# PUBLIC HEARING ON B16-929,

# "PAYMENT IN LIEU OF TAXES ACT OF 2004 AMENDMENT AND ARTHUR CAPPER/CARROLLSBURG PUBLIC IMPROVEMENTS REVENUE BONDS APPROVAL ACT OF 2006"

**Before the**
**Committee on Finance and Revenue**
**Council of the District of Columbia**

**The Honorable Jack Evans, Chairperson**

**October 23, 2006, 1:00 p.m.**
**Room 412, John A. Wilson Building**


**Testimony of**
**John Ross**
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**Office of the Chief Financial Officer**

**Natwar M. Gandhi**
**Chief Financial Officer**
**Government of the District of Columbia**

Good morning, Chairperson Evans and Members of the Committee on Finance and Revenue. My name is John Ross, Senior Advisor and Director of Economic Development Finance for the Office of the Chief Financial Officer (OCFO). I am here to testify for the Office of the Chief Financial Officer on Bill 16-929, the "Payment in Lieu of Taxes Act of 2004 Amendment and Arthur Capper/Carrollsburg Public Improvements Revenue Bonds Approval Act of 2006". This bill would authorize an additional $250 million in Payment in Lieu of Taxes (PILOT) authority, and authorize the Mayor to enter into a PILOT agreement with the District of Columbia Housing Authority for the Capper/Carrollsburg project area.

**Title I**

The proposed bill has two titles. The first title would amend the District's 2004 PILOT Act to increase the limit on District-issued PILOT bonds from $250 million to $500 million. Increasing the PILOT authorization by $250 million could have a long-term impact on revenues generated for the general fund.

PILOT payments are simply dedicated direct expenditures on specific projects or neighborhoods. To the extent that development would occur without a PILOT subsidy, but a PILOT is authorized, future revenue for general governmental purposes would be reduced. To the extent that growth in the local general fund tax base is curtailed through additional PILOTs, there will be a limiting effect on the general fund in the future.

These bonds are paid through payments that would otherwise be property tax payments. Therefore, we are not yet sure if they will be considered tax-supported debt by the rating agencies.

**Title II**

The second title of the bill would approve the Capper/Carrollsburg PILOT area, and authorize a PILOT bond issuance of up to $40.2 million, supporting infrastructure projects at the site of up to $36.7 million. The final terms of the PILOT Agreement and financing have not yet been negotiated. The legislation states that the District would issue a note to the District of Columbia Housing Authority (DCHA). The note would be repaid with PILOT payments from the Capper/Carrollsburg PILOT area. DCHA would use the note as security to issue revenue bonds not to exceed 30 years. The OCFO recommends bond issuances of no more than 25 years for public debt supporting infrastructure. Our estimate of average annual debt service on a 25-year tax-exempt bond supporting this project is approximately $2.7 million per year. Our estimates of the average projected PILOT revenues, based on the preliminary development schedule, are approximately $10.3 million per year. However, we will not know whether the bonds will require additional guarantees in the early years until the bonds are sold. If such guarantees are required, the District or DCHA may need to guarantee the debt service payments.

If the District must guarantee the average annual debt service payments for a certain period, it would be required to budget an amount equal to the annual debt service on the bonds. This would require further Council

action because it would require us to budget for this debt service guarantee. Also please note that I have attached to the written version of my testimony for your review certain proposed technical corrections to be made to this bill.

**Conclusion**

The OCFO concludes that funds are currently sufficient in the proposed FY 2007 budget and the FY 2007—2010 budget and financial plan to implement this bill. An increase in the PILOT authorization limit may have a long-term limiting effect on District general fund revenues, but it will not directly impact the current budget and financial plan.

Thank you for the opportunity to testify. This concludes my testimony and I am happy to answer any questions you have at this time.

**Appendix**

**Proposed Technical Corrections to be**

**Made to Bill 16-929**

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**1. In sec. 204, delete subsection (b), and replace it with the following:**

**"(b) The Capper/Carrollsburg PILOT Area shall be exempt from real property taxes during the PILOT Period which shall begin on the first day of the real property half-tax year following the effective date of this title and shall continue through the last day of the real property half-tax year during which all of the bonds issued pursuant to this title are paid or fully defeased and are no longer outstanding."**

**2. In sec. 204(c), in the first sentence strike the phrase non-exempt parcel" and insert the phrase "exempt parcel" in its place.**

**3. In sec. 204(c), after the phrase, "unless otherwise provided in the Financing Documents" insert the phrase, "; provided, that in no event shall the amount of the PILOT payment be less than the amount of real property tax that would be due if the real property were taxable."**

**4. In sec. 204(c), strike the second sentence.**

**5. In sec. 204, add a new subsection (f) to read as follows:**

**"(f) Notwithstanding the provisions of this section, the Capper/Carrollsburg PILOT Area shall continue to be required to pay recordation taxes under D.C. Official Code § 42-1103, et seq., and transfer taxes under D.C. Official Code § 47-903, et seq."**