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** [signature] **Chief Financial Officer**
DATE:	**May 4, 2004**
SUBJECT:	**Fiscal Impact Statement: "Retail Incentive Act of 2004"**
REFERENCE:	**Bill Number 15-306 - from the Committee Print**

Conclusion

Funds are not sufficient in the proposed FY 2005 through FY 2008 budget and financial plan to enact the "Retail Incentive Act of 2004". **The proposed legislation would cost $1.5 million in FY 2005, and $21.2 million in FY 2005 through FY 2008.** Full implementation of this program could cost up to $19 million annually, although it is estimated to be lower because some of the funded retail projects will result in growth in sales tax collections above that projected in baseline revenue forecasts. The impact to the District's budget and financial plan occurs because debt service payments paid from the retail area sales tax revenue would be included as a reduction in District revenue when any project is approved for a grant under this legislation.

The bill has a substantial budget impact for three reasons. First, under this bill the financing can be structured so that in the case of a business default the District would be responsible for paying off the note. Tax revenues generated by successful businesses could be used to pay the debt service on funds given to unsuccessful businesses. Second, there is no test for financial need. Without such a test some of the funds may be given to businesses that would operate in the District without the grant. Finally, the maximum dollar value of notes that can be issued under this legislation is large, about $124 million.

Anti-deficiency laws, 31USCA § 1341 (2000) and D.C. Official Code § 47-355.01 *et seq.* (2003), prohibit District officers and employees from exceeding agency appropriations in any fiscal year. Should the District determine that appropriations are available to fully fund all costs associated with the proposed legislation, then these amounts need to be included as budgeted expenditures in all subsequent fiscal years.

Background

The Retail Incentive Act of 2004, as reported by the Finance and Revenue Committee, would create alternative qualification standards and procedural requirements for providing grants for economic development through tax increment financing. Under the legislation, a "Downtown Retail Priority Area" would be immediately created, and within 180 days the Mayor would be required to designate additional Retail Priority Areas in Columbia Heights, Georgia Avenue, Minnesota/Benning, Shaw, and the H Street, N.E. Corridor.

The legislation authorizes the Mayor to develop "rules of operation" for each Retail Priority Area governing the types of projects funded, issuance of bonds and allocation of bond proceeds. Projects other than retail may be funded outside the downtown priority area. There is a $30 million limit on the amount of bonds that can be issued within the Downtown Retail Priority Area. There is no limit placed on the amounts that can be issued in the other designated areas subject to the overall limit of $300 million.

This Act effectively eliminates the Council's and the OCFO's oversight over the selection of TIF projects for funding. For the Downtown Retail Priority Area, a committee including the Mayor, retail brokers and property owners would select projects. Once the committee approves a project, the Mayor would certify the amount of the grant based on a numeric formula. Bonds would be issued after the business is open. The bonds will carry a "taxable" interest rate and must be secured by the recipient of the proceeds of the Bonds.

Financial Plan Impact

Funds are not sufficient in the proposed FY 2005 through 2008 budget and financial plan to enact the Retail Incentive Act of 2004. This legislation will have an estimated cost of $1.5 million in FY 2005, and $21.2 million over the FY 2005 - FY 2008 planning period.

The cost of this bill was determined by assuming that:

(a) $7.5 million in bonds will be issued in the Downtown Retail Priority Area each year starting in FY 2005 and ending in FY 2008. These bonds will carry a 5-year term, the maximum term specified in the legislation.
(b) $5 million in bonds will be issued in other neighborhood retail priority areas each year starting in FY 2005. It is assumed that these bonds will also carry a 5-year term.

(c) $60 million in bonds will be issued in FY 2007 to support one or more large neighborhood retail developments. It is assumed that these bonds will carry a 25-year term.
(d) An additional $15 million in bonds will be issued in FY 2008 to support a neighborhood shopping center. It is assumed that these bonds will carry a 15-year term.

Estimated Cost to the Financial Plan ($ in millions)					
	FY 2005	**FY 2006**	**FY 2007**	**FY 2008**	**4-Yr Total**
Downtown Retail TIF Area Debt Service	($1.8)	($3.7)	($5.5)	($7.3)	($18.3)
Other Neighborhood Retail TIF Areas Debt Service	($1.2)	($2.4)	($3.7)	($4.9)	($12.2)
Large Neighborhood Retail Projects	$0	$0	($5.1)	($5.1)	($10.2)
Shopping Center	$0	$0	$0	($1.7)	($1.7)
TOTAL DEBT SERVICE[1]	($3.0)	($6.2)	($14.2)	($19.0)	($42.4)
"Net New" Sales Tax Revenue	$1.5	$3.1	$7.1	$9.5	$21.2
Net Cost to the Financial Plan	**($1.5)**	**($3.1)**	**($7.1)**	**($9.5)**	**($21.2)**

The table assumes that half the debt service costs would be offset by increases in sales tax revenue. The legislation does not require this standard to be achieved. The legislation does not require offsetting revenue to be generated from funded projects. In order to reduce each project's fiscal impact, the approval of individual grants would need to be offset by revenue enhancements (which could come in the form of "net new" sales tax revenue) or spending cuts.

[1] The current interest rates that apply to the District's existing TIF debt ranges from about 2.15 to 7.5 percent. Because the transactions authorized by this legislation will be taxable for federal income tax purposes (but tax-exempt for District income tax purposes) and riskier on average than the bonds that are currently outstanding, we assumed that the bonds would carry an average interest rate of 7 percent.