

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER



**Natwar M. Gandhi**  
Chief Financial Officer

September 7, 2011

The Honorable Vincent C. Gray  
Mayor of the District of Columbia  
1350 Pennsylvania Avenue, NW – 6<sup>th</sup> Floor  
Washington, DC 20004

The Honorable Kwame R. Brown  
Chairman, Council of the District of Columbia  
1350 Pennsylvania Avenue, NW – Suite 504  
Washington, DC 20004

The Honorable Jack Evans  
Chairman, Committee on Finance and Revenue  
1350 Pennsylvania Avenue, NW – Suite 106  
Washington, DC 20004

Dear Mayor Gray, Chairman Brown, and Councilmember Evans:

I am writing to update you on the City Market at O Street Project as currently proposed by Roadside Development. It now appears that the project will require District support for debt service beginning in FY 2015. Under the proposal, the District would issue a \$43.5 million TIF bond for the Project this fall, backed by the incremental revenues generated within the Downtown TIF area. When the Council authorized the TIF bonds for the Project in July 2008, the OCFO stated that the bond issuance would have a fiscal impact in FY2012. The OCFO now estimates that the Project will have an additional, annual budget impact of approximately \$1 million beginning in FY2015 if the Project goes ahead as planned.

At the time of Council approval, the Project was expected to include:

- a new Giant supermarket & ancillary retail space
- an underground parking garage
- 400 units of market-rate rental housing
- 80 units of senior affordable housing
- 150 condominium units
- a 200-room hotel

The affordable senior housing and the remaining 150 units of market rate housing are postponed into the future.

By the time of the proposed November TIF bond closing, construction will be ready to proceed only on the first three components above – the Giant supermarket, the parking garage and the 400 units of market-rate rental housing. In order for the project to generate sufficient tax increment revenues to fund debt service on the TIF bonds and avoid using the Downtown TIF (and therefore affecting the Budget beginning in FY 2015), the Project requires completion and operation of a hotel. Full construction drawings, a construction contract, and hotel debt and equity contributions are not expected until approximately 15 months after the beginning of construction on the first phase of the Project.

Due to this lag in the commencement of the hotel construction and the uncertainty surrounding the completion of a full hotel deal, the District would need to set aside \$1 million in the financial plan annually to cover the potential shortfall in tax revenue available for debt service, beginning in FY2015. The funds would be required in the event that the hotel is not completed and the projected hotel tax increment is not available to support debt service on the proposed November TIF bond issuance.

We are proceeding with the financing, but I felt it was important to inform you of the changes in the projected fiscal impact. I am available to discuss at your earliest convenience.

Sincerely,



Natwar M. Gandhi

cc: The Honorable David Catania (At-Large)  
The Honorable Phil Mendelson (At-Large)  
The Honorable Michael Brown (At-Large)  
The Honorable Vincent Orange (At-Large)  
The Honorable Jim Graham (Ward 1)  
The Honorable Mary M. Cheh (Ward 3)  
The Honorable Muriel Bowser (Ward 4)  
The Honorable Harry Thomas Jr. (Ward 5)  
The Honorable Thomas Wells (Ward 6)  
The Honorable Yvette M. Alexander (Ward 7)  
The Honorable Marion Barry (Ward 8)  
Allen Lew, City Administrator  
Chris Murphy, Chief of Staff to the Mayor  
Victor Hoskins, Deputy Mayor, Office of Planning and Economic Development  
Eric Goulet, Director of Budget and Finance, Executive Office of the Mayor  
Jen Budoff, Budget Director, Council of the District of Columbia  
John Ross, Director and Senior Advisor, OCFO, Office of Economic Development Finance