24,028           |
| DC Water Payment   | \$0                | \$513             | \$4,277           | \$10,210          | \$15,000           |
| Fund carryover   | (\$4,454)          | \$0               | \$0               | \$0               | \$0                |
| Use of Soccer Fund Balance                                   | \$0                | \$4,454           | \$0               | \$0               | \$0                |
| <b>Total Operating Sources</b>                               | <b>\$1,553</b>     | <b>\$12,974</b>   | <b>\$10,284</b>   | <b>\$16,217</b>   | <b>\$41,028</b>    |
| <b>Reprogramming of Capital budget on hold<sup>2</sup></b>   | <b>\$32,627</b>    | <b>\$0</b>        | <b>\$0</b>        | <b>\$0</b>        | <b>\$32,627</b>    |
| <b>USES OF FUNDS</b>   |                    |                   |                   |                   |                    |
| <b>Operating Budget</b>                                      |                    |                   |                   |                   |                    |
| <u>Revenue Reductions</u>                                    |                    |                   |                   |                   |                    |
| Real Property Tax Abatement                                  | \$0                | (\$950)           | (\$1,433)         | (\$4,436)         | (\$6,819)          |
| Deed & Recordation Tax Exemption                             | (\$1,492)          | (\$2,376)         | \$0               | \$0               | (\$3,868)          |
| Waiver of Permitting Fees                                    | \$0                | (\$1,176)         | \$0               | (\$137)           | (\$1,313)          |
| <b>Total Revenue Reductions</b>                              | <b>(\$1,492)</b>   | <b>(\$4,502)</b>  | <b>(\$1,433)</b>  | <b>(\$4,573)</b>  | <b>(\$12,000)</b>  |
| <u>Operating Expenditures</u>                                |                    |                   |                   |                   |                    |
| Public Safety Costs (at stadium)                             | \$0                | \$0               | \$0               | (\$200)           | (\$200)            |
| Payments to Developers - Workforce Incentive Program         | \$0                | (\$375)           | (\$750)           | (\$375)           | (\$1,500)          |
| Debt Service for Additional Borrowing                        | \$0                | (\$7,976)         | (\$7,976)         | (\$7,976)         | (\$23,927)         |
| Community Benefits - Convention Center Waterfront Circulator | \$0                | \$0               | \$0               | (\$2,964)         | (\$2,964)          |
| Community Benefits - Workforce Intermediary                  | (\$61)             | (\$122)           | (\$125)           | (\$129)           | (\$437)            |
| Total Operating Expenditures                                 | (\$61)             | (\$8,472)         | (\$8,851)         | (\$11,644)        | (\$29,029)         |
| <b>Total Operating Budget Use</b>                            | <b>(\$1,553)</b>   | <b>(\$12,974)</b> | <b>(\$10,284)</b> | <b>(\$16,217)</b> | <b>(\$41,028)</b>  |
| <b>Capital Budget</b>  |                    |                   |                   |                   |                    |
| <u>Land Purchases<sup>3</sup></u>                            | (\$88,873)         | \$0               | \$0               | \$0               | (\$88,873)         |
| <u>Site Preparation &amp; Infrastructure</u>                 | (\$45,576)         | (\$248)           | \$0               | \$0               | (\$45,824)         |
| <u>Community Benefits</u>                                    | 0                  | 0                 | 0                 | 0                 | \$0                |
| Convention Center Waterfront Circulator                      | (\$4,260)          | 0                 | 0                 | 0                 | (\$4,260)          |
| Randall Recreation Center Renovation                         | (\$250)            | 0                 | 0                 | 0                 | (\$250)            |
| <b>Total Capital Budget Use<sup>4</sup></b>                  | <b>(\$138,958)</b> | <b>(\$248)</b>    | <b>\$0</b>        | <b>\$0</b>        | <b>(\$139,207)</b> |
| <b>TOTAL COST OF THE BILL</b>                                | <b>(\$140,511)</b> | <b>(\$13,223)</b> | <b>(\$10,284)</b> | <b>(\$16,217)</b> | <b>(\$180,235)</b> |
| <b>TOTAL SOURCES AVAILABLE</b>                               | <b>\$34,180</b>    | <b>\$12,974</b>   | <b>\$10,284</b>   | <b>\$16,217</b>   | <b>\$73,655</b>    |
| <b>ADDITIONAL BORROWING</b>                                  | <b>\$106,331</b>   | <b>\$248</b>      | <b>\$0</b>        | <b>\$0</b>        | <b>\$106,580</b>   |
| <b>NET FISCAL IMPACT</b>                                     | <b>\$0</b>         | <b>\$0</b>        | <b>\$0</b>        | <b>\$0</b>        | <b>\$0</b>         |

Table Notes:

<sup>1</sup> Does not include the team contribution or the money received from the sale of 1<sup>st</sup> St. and K St. property to Pepco.

<sup>2</sup> Authorized by the Fiscal Year 2015 Revised Budget Request Emergency Adjustment Act of 2014, circulated on December 16, 2014.

<sup>3</sup> Assumes \$29 per 731,858 FAR square foot

<sup>4</sup> Does not include legal costs associated for eminent domain or environmental remediation, but has \$12 m in contingencies