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: **June 15, 2004**

SUBJECT: **Fiscal Impact Statement: "Skyland Project Retail Priority Area Approval Resolution of 2004"**

REFERENCE: **Public Resolution 15-860**

Conclusion

Plans and financial commitments for redevelopment of the Skyland shopping center are in an early stage. As a result, the sufficiency of funds in the FY2005-2008 proposed budget and financial plan to implement the proposed legislation cannot be determined. Clearly the District has a future budgetary exposure for securing TIF bonds that shall be issued to support this development ($2.83 million in debt service beginning as early as FY 2007). Additionally, possibly beginning as early as FY 2005, the project will result in a reduction of $250,000 in real property tax revenue annually because the property the National Capital Revitalization Corporation (NCRC) acquires will not be subject to real property taxation. Further, sales taxes may be reduced as the existing stores are closed. The net impact on sales tax collections during the financial planning period cannot be determined because it depends on whether Skyland shoppers instead shop at stores in the District or elsewhere. Because of the uncertainty of the financial commitments and because plans will change, any cost associated with this plan or unexpected revenue from the redevelopment would be incorporated into the financial plan as these costs and revenues become more certain.

Background

The proposed resolution authorizes the District to provide the NCRC with two TIF Notes totaling $25.7 million payable from tax increment revenue from a redevelopment of the Skyland shopping center.

The first TIF note would be for up to $17.22 million and would carry a 10% interest rate. The term of the note would initially be 15 years but could be extended for another 5 years. The second TIF Note would be for $8.5 million. The second Note would carry no interest and the term would be unlimited. The resolution requires that of the available increment, 20 percent would flow to the General Fund, 60 percent would flow to repayment of the first TIF Note and 20 percent to the second TIF note.

Total debt service if paid over 15 years would be about $45.2 million or $2.83 million annually.

Transactional Considerations

Projects that are proposed for funding under the Retail Incentive Temporary Act of 2003 are not subject to the CFO certification required by the Tax Increment Financing Act. There are several transactional issues:

- The interest rate on the first TIF note of 10 percent is higher than that paid on other TIF debt. The District currently pays between about 2.2 percent and 6.0 percent on TIF debt. If the District were to use funding from the capital budget for this project, the interest on the debt would be about 5 percent, assuming that the money was borrowed this year.
- The total Phase I project cost is $31.5 million. The District is initially providing all of the money for the project, through an $800,000 grant already made to NCRC and by committing proceeds from a Section 108 loan to be replaced by funding from NCRC and the District from the sale of the GPO site. A financial "gap" analysis might suggest that the District contribution could be reduced or that the District could increase return from a later sale of the property. No evidence of a financial gap is provided.
- The $8.5 million TIF Note is slated for other unspecified projects and is not necessary for the Skyland project itself. We understand this to be a grant to NCRC for Ward 7 and 8 projects paid over time if funding is available. By characterizing this grant as TIF spending, this grant would not be subject to future budget consideration by the Council.

Financial Plan Impact

There are general ways in which the budget may be affected over the next few years:

- Property held by NCRC is not subject to real property taxation. The property that would be incorporated into the redevelopment is currently assessed at about $10.2 million. Assuming some growth in value, this translates into an annual reduction in real property tax revenue of $250,000. This reduction in revenue could begin as early as FY 2005. As the property is redeveloped, it will go back on the tax roles and property tax revenues will increase.
- Sales tax revenue will be reduced during the redevelopment, since the stores that currently occupy the shopping center will close. Some of the sales of these stores will be substituted by increased sales at other District businesses, but it is not possible to predict with certainty how much net sales tax collections might change.
- Enhancement to OTR tax collection systems will be required. The increasing workload associated with administration of the TIF program will require an additional FTE within OTR. The cost of these upgrades will be $150,000 annually.
- It is possible that in later years additional sales tax revenue could accrue if a successful redevelopment occurs and shoppers choose to shop less at stores outside the District and more at Skyland. Such a change is likely to be beyond the time frame of this analysis.

Funds may not be sufficient in the current FY 2005 through FY 2008 budget and financial plan to implement the provisions of the proposed legislation. However, because of the long-term nature of this project, any costs associated with this priority area or unexpected revenue from the redevelopment can be incorporated into future financial plans.