# Notes from the meeting with Dr. John Ross,
# Office of the Chief Financial Officer,
# (Senior Advisor & Director, Economic Development Finance)
# 16 July 2007, 441 4th St., NW

Present: John Ross, Nate Cruz (OCFO), Amy McVey (ANC 3E), Anne Sullivan (ANC 3E), and Sue Hemberger

1. A public-private partnership involves shared investment and risk. Conceptually, what you're describing is basically just a land sale. And if you're selling land to build condos, there's absolutely no reason not to have competitive bidding. That's the best way to ensure you get fair market value for the land.

2. From an economic point of view, there is no value added when you sell land. You're simply liquidating an asset. At best, it's a wash. Value certainly isn't gained. It just changes form; land becomes cash. In fact, the most likely scenario in a situation like this is not that we come out even, but that we suffer a loss. Delays in construction of the library will increase costs by 1% per month. The use of a PILOT bond rather than a GO bond to fund school construction will increase the interest rate by 1-1.5%. Sole-source contract will most likely prevent the city from extracting full value from the land.

3. Money from land sales and property tax revenues go into the general fund. They aren't tied to the parcel or neighborhood or agency whose facilities occupy the land. It's all money and it's all DC's money. "From our perspective, there's no connection between where we get the money and where we spend it." That said, the Council can spend DC's money however it sees fit. It could earmark funds for this project. That would be a political decision, but not an uncontroversial one. Presumably Council Members outside of Ward 3 would resist the notion that the money goes to the nearest school or library rather than the next school or library in the queue for modernization.

4. The Master Facilities Plan is basically funded. There could be cost overruns, but they'll be small enough (and schools are high enough priority right now) that the city can make up the difference. Additional money is likely to be found if needed.

5. Money isn't what will determine the pace of school modernizations. The money is available. What's scarce is building capacity. There are only a few good contractors who do this kind of work and DC government only has so many people to plan and supervise these projects. If too many schools are being rebuilt at once, there will be lots of problems and results will be substandard.

6. Expect lots of delays if you go this route. Negotiating a land price takes a while – it's always dueling appraisers. There will be a variety of points along the way where you have to go

back to the Council for approval (land disposition and bond authorization at very least – that's after initial approval of the deal (selection of partner/decision to earmark)). Presumably, there will have to be a PUD process and Zoning Commission approval for the project.

7. A construction bond for the school would not be issued until after the condos are built and sold. It's much more expensive to do it earlier because there's more uncertainty (when the project will be finished, what the units will sell for, etc.). Assume it takes 3-6 months after that point before the money is available to be spent.

8. A ground lease (as opposed to a land sale) doesn't make sense for a project like this because you get no upfront money that can be used for constructing public facilities – just a future revenue stream. You could issue a bond based on that revenue stream but it would be very expensive – definitely not worth doing. Or ask the developer to front the bond money and accept a note from the city in return.

9. Re bond issues. 40% of DC's property taxes are already obligated to repayment of the city's general obligation (GO) bonds. As a result, any time there's a special bond issued against property taxes, the CFO recommends that only 60% of the revenue stream be devoted to the special bond. $500,000 of revenue amortized would probably get you a $6 million bond. Assume 3-10% of the face value of the bond will be eaten up by costs of issuance. (We subsequently confirmed via email that the higher figure is appropriate for bonds of this value.) The property tax rate used in the draft financials is off and the homestead exemption should have been included.

10. Roadside met with them re O Street Market and mentioned this project as well, but didn't mention that they wanted a PILOT/TIF arrangement for it too.

11. "I would have great trouble understanding why you would do this" i.e. sell public land to fund projects that are already provided for in the capital budget. Not an economically rational approach from the city's POV. This is a more expensive way to finance the school's modernization and it's unlikely to speed construction up. It will certainly slow the library down and increase the costs of constructing it.

12. The CFO doesn't decide whether or not to make development deals. The OCFO functions primarily as banker, but also something of a financial advisor. Usually OCFO wouldn't be involved at this stage. Typically, the project would be referred to OCFO by the Deputy Mayor for Planning and Economic Development after DMPED got "real numbers" from the developer and decided it was an option worth considering. OCFO would then figure out how much money was needed and what the benefit was to the city, at which point the CFO would make a recommendation (which the Mayor and Council might or might not follow).