

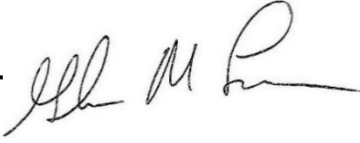
Government of the District of Columbia
Office of the Chief Financial Officer



Glen Lee
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Glen Lee
Chief Financial Officer 

DATE: October 11, 2024

SUBJECT: Fiscal Impact Statement – Downtown Arena Revitalization Emergency Act of 2024 (and accompanying permanent version)

REFERENCE: Draft Bill as provided to the Office of Revenue Analysis on October 11, 2024

Conclusion

Funds are sufficient in the fiscal year 2025 through fiscal year 2028 budget and financial plan to implement the bill. There is \$515 million in capital funding in the 2025-2030 Capital Improvements Plan to carry out this legislation and related agreements.

Background

The Capital One Arena (the Arena), located at 7th St. and H St NW¹, hosts the Washington Wizards, the Washington Capitals, the Georgetown men’s basketball team, concerts, and other entertainment events. The Arena is owned by D.C. Arena L.P. (DCALP). Since 1994, DCALP has held a ground lease with the District of Columbia for the land on which the Arena was constructed. In March 2024, an agreement in principle was reached between the Mayor and DCALP on a Development Financing Agreement that included a substantial construction and rehabilitation project for the Arena, District financial assistance, and changes to the existing ground lease. The District financial assistance will support a construction project to expand the Arena, including adding seat options, modernizing the façade, and expanding visitor services.

The bill approves the following development documents: the Development and Financing Agreement, the Agreement for the Purchase and Sale of Real Property (Improvements Only), and the Amended and Restated Lease (the “Lease”). As part of these agreements, the District will lease an

¹ Known for tax purposes as Lot 47 in Square 455.

The Honorable Phil Mendelson

FIS: "Downtown Arena Revitalization Emergency Act of 2024" (and accompanying permanent version), Draft bill as provided to the Office of Revenue Analysis on October 11, 2024

additional District-owned parcel to DCALP. The agreements and bill also add air rights to the leased property, change the terms and rental payment amounts of the existing ground lease, provide for the District to purchase the Arena and lease it back to DCALP, and provide that certain District agencies provide regular services around the Arena.

Sale and lease of the Arena

The agreements include the sale of the Arena to the District of Columbia for a purchase price of \$87.5 million. The District will subsequently lease it back to DCALP through June 30, 2050, with the option of up to 5 four-year renewals after. The rent schedule includes a pro-rated initial payment plus yearly payments of between \$1.5 million and \$2.3 million per year over the term of the lease, with higher yearly amounts during the renewal period. The Lease also includes a clause from the 1994 development agreement to continue to require an offset of rent if the District implements a sales tax increase applicable only at the Arena.

Expanding Arena property and abatement

The agreements add to the Lease a lot² consisting of the alley abutting the Arena with frontage on 6th St NW. The Lease also includes the existing Arena parcel. The bill also provides for real estate and possessory interest tax exemptions for the existing Arena parcel and the additional parcel, and specifies that the transactions under the Purchase and Sale Agreement and Lease are exempt from deed recordation and transfer taxes. The legislation also exempts the Arena and the underlying land from possessory interest tax. The agreement permits the airspace rights above or next to the existing Arena property to be included in the Lease and extends the tax and possessory interest abatements to cover any air right parcels created for the renovation project.

District contribution

The agreements include a direct financial contribution from the District of Columbia of \$427.5 million over a three-year period to be used for the construction of Arena improvements. The first allocation of \$84.333 million shall occur as of the effective date of the agreement, the second allocation of \$171.333 million by October 30, 2025, and the third of \$171.333 million by October 30, 2026.

Requirements for operations and construction

The agreements include modifications to the ground lease to establish some requirements of the Arena's use, including requiring the Washington Wizards and the Capitals to play their home games at the Arena. The agreement also limits DCALP from soliciting bids to move from the current Arena until 2045 (a "no-shop" provision).

The agreement establishes the minimum contribution from DCALP for the modernization budget and sets out the project timelines, budget approval and oversight, and reimbursement for the renovation. The agreement requires that the construction project meet several standards, including abiding by Davis-Bacon requirements, meeting the Green Building Act, using a project labor agreement, entering into a First Source agreement with the District, and meeting Certified Business Enterprises ("CBE") requirements.

² Known for tax purposes as Lot 884 in Square 454.

The Honorable Phil Mendelson

FIS: “Downtown Arena Revitalization Emergency Act of 2024” (and accompanying permanent version), Draft bill as provided to the Office of Revenue Analysis on October 11, 2024

District services

The agreements also require the District to provide services to assist with safety, security, and access to the Arena and minimize the impact on patrons, staff, residents, businesses, and commuters. Specifically, the District will implement traffic signal timing, street closures, traffic management, additional police resources, pedestrian walkways, alternate access to public transit, and other services to facilitate access to the Arena on event days and improve security. The District will also execute a plan for coordinated management of these additional District services before and on event days.

Existing TIF notes on the Arena

The District issued a DC Arena L.P. Tax Increment Financing (TIF) note³ for the Arena property in 2007 (established in statute as the Verizon Center sales tax revenue bonds). At origination, \$50 million in TIF notes were issued; \$6 million had a maturity date of 2027, and \$44 million had a maturity date of 2047. As of the end of fiscal year 2023, there was \$34.6 million in principal outstanding on these bonds.⁴ The interest on the notes is paid from a 4.25% tax on Arena tickets and merchandise sold at the Arena. These TIF notes are also backed by the Downtown Tax Increment Financing (TIF)—the District will backstop these notes from incremental revenues from the downtown TIF area, if needed. The agreements do not change the terms of these TIF notes.

Financial Plan Impact

Funds are sufficient in the fiscal year 2025 through fiscal year 2028 budget and financial plan to implement the bill. The 2025 through 2030 Capital Improvements Plan⁵ includes \$515 million in capital funding to meet the District’s obligations under the agreements for the Arena acquisition price and the District’s contributions toward the renovation project.

The existing ground lease is in its 28th year. Under the terms of the existing lease, the annual rent payment is \$1.3 million for each of the years 2024, 2025, and 2026, and \$1.5 million per year starting in 2027 (for the first 10-year renewal).⁶ The current lease proceeds are received by the Office of the Deputy Mayor for Planning and Economic Development (DMPED) and transferred to the Department of Housing and Community Development (DHCD) as part of the repayment of the Community Development Block Grant loans. Under the terms of the new lease, the annual rent payment will be \$1.5 million each year throughout the financial plan period. Thus, the District will receive a slightly higher payment from the new lease than from the prior lease (\$200,000 a year for 2025 and 2026).

There is no fiscal impact from exempting the Arena and the additional District-owned parcel from real estate and possessory interest taxes and the purchase and sale and lease transactions from deed and recordation taxes. The District does not receive real estate or possessory income tax payments from the Arena building or land, and the transactions contemplated under the agreement do not reflect ordinary development incorporated in the District’s revenue estimates.

³ [Active TIFs and PILOTs | ocfo \(dc.gov\)](#)

⁴ See page 119, [ACFR 20240125 0001 \(GRAPHS\).pdf \(dc.gov\)](#)

⁵ Volume 5 FY2025 – 2030 Capital Improvements Plan. Project no. IBA 100073. Chinatown Revitalization Fund. Page 63-EB0. [Volume 5.pdf | Powered by Box](#)

⁶ Lease between the District of Columbia Redevelopment Land Agency and DC Arena L.P. Recorder of Deeds. Instrument number 9600001285. Recorded 1/5/96; Book Type: Land. Roll 1017 Frame 1133.

The Honorable Phil Mendelson

FIS: "Downtown Arena Revitalization Emergency Act of 2024" (and accompanying permanent version), Draft bill as provided to the Office of Revenue Analysis on October 11, 2024

The District services referenced in the agreements—including the District Department of Transportation (DDOT) and Metropolitan Police Department (MPD) personnel and services as well as resources across several agencies—are included in each agency's budget in the fiscal year 2025 through fiscal year 2028 budget and financial plan.