

**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:** APR -7 2006

**SUBJECT:** Fiscal Impact Statement: "New Convention Center Hotel Omnibus  
Financing and Development Act of 2006"

**REFERENCE:** Bill 16-630 As Introduced

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**Conclusion**

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. Incremental sales and property tax revenue from the Convention Center Hotel project footprint is expected to be sufficient to provide needed debt service coverage on the TIF bonds.

**Background**

Marriot/RLJ applied for assistance through the District's Tax Increment Financing (TIF) program for the development of a convention hotel on 9<sup>th</sup> Street, adjacent to the Washington Convention Center.

In March 2003, the new \$850 million Washington Convention Center (WCC) opened to the public. The WCC has 2,300,000 total square feet including: 703,000 square feet of exhibit space, 130,000 square feet of meeting space divisible into 66 rooms, and a 52,000-square foot ballroom. Additionally, the WCC provides 44,000 square feet of retail space and a street level restaurant. The center is designed to host multiple, overlapping trade shows, national and international conventions, educational, musical and athletic events, regional meetings, and corporate events.

A recent study commissioned by the Washington Convention Center Authority indicated that the WCC ranks behind competitor convention centers in terms of meeting space and available hotel rooms. For example,

- The level of meeting space, at 130,000 square feet, offered at the WCC ranks 8<sup>th</sup> among the 11 facilities reviewed.
- The committable hotel inventory in Washington, D.C. (6,000 rooms) within one mile of the convention center ranks 9<sup>th</sup> among facilities reviewed.

This data along with a market study of future convention center business prompted the WCC to pursue the development of a headquarters hotel with 1,434 rooms and 100,000 square feet of hotel meeting and ballroom space.

#### *Project costs/TIF Financing*

The total project cost is \$539 million, including financing costs. The financing includes \$134 million of net TIF debt which is approximately \$168 million in gross TIF debt. Outside estimates from Strategic Advisory Group and Government Finance Group indicate that available sales and property tax from the local footprint will be sufficient to pay the debt service in the first year of operations of the hotel and in all subsequent years. In addition, the WCCA is pledging its residual revenue stream to pay any unexpected shortfalls in debt service on the TIF bonds.

#### *Lease of Gould parcel to Marriott*

Once the District takes ownership of the Gould parcel, the District will lease the parcel to Marriott/Robert L. Johnson (RLJ). The terms of lease include:

- No lease payments are required during construction or during the first four years of operations,
- The first lease payment amount, due in the fifth year of operations, is \$3.625 million,
- The lease payments increase by 2.5 percent per year,
- The term of the lease is 99 years.

The net present value of these lease payments over the 99 year period is roughly equal to the appraised value of \$72.6 million. The District anticipates receiving lease revenue from Marriott/RLJ beginning in 2014, which is outside the current Budget and Financial Plan period of FY 2006 through FY 2009.

#### **Financial Plan Impact**

Incremental sales and property tax revenue from the Convention Center Hotel project footprint is expected to be sufficient to provide needed debt service coverage on the TIF bonds. Therefore, the proposed resolution has no net fiscal impact.