Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

CHAIRMAN GRAY

2007 MAR 19 AM 9: 52

MEMORANDUM

TO: **The Honorable Vincent C. Gray**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: MAR 19 2007

SUBJECT: **Fiscal Impact Statement: "Verizon Center Sales Tax Revenue Bond Approval Act of 2007"**

REFERENCE: **Bill 17-117 As Introduced**

Summary

Funds are not sufficient in the FY 2007 through FY 2011 budget and financial plan to implement the "Verizon Center Sales Tax Revenue Bond Approval Act of 2007." It is expected that revenue collections from the increase in the sales tax rate will be sufficient to make debt service payments. However, in order for DC Arena LP to be able to use the Note as collateral for a loan, the District must credit enhance it with the Downtown TIF Area. As a result, the District must include in the annual budget a sum sufficient to meet its Revenue Bond Note obligation. To assure that debt service is made in the case that revenue collections from the increase in the sales tax rate are not sufficient, the District will need to include approximately $3.4 million on average for annual debt service payments (beginning with $2.8 million in FY 2008), depending on market conditions at the time of the sale of the Note.

Background

The proposed bill authorizes the District to issue a Revenue Bond Note to DC Arena LP in a principal amount of $50 million for a 40-year period. The bill also authorizes an increase in the sales tax rate on tickets and merchandise sold at the Verizon Center from 5.75% to 10%. The Note would be repaid with tax revenue collected from the increase in the sales tax rate. DC Arena LP would use the Note as security to borrow funds for improvements and renovations at the Verizon Center.

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The bill also authorizes the District to credit enhance the Note with available increment collected from the Downtown TIF Area. The Verizon Center Note would be subordinate to the existing Gallery Place and Mandarin Oriental obligations.

The OCFO currently estimates that the annual tax collections from the increase in the sales tax rate will be approximately $3.7 million on average, while the average annual debt service is estimated to be approximately $3.4 million. The District must include in the annual budget a sum sufficient to meet Verizon Center Revenue Bond Note obligation, in the case that the increase in the tax rate does not provide sufficient revenues to pay the debt service.

Financial Plan Impact

Funds are not sufficient in the FY 2007 budget and the FY 2007-2011 budget and financial plan to implement this bill. Revenue collections from the increase in the sales tax rate at the Verizon Center are expected to be sufficient to make debt service payments. However, the District will also be required to include approximately $3.4 million on average for 40 years in the annual budget, beginning with a payment of $2.8 million in FY 2008, to meet the Verizon Center Revenue Bond Note obligation.

Figure 1.

Summary Table Estimated Impacts to the Financial Plan ($ in millions)						
Item	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**5 - Year Total**
Budgeted Amount Required to Meet Note Obligation	($0)	($2.8)	($2.9)	($2.9)	($2.9)	**($11.5)**