

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: January 2, 2002

SUBJECT: Fiscal Impact Statement: "Square 456 Payment in Lieu of Taxes Act of 2001"

REFERENCE: Draft Legislation – No Bill Number Available

Conclusion

Funds are not sufficient in the FY 2003-2005 budget and financial plan. The legislation will result in a reduction in revenue of \$29.4 million. Of the \$29.4 million reduction, \$0 would occur in FY 2002, \$0.5 million in FY 2003, \$2.9 million in FY 2004, and \$3.0 million in FY 2005.

This legislation sets a precedent regarding the provision of financial support for private artistic organizations by granting benefits to owners of otherwise taxable property. It is a relatively expensive mechanism for financing such development. A lower cost alternative would be to provide a grant through the budget, financed with general obligation debt or to develop the theater as a District-owned facility, which could be leased to The Shakespeare Theatre.

Background

This legislation would grant tax abatement on lots 878 and 880, Square 456 in exchange for the property owner making payments in lieu of taxes to The Shakespeare Theatre. The total amount of the abatement would be capped at \$30 million if a building permit has been issued to construct a theater as part of the development or \$6 million if no building permit for theater construction is issued.

The purpose of the legislation is to provide The Shakespeare Theatre with approximately \$15 million in present value so that the organization can own a theatre venue to be

constructed as part of a larger development. The site is directly across the street from the southern side of the MCI Center.

Based on a review of a proposal from The Shakespeare Theatre by the Office of the Chief Financial Officer, the District would be funding an equity contribution for the benefit of the non-profit organization. The plan is functionally equivalent to a \$15 million grant from the District to The Shakespeare Theatre financed with a loan from the developer bearing an interest rate of 12 percent. This interest rate is significantly higher than the District's interest rate on general obligation debt. If the District were to provide \$15 million to The Shakespeare Theatre through a grant and the District issued general obligation debt instead, the costs to the city would be reduced by about \$4.3 million over ten years.

In order to provide the subsidy through a grant, funded out of general obligation debt, the Council would need to authorize a \$15 million grant and provide an appropriation. The District could then issue general obligation debt to fund this expense. The Council would need to deem the project to be of general public benefit and authorize the issuance of new debt.

A second option is to consider public ownership of the theatre, for example in a condominium relationship with the property developer. If the District owned the theatre, the District could lease the facility to The Shakespeare Theatre and other users equal to the District's costs. It should be noted that The Shakespeare Theatre anticipates a significant capital campaign from non-governmental sources to pay for construction. It may be difficult, but not impossible, to generate the required financial support from private sources if the government controls the facility. Without such financial support for the facility, it is possible costs to the government will be higher rather than lower.

Financial Plan Impact

The following table presents the net impact to the FY 2002 through FY 2005 financial plan and the ten-year impact:

Net Impact to the Financial Plan (\$ in millions)						
	FY 2002	FY 2003	FY 2004	FY 2005	4-Year Total	10-Year Total
Tax Abatement	\$0	(\$0.5)	(\$2.9)	(\$3.0)	(\$6.4)	(\$29.4)

If the District were to continue to impose the real property tax on the development and borrowed \$15 million for ten years, the net impact to the budget would be as follows:

Net Impact to the Financial Plan (\$ in millions)						
	FY 2002	FY 2003	FY 2004	FY 2005	4-Year Total	10-Year Total
Debt Service	\$0	(\$2.5)	(\$2.5)	(\$2.5)	(\$7.5)	(\$25.1)