

**TESTIMONY OF JENNY REED, RESEARCH ASSOCIATE  
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**For the Public Hearing on  
The City Market at O Street Tax Increment Financing Act of 2008  
District of Columbia Committee on Finance and Revenue  
July 2, 2008**

Chairman Evans and members of the Committee, thank you for the opportunity to speak today. My name is Jenny Reed, and I am a Research Associate with the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents. I am here today to testify about the O Street Market Tax Increment Financing Act of 2008.

The O Street Market has a long, important history in the Shaw neighborhood and is one of only three remaining historical markets built in the District after the Civil War.<sup>1</sup> Preserving this landmark makes sense both in terms of its historic value and its economic development value to the Shaw neighborhood.

However, not enough details of this project have been completed to determine whether the level of the subsidy is justified, and whether the tax revenues generated will be enough to pay off the Tax Increment Financing obligation. The fact that DC is close to its bonding limit means we need to be very judicious with funding for our economic development projects. For these reasons, it makes sense to wait until this project is further along before determining the level of the District's financial commitment.

For any DC economic development project, certain steps should be taken before funding is committed. First, any subsidy provided by the District should be based on a "gap" analysis, from the CFO's office, that the developer would be unlikely to undertake the project without assistance from the city. Second, the CFO analysis should certify that the project will generate enough revenue to pay off the subsidy. In this case, neither step has been reached.

The structure of the legislation and lack of detail in the project prohibits these steps from being taken. More specifically, this raises three major areas of concern:

- **A "Gap" analysis should be conducted to determine what level of subsidy is needed:** As mentioned previously, the size of any subsidy from the District should be based on analysis by the CFO that the developer would be unlikely to undertake the project without assistance from the District. For projects under DC's existing Tax Increment Financing Law, the CFO is required to conduct such an analysis— yet, due to the structure of this legislation, this is not how the subsidy for the O Street Market project has been set. The legislation would be

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<sup>1</sup> Ruether, Susan, "The Historic O Street Market: Ready For (Another) Come-Back?" DC North, March 2007, available at: [[http://www.capitalcommunitynews.com/publications/dcnorth/2007\\_March/html/TheHistoricOSt.cfm](http://www.capitalcommunitynews.com/publications/dcnorth/2007_March/html/TheHistoricOSt.cfm)].

strengthened if it were modified to require such an analysis— and could help limit the costs of the project to the District.

However, this can only happen if more details about the project are made available. The CFO's fiscal impact statement mentions that at this stage, the District is the only outside party committing any funds to the project. Without knowing the amount of equity and private debt needed for the project, the CFO cannot determine what the actual financial gap for the project is.<sup>2</sup>

- **There is no assurance that the project will generate enough revenue to pay off the subsidy:** At this point, there is no assurance from the CFO that the project will generate enough revenue to pay off the subsidy. Many of the details surrounding the project are unknown including who will develop the hotel— a major portion of the project. According to the CFO, the hotel is expected to generate approximately 44 percent of the total increment taxes.<sup>3</sup>

Without sufficient information about the sources of revenue for the project (approximately 44 percent of the revenues are not defined), the District should wait until assurances from the CFO can be made that the project will generate enough revenue to pay off the subsidy before it commits to any funds.

- **DC is close to its debt limit:** The CFO has recommended that the District set a goal of limiting debt so that debt payments are no more than 10 percent of its budget, and that debt payments should never be allowed to exceed 12 percent. The District is now at a point where debt payments exceed 10 percent of the general fund budget and are close to the 12 percent recommended cap. The O Street Market project would bring the city's economic development debt to within \$100 million of that cap, according to the CFO.<sup>4</sup> This means that approving the O Street Market project would limit the District's capacity to fund other economic development projects.

With the lack of details about this project, the Deputy Mayor for Planning and Economic Development and the developers should be required to provide more information about the project before the subsidy is committed. In this way, the Council can ensure it is using the District's increasingly limited debt capacity in a fiscally responsible manner.

On another note, it would also be useful to get a clearer sense of the community benefits that this project will provide. We understand that there will be 80 affordable senior units— but at what level of affordability? It is mentioned that 400 construction and 400 permanent jobs will be created— but what will the wages and benefits be for the permanent positions? A living wage? What will the developer do to ensure that it meets First Source requirements and specifically to hire Shaw residents for the newly created jobs? Will there also be a training component for the hotel jobs as with the Convention Center TIF? What do 'meaningful opportunities' for small retailers, local contractors, and investors really mean? These questions are equally as important to obtain answers to as the project's financing details.

Thank you for the opportunity to offer testimony. I am happy to answer any questions.

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<sup>2</sup> Government of the District of Columbia, Office of the Chief Financial Officer, "Fiscal Impact Statement: City Market at O Street Tax Increment Financing Act of 2008 (B17-0800)"

<sup>3</sup> Ibid

<sup>4</sup> Ibid