

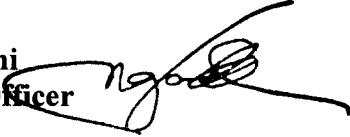
**Government of the District of Columbia  
Office of the Chief Financial Officer**



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

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

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

**DATE:** July 13, 2009

**SUBJECT:** Fiscal Impact Statement – “New Convention Center Hotel Amendments Act of 2009”

**REFERENCE:** Bill Number 18-310 – Engrossed, AS AMENDED

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**Conclusion**

Funds are sufficient in the FY 2009 budget and the proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation.

**Background**

The New Convention Center Hotel Amendments Act of 2009 amends the Washington Convention Center Authority Act of 1994 and the New Convention Center Hotel Omnibus Financing and Development Act of 2006 to allow for the development of a new convention center hotel.

The convention center hotel will be developed by Quadrangle Development Corporation and Capstone Development (Developer) and will be operated by Marriott International as the “Marriott Marquis Convention Center Headquarters Hotel” (Hotel). The Hotel will be located on a two acre site at 9<sup>th</sup> and Massachusetts Ave, NW, directly adjacent to the Walter E. Washington Convention Center. The Hotel will consist of approximately 1,174 guest rooms, 100,000 square feet of meeting space, six food and beverage outlets and a parking garage. Pursuant to the lease approved by Council in the New Convention Center Hotel Omnibus Financing and Development Act of 2006, the District and the Washington Convention Center Authority (WCCA) will lease property they own in Square 370 to the Developer. The present value of these lease payments over the 99 year lease period is roughly equal to the 2006 appraised value of \$72.6 million. The project will break ground in the fall of 2009 and open in early 2013.

The WCCA Board of Directors approved a Development and Funding Agreement on July 9, 2009 to structure the Hotel financing as summarized below.

Source	Net
TIF Bonds	\$134,000,000
WCCA Bonds	\$25,000,000
WCCA Additional Contribution	\$25,000,000
WCCA Investment	\$22,000,000
Owner Funds	\$331,000,000
<b>Total</b>	<b>\$537,000,000</b>

The total project costs will be approximately \$537 million. The Developer will contribute \$331 million towards the construction of the Hotel. The WCCA and/or the District will contribute \$206 million of net funds towards the construction of the Hotel. The sources of the \$206 million WCCA and District investment are as follows:

- 1) *\$134 million net TIF Bonds.* The WCCA will issue approximately \$182 million of TIF Bonds (based on market conditions at the time of sale), which will be sufficient to produce \$136 million of net proceeds, of which \$134 million will go to the Hotel and \$2 million will be used to support a jobs program. The annual debt service on the TIF Bonds will be approximately \$9 million during FY 2010 through FY 2013. As the debt was previously authorized in the New Convention Center Hotel Omnibus Financing and Development Act of 2006, the debt service is already included in the current calculations under the District's 12 percent borrowing limit. The incremental taxes generated from the Hotel and the lease payments from the Developer will be pledged toward repayment of the bonds. In addition, the WCCA will pledge its dedicated tax revenues to pay any unexpected shortfalls in TIF revenue. This pledge will be at parity with the outstanding \$480.8 million WCCA Series 2007 bonds.
- 2) *\$25 million net WCCA Bonds.* The WCCA will issue approximately \$36 million of WCCA Bonds, which will be sufficient to produce \$25 million of net proceeds that will be loaned to the Developer. The annual debt service on the WCCA Bonds will be approximately \$2.1 million during FY 2010 through FY 2013. This increase in the District's total debt service will not cause the District to exceed its 12 percent borrowing limit. The loan will compound for 5 years and be paid back over 25 years at a 7 percent to 7.5 percent interest rate. Repayment of this investment is senior to returns on the Developer equity, but may be subordinate to any possible future Developer debt. In addition, the WCCA will pledge its dedicated tax revenues to cover any default on the loan by the Developer. This pledge will be at parity with the outstanding \$480.8 million WCCA Series 2007 bonds.
- 3) *\$25 million WCCA Additional Contribution.* The WCCA will grant \$25 million to the Developer at closing out of its cash reserves.
- 4) *\$22 million WCCA Investment.* The WCCA will grant \$22 million to the Developer in the second quarter of FY 2011 out of its cash reserves.

The proposed legislation will authorize the WCCA to retain \$1 million in tax increment (in excess of the debt service on the TIF Bonds) per year to reimburse itself for the \$25 million WCCA Additional Contribution. The tax increment used for this reimbursement would have otherwise gone to the General Fund; however, the transfer will commence in 2014, outside of the Financial Plan period.

The proposed legislation exempts from recordation tax the airspace lease authorized in the section 10-1202.24 of the D.C. Official code that requires the Mayor to enter into a no-fee vault/air space lease with the Hotel. The fiscal impact of the deed and recordation tax exemptions related to the hotel site was addressed as part of the "New Convention Center Hotel Technical Amendments Act of 2008."

The proposed legislation mandates that lease payments from the Developer to the District begin on the third anniversary of operations (projected to be in FY 2016) and assigns those payments from the District to the WCCA. The District lease payments assigned to the WCCA would have otherwise gone to the General Fund; however the transfer will likely commence in 2016, outside of the Financial Plan period. It also designates the Hotel site (Square 370) a Recovery Zone so that the project financing is eligible for Stimulus Bonds.

The proposed legislation approves the Hotel Development and Funding Agreement. Entering into the lease agreement attached to the Hotel Development and Funding Agreement will require that the WCCA refund approximately \$25.4 million of the outstanding \$480.8 million WCCA Series 2007 bonds from tax exempt bonds to taxable bonds. This segment of the bonds was used to acquire a portion of the Hotel site. The new bonds will be taxable and will increase the District's total debt service by approximately \$1.2 million per year. Debt service will be paid from WCCA dedicated taxes. Refunding these bonds will not cause the District to exceed its 12 percent borrowing limitation.

### **Financial Plan Impact**

Funds are sufficient in the FY 2009 and proposed FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The debt authorized by this legislation will not cause the District to exceed its 12 percent limitation on borrowing, which requires that the total debt service for tax-supported debt not exceed 12 percent of the annual expenditures .

### **District Debt Cap Limitation**

Financing the development of the Convention Center Hotel will add a total of approximately \$3.3 million of debt service to the District's total debt service. After this borrowing (and including all currently planned borrowing), \$2.4 million of debt service capacity will be available through FY 2011 before the District reaches its 12 percent limit. This remaining debt service capacity translates into approximately \$35 million in maximum principal amount from an income tax bond issuance or approximately \$20 million in maximum principal amount from an economic development bond issuance that the District would be able to issue and remain within the debt cap constraint.