

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

Natwar M. Gandhi
Chief Financial Officer

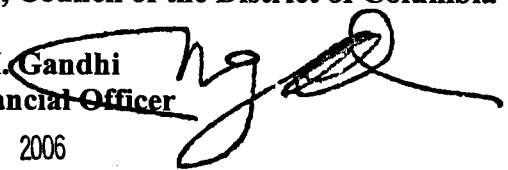


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CHAIRMAN CROPP

MEMORANDUM

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

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: OCT 23 2006

SUBJECT: Fiscal Impact Statement: "Payment in Lieu of Taxes Act of 2004 Amendment and Arthur Capper/Carrollsborg Public Improvements Revenue Bonds Approval Act of 2006"

REFERENCE: Bill Number 16-929

Conclusion

Funds are sufficient in the proposed the FY 2007 budget and the FY 2007—2010 budget and financial plan to implement this bill. An increase in the PILOT authorization limit may have a long-term eroding effect on District general fund revenues, but it will not directly impact the current budget and financial plan. The proposed PILOT bonds are required to be nonrecourse to the District, backed solely by the PILOT revenues. If the District were required to guarantee debt service payments, to achieve an investment grade rating on the PILOT bonds, the Council would need to take action and include the debt service payment guarantee in the budget.

Background

The proposed legislation has two titles. The first title would increase the limit on the amount of Payments in Lieu of Taxes (PILOT) bonds that may be issued in the District. The second would approve a PILOT bond issuance for the Capper/Carrollsborg Hope VI project area. Because the proposed legislation 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.

Title I

Because this Title is an authorization and not a commitment to issue bonds, it has no direct impact on the FY 2007 through FY 2010 budget and financial plan.

However, increasing the PILOT authorization from \$250 million to \$500 million could have a long-term impact on revenues generated for the general fund.

Increased PILOT financing in the District can erode future growth in general purpose revenue. As the District increases the amount of PILOT revenues dedicated to specific projects or neighborhoods, it reduces the amount of future funds available to the general fund. Future property tax revenues generated from the site will not be returned to the general fund and, instead, will support debt service on PILOT bonds. To the extent that development would occur without a PILOT subsidy, but a PILOT is authorized, future revenue for general governmental purposes would be reduced.

In addition, when developing the revenue projections that support District government operations, the CFO makes assumptions about revenue growth on a District-wide basis. The CFO expects some properties that are currently tax-exempt to be sold to private entities, adding to the District's assessed property tax base. Furthermore, individual new projects will generally displace some economic activity and tax revenue from elsewhere in the city, making it impossible to isolate the specific impact of one activity. To the extent that growth in the local general fund tax base is curtailed through additional PILOTs, there will be a limiting effect on the general fund in the future.

At this time, it is uncertain whether bonds backed by PILOT payments will be considered debt of the District by the bond rating agencies. The rating agencies look beyond GO bonds to include all tax (and tax-like revenue) supported bonds. If PILOT bonds are deemed to be debt of the District, an increase of \$250 million would add approximately \$435 to the District's debt per capita and it would add approximately 0.29% to our debt to full property value. The degree to which it would affect our debt service to General Fund revenues would depend on how quickly the debt was issued and how it was structured, but a rough estimate is that it would increase that ratio by at least 0.3%. Pursuant to our letter to the Mayor and Council of November 22, 2005, additional debt must be viewed in the context of all of the District's borrowing plans.

Title II

The proposed legislation would authorize PILOT bonds in the amount not to exceed \$40.2 million to support public infrastructure around the Capper/Carrollsbury HOPE VI neighborhood not to exceed \$36.7 million in 2006 dollars. The legislation approves the proposed PILOT agreement between the District and the DCHA, exempts property owners within the Capper/Carrollsbury PILOT area from property taxes and requires the owners and any subsequent owners to make payments in lieu of taxes equal to the amount that would otherwise be paid in real property taxes for up to thirty years. Net bond proceeds would support the infrastructure, including streets, sidewalks, walkways, streetscapes, curbs and gutters, gas, electric and water utility lines and other publicly owned infrastructure authorized to be financed pursuant to section 490 of the Home Rule Act and the relocation of certain District facilities located within the Capper/Carrollsbury PILOT Area.

The final terms of the PILOT Agreement and the financing have not yet been negotiated for the Capper/Carrollsbury PILOT. The legislation states that the District would issue a

note to the District of Columbia Housing Authority (DCHA). The note would be repaid with PILOT payments from the Capper/Carrollsborg PILOT area. DCHA would use the note as security to issue revenue bonds not to exceed 30 years. However, for DCHA or the District to be able to sell the bonds and achieve the necessary investment grade rating, the OCFO believes the District or DCHA may need to guarantee the debt service payments for the term of the bonds.

The legislation specifically states that the Payment-in-Lieu-of-Taxes (PILOT) bonds authorized by this legislation, "shall be payable solely from the funds on deposit in the Capper/Carrollsborg PILOT Fund." And the bonds "shall be special obligations of the District, 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."

The District may have to guarantee the availability of PILOT payments to pay the debt service until the Capper/Carrollsborg project is complete. If the District has to make such a guarantee, 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 not have a fiscal impact on the FY 2007 budget, but would have an impact on the FY 2007 through 2010 financial plan, as it would require budgeting for the debt service guarantee beginning in FY 2009.

The OCFO estimates that the projected PILOT payments are more than sufficient to pay the debt service on a PILOT Bond. The OCFO recommends bond issuances supporting infrastructure of no more than 25 years. The OCFO estimates a 25-year bond supporting the proposed public infrastructure of approximately \$37.6 million would have an average annual debt service payment of approximately \$2.7 million. This structure would generate significant excess PILOT payments to be placed in the general fund beginning in 2011. Alternatively, if the bond is structured utilizing maximum debt service available, it could be paid off in approximately 10 years. This would significantly reduce the amount of excess PILOT payments available for the general fund in the near term, but reduce the District's public debt issuance sooner.

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. An increase in the PILOT authorization limit may have a long-term limiting effect on District general fund revenues, but it will not directly impact the current budget and financial plan. Title II of the legislation requires the proposed PILOT bonds for the Capper/Carrollsborg neighborhood to be nonrecourse to the District, backed solely by the proposed PILOT revenues. If the District is required to guarantee debt service payments, the Council would need to take action and would have to include the debt service payment in the budget each year beginning in FY 2009.