

**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: June 29, 2009

SUBJECT: Fiscal Impact Statement – “New Convention Center Hotel
Amendments Act of 2009”

REFERENCE: Bill Number 18-310 – Committee Print – Amendment in the Nature of
a Substitute

Conclusion

Funds are sufficient in the FY 2009 and proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation.

Background

The New Convention Center Hotel Amendments Act of 2009 amends the Washington Convention Center Authority Act of 1994 and the New Convention Center Hotel Omnibus Financing and Development Act of 2006 to allow for the development of a new convention center hotel.

The convention center hotel will be developed by Quadrangle Development Corporation and Capstone Development (Developer) and will be operated by Marriott International as the “Marriott Marquis Convention Center Headquarters Hotel” (Hotel). The Hotel will be located on a two acre site at 9th and Massachusetts Ave, NW, directly adjacent to the Walter E. Washington Convention Center. The Hotel will consist of 1,174 guest rooms, 100,000 square feet of meeting space, six food and beverage outlets and a parking garage. Pursuant to the lease approved by Council in the New Convention Center Hotel Omnibus Financing and Development Act of 2006, the District will lease land it owns in Square 370 to the hotel developer. The present value of these lease payments over the 99 year period is roughly equal to the 2006 appraised value of \$72.6 million. The project will break ground in the fall of 2009 and open in early 2013.

The WCCA and the Developer have negotiated a summary term sheet to structure the Hotel financing as summarized below.

Sources	\$ in millions
WCCA Investment	25
WCCA Additional Contribution	22
Net TIF Bond Proceeds	159
Developer Funds (100% equity)	331
Total	\$537

The total project costs will be approximately \$537 million. The Developer will contribute \$331 million towards the construction of the hotel. The WCCA and/or the District will contribute \$206 million of net funds towards the construction of the hotel. The sources of the \$206 million WCCA and District investment are as follows:

- 1) *\$25 million WCCA Investment.* The WCCA will make a loan to the hotel developer out of its existing cash reserves, compounding for 5 years and paid back over 25 years at a 7% to 7.5% interest rate. Repayment of this investment is senior to the Developer equity, but may be subordinate to any possible future Developer debt.
- 2) *\$22 million WCCA Additional Contribution.* The WCCA will grant \$22 million to the hotel in the first quarter of FY 2012 out of its cash reserves.
- 3) *\$159 million net TIF Bond Proceeds.* The proposed legislation increases the already authorized TIF \$25 million, to an amount sufficient to net \$159 million in TIF bond proceeds. It is anticipated that the gross amount of bonds will be \$225 million. The incremental taxes generated from the Hotel will be pledged toward repayment of the bonds. In addition, the WCCA is pledging its dedicated tax revenues to pay any unexpected shortfalls in TIF revenue available to pay debt service on the TIF Bonds. This pledge will be at parity with the outstanding \$480.8 million WCCA Series 2007 bonds.

The proposed legislation exempts from recordation tax the vault/air space lease authorized in the section 10-1202.24 of the code that requires that the Mayor enter into a no-fee vault/air space lease with the Hotel. The proposed legislation mandates that ground lease payments from the developer to the District begin in October 2014 and will be assigned from the District to the WCCA. Finally, the proposed legislation approves the Hotel Development and Funding Agreement.

Financial Plan Impact

Funds are sufficient in the FY 2009 and proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation.