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

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

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

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

DATE: NOV 16 2007

SUBJECT: **Fiscal Impact Statement:** "New Convention Center Hotel Omnibus Financing and Development Amendment Act of 2007"

REFERENCE: **Bill 17-459**

Conclusion

Funds are not sufficient in the FY 2008 budget and the FY 2008 through FY 2011 financial plan to implement the "New Convention Center Hotel Omnibus Financing and Development Amendment Act of 2007." By exempting parcels in Square 370 and Lot 45 in Square 374 from deed transfer and recordation taxes, the proposed legislation would reduce the District of Columbia's revenue collection by approximately $3.7 million.

Background

The legislation amends the New Convention Center Hotel Omnibus Financing and Development Amendment Act of 2006 in the following ways:

1. Reduces the scope of the development by decreasing the minimum number of rooms in the hotel from 1,200 to 1,100.

2. Reduces the scope of the development to include only the hotel, not an expansion of the convention center.

3. Reduces the site for the hotel development to include only certain properties in Square 370.

4. Revises the provisions of the leases of parcels owned by the District and the WCCA.

5. Gives Marriott an option to acquire the parcels owned by the District and the WCCA.

6. Exempts squares and lots from deed and recordation tax.

The legislation does not amend the amount of TIF debt that can be issued for the project. The District is still authorized to issue $134 million of net TIF debt and $187 million gross TIF debt. Estimates from an external financial advisor indicate that available sales and property tax from the footprint of the hotel will likely be sufficient to pay the debt service on the bonds. In addition, the WCCA will pledge its residual revenue stream from dedicated taxes to pay any unexpected shortfalls in debt service on the TIF bonds.

The reduction in the size and scope of the hotel project does not impact the District's budget or financial plan. The changes in the provisions of the leases of the parcels of land owned by the District and the WCCA do not impact the budget and financial plan because the value of assets is not part of the budget and financial plan.

However, the exemption of Lot 45 in Square 374 from deed transfer and recordation taxes does impact the District's budget or financial plan. The hotel development requires a land swap between the District and a private owner. The private owner has agreed to the land swap in order to facilitate the District's plans for the development of the hotel to move forward.

Deed transfer and recordation taxes are calculated based on the value that a property owner pays for a parcel. In this case, the value is based on the property that is being given up. The 2008 assessed value of the parcel to be given up by the private owner is approximately $75.9 million. Since the legislation exempts the private owner from paying deed transfer and recordation taxes on this parcel, the District of Columbia will forego approximately $2.2 million in FY 2008.

The exemption of the parcels on the Convention Center Hotel site from deed transfer and recordation taxes also has a fiscal impact. Because these parcels are owned by the District and by the Washington Convention Center Authority, they would not be subject to deed transfer tax when they are leased to the hotel owner. However, entering into a 99-year lease would require the hotel owner to pay the recordation tax based on the full value of the property. The 2008 assessed value of the Convention Center Hotel site is approximately $105.5 million, which would result in a recordation tax of approximately $1.5 million.

In addition, the legislation does not place a time limit on the exemption from deed transfer and recordation taxes. As a result, the District will continue to forego revenues if the swapped parcel is sold or the leased parcels are transferred at any point in the future.

Financial Plan Impact

Funds are not sufficient in the FY 2008 budget and FY 2008-2011 financial plan to implement this bill. By exempting parcels in Square 370 and Lot 45 in Square 374 from deed transfer and recordation taxes, the proposed legislation would reduce the District of Columbia's revenue collection by approximately $3.7 million in FY 2008.