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

2006 JUN - 1 AM 9: 01

CHAIRMAN CROPP

**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:** JUN - 1 2006

**SUBJECT:** **Fiscal Impact Statement: "Payment in Lieu of Taxes Revenue Bonds Department of Transportation Project Approval Resolution of 2006"**

**REFERENCE:** **Draft Bill- No Number Assigned**

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**Conclusion**

The final terms of the PILOT Agreement and the financing have not yet been negotiated for the Department of Transportation (DOT) PILOT Project. Because the proposed resolution states that the financing can have no recourse to the District, there would be no fiscal impact on the FY 2007 budget and the FY 2007 through 2010 financial plan.

The resolution states that the District would issue a note to the Anacostia Waterfront Corporation (AWC). The note would be repaid with PILOT payments from the DOT parcel. AWC would use the note as security to issue 15 year revenue bonds. The OCFO currently estimates average annual debt service to be approximately $7.8 million per year. However, for AWC or the District to be able to sell the bonds and achieve the necessary investment grade rating, the OCFO believes the District, the developer, or the federal government would need to guarantee the debt service payments for the term of the bonds. If the developer or the federal government guarantees the debt service payments, there would be no impact on the FY 2007 budget and the FY 2007 through 2010 financial plan.

If the District guarantees the average annual debt service payments of approximately $7.8 million, it would be required to budget an amount equal to the annual debt service on the bonds. This would require additional Council action and would have a fiscal impact on the FY 2007 budget and the FY 2007 through 2010 financial plan, as it would require budgeting the debt service each year.

To be able to sell bonds, the General Services Administration (GSA), who is leasing the building for DOT, would have to waive its current right to purchase the building after five years of occupancy. Without this waiver, GSA would be able to purchase the building after five years, making it a federal government property that would be exempt from property tax payments and payments in lieu of taxes. Without the assurance of 15 years of payments in lieu of taxes, the bonds could not be issued.

**Background**

The proposed resolution would authorize the District to enter into an agreement with JBG/Federal Center, L.L.C., the owner of the U.S. Department of Transportation (DOT) building, and the Anacostia Waterfront Corporation to exempt the DOT building from property taxes and to require JBG or any subsequent owner to make payments in lieu of taxes equal to the amount that would otherwise be paid in real property taxes for fifteen years. The proposed resolution authorizes an aggregate principal bond amount of up to \$140 million. Net bond proceeds of up to \$40 million (in 2006 dollars) would support a waterfront park, park access, and related infrastructure for the Southeast Federal Center, a 42-acre mixed-use development near the Navy Yard in Southeast, Washington, DC. Net bond proceeds of up to \$75 million would support a number of Anacostia Waterfront Corporation (AWC) capital initiatives.

While the proposed resolution contemplates an aggregate principal bond amount of up to \$140 million, the OCFO estimates that the Payment-in-Lieu-of-Taxes (PILOT) will only support approximately \$83 million in bonds.

The resolution specifically states that the Payment-in-Lieu-of-Taxes (PILOT) bonds authorized by this resolution, "shall be nonrecourse to the District, shall not be a pledge of and shall not involve, the faith and credit or taxing power of the District (other than the PILOT or any other security authorized by the PILOT Act), shall not constitute a debt of the District, and shall not constitute lending of the public credit for private undertakings as prohibited in section 602(a)(2) of the Home Rule Act."

In order for AWC or the District to issue investment grade bonds with no recourse to the District, a party other than the District would need to guarantee the payment of debt service. If the District guarantees the bonds, the impact on the budget and financial plan would be equal to the debt service on the bonds.

**Financial Plan Impact**

Funds are sufficient in the proposed the FY 2007 budget and the FY 2007—2010 budget and financial plan to implement this bill because the resolution requires that the bonds must be nonrecourse to the District. If the District is required to guarantee debt service payments, the Council would need to take action and the average annual payments of approximately \$7.8 million would have to be included in the budget each year.