H.R. 1862, DISTRICT OF COLUMBIA CONVENTION CENTER PRECONSTRUCTION ACT OF 1995, AND H.R. 1843, DISTRICT OF COLUMBIA SPORTS ARENA FINANCING ACT OF 1995

HEARING

BEFORE THE

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

H.R. 1862

TO PERMIT CERTAIN REVENUES OF THE DISTRICT OF COLUMBIA TO BE EXPENDED FOR ACTIVITIES RELATING TO THE OPERATION OF THE WASHINGTON CONVENTION CENTER AND THE CONSTRUCTION OF A NEW CONVENTION CENTER IN THE DISTRICT OF COLUMBIA

AND

H.R. 1843

TO PERMIT A DESIGNATED AUTHORITY TO BORROW FUNDS FOR THE DEVELOPMENT AND CONSTRUCTION OF A SPORTS ARENA IN THE DISTRICT OF COLUMBIA, TO PERMIT THE DISTRICT OF COLUMBIA TO PLEDGE CERTAIN REVENUES AS SECURITY FOR THE BORROWING OF SUCH FUNDS, AND FOR OTHER PURPOSES

JULY 12, 1995

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H.R. 1862, DISTRICT OF COLUMBIA CONVENTION CENTER PRECONSTRUCTION ACT OF 1995, AND H.R. 1843, DISTRICT OF COLUMBIA SPORTS ARENA FINANCING ACT OF 1995

WEDNESDAY, JULY 12, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:10 a.m., in room 311, Cannon House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis and Gutknecht, and Delegate Norton.

Staff present: Ron Hamm, staff director; Howard Denis, counsel; Roland Gunn, professional staff member; Ellen Brown, clerk; Cedric Hendricks and Denise Wilson, minority professional staff; and Jean Gosa, minority staff assistant.

Mr. DAVIS. The hearing will come to order. Good morning. Today's hearing is on H.R. 1843 and H.R. 1862. These bills provide for the necessary changes in the Home Rule Act to enable the District of Columbia to go forward with its part of the cost associated with the development of the MCI Arena at Gallery Place and to begin studies for a new convention center.

Even in the best of times the planning and construction of either a convention center or an arena would mark an important new phase in the life of any metropolitan region. As we know all too well, this is not the best of times for our Nation's Capital. This sad fact gives these projects added significance, not only to the District but to the surrounding jurisdictions in Virginia and Maryland.

I am honored to be a cosponsor of this legislation and I congratulate my colleague, the ranking minority member of this subcommittee, for her leadership in introducing these bills.

The development of the MCI Arena at Gallery Place is a splendid example of what active cooperation between all levels of government and the private sector is able to produce. It is precisely this kind of cooperation that is necessary to restore our Nation's Capital City to the level of excellence its residents and our Nation deserves.

I want to commend both city officials and the members of the public-spirited local business community for working together to bring the Bullets and the Caps to downtown Washington. It is im-

portant to recognize that a large number of District agencies have participated actively in the development and execution of the arena project.

Although there have been rough spots along the way, I have been impressed with how each part of the city government is working in a professional manner to insure that the city will get the very best deal possible for the new sports arena. This is an effective demonstration of the way local government can work. It is a breath of fresh air to see the city government begin to move in the right direction. This is the kind of change that needs to be nurtured.

The Financial Responsibility and Management Assistance Authority also has a crucial role to play in the process. One of their most important responsibilities is the approval of all city borrowing. The Authority has final approval of the financial package developed by the city to meet its costs. The Authority will review the borrowing agreement to insure that its terms are reasonable, that the city can afford it, and that it is compatible with the long-term interests of the city. I anticipate that the Authority will move on this matter in a timely fashion.

With the Authority in place, this subcommittee is free to concentrate on issues besides the minutia of the final financial package.

The bills before us today are extremely narrow in scope. The sports arena bill authorizes the city to pay specified costs for site acquisition and preparation. These costs, and only these costs, will be paid out of proceeds of the arena tax.

The convention center bill is also tightly drawn. The city is currently collecting an additional special tax on hotels and restaurants which will be dedicated to two things: paying the operating subsidy for the current convention center, and paying the expenses associated with developing plans for a new convention center.

Before the city can move forward into the construction phase, further congressional action will be necessary. I look forward to the next phase of the convention center project.

The city has shown great wisdom by providing not only for dedicated taxes to finance these projects, but also establishing semi-autonomous authorities to run them. It is important that these projects be removed as much as possible from the everyday vicissitudes of municipal administration.

These projects are vitally important, not only to the economy of the city, but to the entire region. In addition to a much needed boost in the city's morale, the sports arena and convention center will provide jobs for the city's residents and increase taxes for the city treasury.

The tourism industry is the city's largest source of private employment. These projects are vital for its continued development. For example, the current convention center is too small to accommodate the largest and most profitable conventions. Not only is this bad for the city, it is also bad for these organizations and bad for the entire metropolitan area.

Every large association should have the Nation's Capital as a stop on its regular schedule of annual meeting sites; however, the size of the current convention center prevents important national and international associations like the American Heart Association,

the American Booksellers Association, the American Medical Association, or the International Association of Amusement Parks and Attractions from having their annual meetings in Washington. This is both economically unfortunate and damaging to the entire region.

The proposed convention center would enable large groups like these to visit the District on a regular basis. When tourists and convention-goers come to the District they have a ripple effect on regional tourism. Hotel operators in Tysons and Falls Church tell me that their occupancy rates are higher than normal when there is a large convention going on in the District. The vendors which service the current convention center are located throughout the greater metropolitan area and the jobs produced help the entire region.

I am looking forward to hearing the testimony of all the witnesses today. They each have an important story to tell us about these projects. After the city council completes action on changes in the arena tax and the details for financing the city's part of the project are finalized, I look forward to moving rapidly to a subcommittee and then a full committee markup for these bills.

I will strongly advocate the approval of these projects on the floor of the House. I hope the Senate will move into legislation in a timely manner as well. These projects are good not only for the District and its surrounding metropolitan region, but for the entire Nation. The sports arena and convention center projects embody the energy, vitality, and community spirit that makes our Nation's Capital a great Capital City.

And I would now yield to Ms. Norton for any statements she may wish to make.

[The prepared statement of Hon. Thomas M. Davis, and the texts of H.R. 1862 and H.R. 1843 follow:]

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Opening Statement of

Tom Davis, Chairman
Subcommittee on the District of Columbia

June 12, 1996

We are here today to conduct a legislative hearing on the creation of an independent Water and Sewer Authority within the District of Columbia government. Creation of this new Authority, while not perfect, is a significant step in reforming the District of Columbia government and improving its provision of water to its citizens and wastewater treatment to the District and to hundreds of thousands of residents of Maryland and Virginia.

A two step process is needed to complete this undertaking. The District government passed legislation creating the new Authority and setting out its parameters of operation. That legislation was amended by the Council on June 5 with various provisions substantially improving the original legislation. I applaud the Council for their actions. I also applaud the Mayor and the City Administrator Michael Rogers, for their year-long efforts to negotiate with Montgomery and Prince Georges counties in Maryland and Fairfax County in Virginia to create an Authority with suburban voting representatives on the Board and a mission statement that the counties can support. I know the road has not always been smooth and that there are still lingering concerns; but today does mark a high point of regional cooperation. I hope that over the coming months and years we will see many more instances of such cooperation.

I believe that the negotiations after the Council first passed the legislation were very productive. The Subcommittee worked closely with the city and representatives of the counties. My staff consulted with representatives of the private financial community and met several times with Mr. Rogers. I believe that the amendments of June 5 have significantly improved the District legislation both in the acceptability of the Authority to the bond market and in the structure and performance of the Authority itself. This was done in a spirit of cooperation and goodwill so that the District could enact the Authority legislation rather than have Congress write it for the city. I am proud of this process and pleased with the product. It is not perfect and it is not the way we would have written it ourselves; but I believe the fact that the counties nominated their Board members on May 26 speaks for itself as to the outcome of this process.

The second step in setting up the Water and Sewer Authority is for Congress to allow the city to grant Revenue Bond power to the Authority. A Discussion Draft of that legislation has been sent to all of the witnesses and I anticipate some discussion on particular provisions of that draft. The intent is to give the Water and Sewer Authority the independence to conduct its affairs outside the realm of District politics and budget battles.

The Water and Sewer Authority will be self-funding. It will send out bills and collect its own revenues - independent of the rest of the District government and the General Fund. The District legislation explicitly forbids the transfer of money from the Water and Sewer Authority to the General Fund except in the one instance of paying the debt service on outstanding General Obligation bonds issued for water and sewer purposes.

The WSA will be a cooperative effort between the suburbs and the District. Approving the budget and hiring and firing the General Manager require at least one suburban vote which guarantees substantial influence to the suburbs. This is important because now all of the stakeholders in Blue Plains will have a real say in how it is operated and maintained.

Blue Plains has been a problem for far too long. EPA testified before this Subcommittee in February that there is a significant risk of an environmental disaster if the operation of Blue Plains is not improved. Mr. McCabe is here today and I expect an update from him, but this new Authority is intended to remove many of the obstacles that the District has cited as hampering the performance of Blue Plains. Many parts of the entire metropolitan region are served by Blue Plains. Millions more people are potentially impacted by the threat of a breakdown at Blue Plains polluting the Potomac River and the Chesapeake Bay.

I would also like to take this opportunity to thank the Council of Governments (COG) for its help and role in addressing this important issue. Although not directly involved in many of the negotiations, COG has been involved in the Blue Plains issue for many years and was instrumental in arranging the IMA in 1985. COG staff was of great help to the Subcommittee staff in working on this issue for the past year. I would particularly like to thank Mr. Stuart Freudberg and Mr. John Bosley for their efforts. COG does an awful lot of its work behind the scenes and too often gets overlooked when the accolades are passed out.

This hearing will help build the Record for creating the Water and Sewer Authority. During the hearing I will address provisions of the District legislation and issues that have been left to the Board to settle. It is important that everyone involved in this enterprise understand the goals and limitations of the Authority and that many issues can only be resolved as the Authority moves forward. Cooperation among the Board members and their respective jurisdictions will be vital to the success of this undertaking. In addition, Congress will retain its full authority of oversight and legislation for the District. If problems develop we will be prepared to deal with them in whatever way seems appropriate.

I

104TH CONGRESS
1ST SESSION

H. R. 1862

To permit certain revenues of the District of Columbia to be expended for activities relating to the operation of the Washington Convention Center and the construction of a new convention center in the District of Columbia.

IN THE HOUSE OF REPRESENTATIVES

JUNE 15, 1995

Ms. NORTON (by request) (for herself and Mr. DAVIS) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

---

A BILL

To permit certain revenues of the District of Columbia to be expended for activities relating to the operation of the Washington Convention Center and the construction of a new convention center in the District of Columbia.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "District of Columbia
5 Convention Center Preconstruction Act of 1995".

I

104TH CONGRESS
1ST SESSION

H. R. 1843

To permit a designated authority to borrow funds for the development and construction of a sports arena in the District of Columbia, to permit the District of Columbia to pledge certain revenues as security for the borrowing of such funds, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 14, 1995

Ms. NORTON (by request) (for herself and Mr. DAVIS) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

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A BILL

To permit a designated authority to borrow funds for the development and construction of a sports arena in the District of Columbia, to permit the District of Columbia to pledge certain revenues as security for the borrowing of such funds, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "District of Columbia
5 Sports Arena Financing Act of 1995".

1 **SEC. 2. PERMITTING DISTRICT OF COLUMBIA TO EXPEND**
2 **REVENUES FOR CONVENTION CENTER AC-**
3 **TIVITIES.**

4 (a) PERMITTING EXPENDITURE WITHOUT APPRO-
5 PRIATION.—The fourth sentence of section 446 of the Dis-
6 trict of Columbia Self-Government and Governmental Re-
7 organization Act (sec. 47–304, D.C. Code) shall not apply
8 with respect to any revenues of the District of Columbia
9 which are attributable to the enactment of title III of the
10 Washington Convention Center Authority Act of 1994
11 (D.C. Law 10–188) and which are obligated or expended
12 for the activities described in subsection (b).

13 (b) ACTIVITIES DESCRIBED.—The activities de-
14 scribed in this paragraph are—

15 (1) the operation and maintenance of the exist-
16 ing Washington Convention Center; and

17 (2) pre-construction activities with respect to a
18 new convention center in the District of Columbia,
19 including land acquisition and the conducting of en-
20 vironmental impact studies, architecture and design
21 studies, surveys, and site acquisition.

○

1 **SEC. 2. PERMITTING DESIGNATED AUTHORITY TO BORROW**
2 **FUNDS FOR CONSTRUCTION OF SPORTS**
3 **ARENA.**

4 (a) IN GENERAL.—An agency or instrumentality may
5 borrow funds for purposes of developing and constructing
6 a sports arena in the District of Columbia if the agency
7 or instrumentality is granted the authority to borrow
8 funds for such purposes by the District of Columbia gov-
9 ernment.

10 (b) TREATMENT OF DEBT CREATED.—Any debt cre-
11 ated pursuant to subsection (a) shall not—

12 (1) be considered general obligation debt of the
13 District of Columbia for any purpose, including the
14 limitation on the annual aggregate limit on debt of
15 the District of Columbia under section 603(b) of the
16 District of Columbia Self-Government and Govern-
17 mental Reorganization Act (sec. 47–313(b), D.C.
18 Code);

19 (2) constitute the lending of the public credit
20 for, private undertakings for purposes of section
21 602(a)(2) of such Act (sec. 1–233(a)(2), D.C. Code);
22 or

23 (3) be a pledge of or involve the full faith and
24 credit of the District of Columbia.

1 **SEC. 3. PERMITTING CERTAIN DISTRICT REVENUES TO BE**
2 **PLEDGED AS SECURITY FOR BORROWING.**

3 (a) IN GENERAL.—The District of Columbia (includ-
4 ing the agency or instrumentality described in section
5 2(a)) may pledge as security for any borrowing under-
6 taken pursuant to section 2(a) any revenues of the District
7 of Columbia which are attributable to the sports arena tax
8 imposed as a result of the enactment of D.C. Law 10–
9 315.

10 (b) EXCLUSION OF PLEDGED REVENUES FROM CAL-
11 CULATION OF ANNUAL AGGREGATE LIMIT ON DEBT.—
12 Any revenues pledged as security by the District of Colum-
13 bia pursuant to subsection (a) shall be excluded from the
14 determination of the dollar amount equivalent to 14 per-
15 cent of District revenues under section 603(b)(3)(A) of the
16 District of Columbia Self-Government and Governmental
17 Reorganization Act (sec. 47–313(b)(3)(A), D.C. Code).

18 **SEC. 4. NO APPROPRIATION NECESSARY FOR ACTIVITIES**
19 **RELATING TO BORROWING.**

20 The fourth sentence of section 446 of the District of
21 Columbia Self-Government and Governmental Reorganiza-
22 tion Act (sec. 47–304, D.C. Code) shall not apply with
23 respect to any of the following obligations or expenditures:

24 (1) The proceeds of any borrowing conducted
25 pursuant to section 2(a).

1 (2) The pledging of revenues as security for
2 such borrowing pursuant to section 3(a).
3 (3) The payment of principal, interest, or other
4 costs associated with such borrowing.

○

Ms. NORTON. Thank you, Mr. Chairman. The District has placed the highest priority on two revenue-generating projects. A new convention center had been sought for years but no action was taken until the city's hotel and restaurant sector proposed a tax on themselves to finance the center. Meanwhile, the District has been unable to capture the revenue from large conventions.

The sports arena is being brought to the District by Mr. Abe Pollin. Although most sports complexes in the United States have been publicly financed, Mr. Pollin is paying for the arena with private resources. The District has agreed to pay for certain expenses, including land acquisition.

The Mayor and the city council have worked hard to perfect plans for these projects within prescribed timeframes; however, private sector parties and organizations have taken much of the initiative and will bear most of the costs. These projects could not have gotten to the drawing boards without them.

The city's financial condition, along with certain approvals needed from Congress, require our careful consideration. Today's hearing will afford those involved the opportunity to answer the many questions that have been raised. I welcome my good friends from the District and look forward to their testimony.

Thank you, Mr. Chairman.

Mr. DAVIS. Ms. Norton, thank you very much. I now yield to my colleague, the vice chairman of the committee, the gentleman from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. I will be very brief. I just wanted to say that I am extremely pleased with the developments I have seen in the District here in the last several weeks, and the reports that I have had so far about this convention center and sports complex are very good.

Essentially, the city of Washington has only two industries. It is unfortunate to say that, but I think we depend very heavily in this city on Government and tourism. And I and some of my colleagues on this side of the aisle are doing what we can to downsize the Federal Government and so I think we have a special moral obligation to do what we can to make certain that we increase the level of tourism.

And I think the way this project is being structured and put together, I am generally supportive and look forward to some of the testimony today and, hopefully, can help you get the bill passed on the House floor when we finally get the markup done.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you, Mr. Gutknecht. I would like to ask the first panel to come forward. Before you sit please stand behind your chairs. It is the custom of the committee to swear in all witnesses before they testify. Barry Campbell, the chief of staff of the Mayor, Councilman Clarke, Councilwoman Jarvis, Michelle Bernard, if you could raise your hands I will swear you in.

[Witnesses sworn.]

Mr. DAVIS. Thank you, please be seated. I will announce that the subcommittee will accept written statements into the record for all witnesses. We are on a restricted schedule today and I would appreciate it if the witnesses would try to confine themselves to a 5-minute summary of their testimony for oral presentation.

We will start with Mr. Barry Campbell, the chief of staff for the Mayor, who is here today on behalf of the Mayor. Mr. Campbell, thank you for being here, and you can proceed.

STATEMENTS OF BARRY CAMPBELL, CHIEF OF STAFF, OFFICE OF THE MAYOR, ACCOMPANIED BY MERRICK MALONE, ASSISTANT CITY ADMINISTRATOR FOR ECONOMIC DEVELOPMENT; DAVID A. CLARKE, CHAIRMAN, DISTRICT OF COLUMBIA CITY COUNCIL; CHARLENE DREW JARVIS, COUNCIL MEMBER, DISTRICT OF COLUMBIA CITY COUNCIL; AND MICHELLE D. BERNARD, CHAIRWOMAN, REDEVELOPMENT LAND AGENCY

Mr. CAMPBELL. Good morning, Chairman Davis and members of the subcommittee. I am Barry Campbell, chief of staff of Mayor Marion Barry, the Mayor of the District of Columbia. I am here in my capacity as the Mayor's overall coordinator of private and governmental activities related to the downtown sports arena project. With me today on my right is Merrick Malone, assistant city administrator for economic development.

It is a pleasure to be with you today to discuss the development of the proposed arena and the proposed new Washington convention center. These projects provide significant benefits to the residents of the District of Columbia as well as to the entire region, offering jobs, retail opportunities, sports and entertainment venues, significant tax revenues, and the continuing evolvement of the Nation's Capital as a peoples' center.

The modern vision for Washington's core development began in the early 1960's with the work on Lafayette Park and the organization of the Pennsylvania Avenue Development Commission. Like firecrackers braided together, public and private projects have exploded in a progression marching toward Capitol Hill in grand waves of architecture, space restoration, and homes.

Washington, DC, is a successful urban adventure. The projects we work in partnership to achieve today are testimony to the prosperity, the core value, the attraction, and the vitality of this city. We are home to six major universities and a dozen other colleges and institutions of higher learning. We are the first in the country for labor force participation by women and we are second only to Silicon Valley in the number of infotech data communications companies like Bell Atlantic and MCI.

Washington, DC, is one of the Nation's strongest consumer and business markets. Among the 15 largest metropolitan areas in the United States, the District of Columbia ranks first in per capita income and first in the percentage of residents with college educations. Fifty percent of Washington's 2.2 million workers are in executive, managerial, and professional positions.

In the past decade, the District of Columbia has undergone an important change. Our city has evolved from a one-industry government town to a thriving center for a number of new industries, including international finance, telecommunications and, in particular, sports and entertainment. Our hospitality industry, which draws nearly 20 million visitors annually, spending nearly $5 billion on lodging, meals, and services, is our second largest industry, second only to the U.S. Department of Defense.

It is to this exuberant and vital business and consumer market that the captains of industry, entertainment, business, and investment are drawn. They are drawn by conventions, outstripping the capacity of our modest but spectacularly successful convention center opened only 12 years ago. And they are drawn as entrepreneurs and investors, as Abe Pollin comes today to build one of our most exciting projects in the District's commercial history, a state-of-the-art 20,000-seat sports arena, the MCI Center at Gallery Place.

Mr. Chairman, as you know, Mr. Pollin, the owner of the Bullets and Capitals, has assumed the entire cost and the risk of building this arena. He is a longstanding partner in the District's financial, cultural, and residential health. His investment is a testimony to the District's core value and a vote of confidence in our future.

Speaking on behalf of Mayor Barry and all of us who treasure this city, we commend Mr. Pollin's faith, dedication, and action. This project is exemplary of true public-private solution building. His action and the District government's commitment to support this project culminates the work of hundreds of leaders and activists throughout our city who have come together to make this exciting structure a possibility by the 1997 Bullets and Capitals seasons.

Much of this work was accomplished through the organization of the National Capital Development Corp. On March 6, 1995, Mr. Pollin and Mayor Barry signed an exclusive development rights agreement which spells out the key elements of this transaction.

Under this agreement, the Pollin organization, called NEWCO, will underwrite all costs associated with the design, construction, financing, equipping, and operation of the arena. This includes all infrastructure costs within the building's footprint, except for the demolition of buildings at 605 and 613 G Street, NW., and utility relocation.

In addition to providing a long-term lease of the land, the District government agrees to pay for the demolition of the building's tie-in facilities to the Metro system, environmental remediation, land acquisition for two parcels required to complete the footprint, relocating District of Columbia employees from the present buildings, offsite infrastructure costs, and securing all regulatory approvals necessary for construction.

The price of the District of Columbia participation is estimated at $53 million. With wide support in the business community, our council passed an arena tax on for-profit businesses to defray these costs. A further indication of the viability of this project is that we have in hand an offer by a consortium of banks to furnish the funds immediately so that the time as well as money can be saved.

Repayment of these obligations are assured by an estimated $9.1 million in revenues each year from the arena tax. A rider included in the council legislation allows for upward adjustment of the arena tax should these projections fall short. We are still entertaining other offers which may improve our savings in both time and money.

H.R. 1843, introduced by Delegate Norton, would allow a designated District agency or authority to borrow funds to finance the District of Columbia share of the development and construction of a sports arena in downtown Washington. The bill will also allow

the District to pledge certain dedicated revenues as security for the borrowing of such funds.

NEWCO will lease the land from the Redevelopment Land Agency for a period of 30 years with two 10-year renewal options. The arena will be owned by Mr. Pollin or his successors. The leases will be binding on any subsequent owner or owners of the teams. The Pollin organization will manage the arena and be responsible for maintenance and replacement costs.

The review process for this project includes this committee, the entire Congress, the District of Columbia Council, the National Capital Planning Commission, the Fine Arts Commission, the Historic Preservation Review Board, and the Advisory Council on Historic Preservation.

These reviews have been discussed as barriers, but I assure you that this administration sees them as stepping stones. We do not expect to reach the full hopes for this exciting and fruitful project without the full partnership of all these appropriate interests.

These benefits are handsome. In the arena's first year, at least $115 million in new economic activity will be generated. Using the most conservative assumptions, we expect $8 million in new tax revenue. This calculation is based conservatively on present attendance at the USAir Arena and we have not calculated the new development that will be induced in the neighborhood.

Mr. Chairman, while the primary focus of my testimony has been on the arena, I also speak in strong support of the legislation this committee is considering to initiate the construction of our new convention center.

Again, our business and commercial community has come together to ensure a continuation of our positive experience in hosting conventions. To facilitate this effort, Delegate Norton, with your cosponsorship, has brought to the Congress H.R. 1862, for which we seek approval today.

This act would authorize the obligation and the expenditure of revenue for the preconstruction activities associated with the new convention center. This would include land acquisition, conducting environmental impact studies, architecture and design studies, and surveys. The estimated cost of completing the required studies and other preconstruction activities is approximately $9 million to $12 million.

This estimate includes $6.3 to $9 million for design and engineering, $1.5 to $2 million for special studies such as environmental, traffic, and transportation, and $1 million for project structure and in feasibility work.

The District of Columbia government has been collecting the revenue allocated for the convention center project and anticipating its use for up-front costs for the project; however, the revenue cannot be used without the requested congressional authorization. Therefore, we ask this committee's favorable and expeditious consideration of both H.R. 1862 and H.R. 1843.

These are well-developed, broadly supported projects which bring significant benefit to America's Capital City and the entire region. They represent the best collaboration of private and public resources to achieve economic development truly in the public interest.

We welcome your scrutiny and request your support of both of these legislative proposals. The timely and enthusiastic passage of these bills by this committee and the Congress will be deeply appreciated by our city and our region. Thank you very much.

[The prepared statement of Mr. Campbell follows:]

Testimony of

Barry Campbell
Chief of Staff to
Mayor Marion Barry, Jr.
Mayor
District of Columbia

Before the House Subcommittee
on the District of Columbia

Wednesday, July 12, 1995
9:00 A.M.
Room 311
Cannon House Office Building

Good morning, Chairman Davis. I am Barry Campbell, Chief of Staff of the Executive Office of the Mayor of Washington, D.C. I am here in my capacity as the Mayor's overall coordinator of private and government activities related to the Downtown Sports Arena Project.

It is a pleasure to be with you today to discuss the development of the proposed Arena, and the proposed New Washington Convention Center.

These projects provide significant benefits to the residents of the District of Columbia as well as the entire region, offering jobs, retail opportunities, sports and entertainment venues, significant tax revenues, and the continuing evolvement of the Nation's Capital as a people's center.

The modern vision for Washington's core development began in the early 1960s with the work on Lafayette Park and the organization of the Pennsylvania Avenue Development Commission. Like firecrackers braided together, public and private projects have exploded in a progression -- marching toward Capitol Hill in grand waves of architecture, space, restoration, and homes.

Washington, D.C., is a successful urban adventure. The projects we work in partnership to achieve today are testimony to the prosperity, the core value, the attraction, and the vitality of this city.

We are home to six major universities and a dozen other colleges and institutions of higher learning. We are the first in the country for labor force participation by women. And we are second only to the Silicon Valley in the number of infotech/data communications companies, like Bell Atlantic and MCI.

Washington, D.C., is one of the nation's strongest consumer and business markets.

Among the 15 largest metropolitan areas in the United States, D.C. ranks first in per capita income, and first in the percentage of residents with college education. Fifty percent of Washington's 2.2 million workers are in executive, managerial, and professional positions.

In the past decade, D.C. has undergone an important change. Our city has evolved from a one-industry government town to a thriving center for a number of new industries -- including international finance, telecommunications, and, in particular, sports and entertainment.

Our hospitality industry, which draws nearly 20 million visitors annually, spending nearly $5 billion on lodging, meals, and services, is our second largest industry -- second only to the U.S. Department of Defense.

It is to this exuberant and vital business and consumer market that the captains of industry, entertainment, business, and investment are drawn.

They are drawn by conventions, outstripping the capacity of our modest but spectacularly successful Convention Center opened only 12 years ago.

And they are drawn as entrepreneurs and investors, as Abe Pollin comes today to build one of our most exciting projects in DC's commercial history -- a state-of-the-art, 20,000-seat sports arena: The MCI ARENA at Gallery Place.

Mr. Chairman, as you know, Mr. Pollin, the owner of the Bullets and the Capitals, has assumed the entire cost -- and the risk -- of building this arena. He is a long-standing partner in the District's financial, cultural, and residential health. His investment is a testimony to DC's core value and a vote of confidence in our future.

Speaking on behalf of Mayor Barry and all of us who treasure this city, we commend Mr. Pollin's faith, dedication, and action. This project is exemplary of true public/private solution-building.

His action, and the District Government's commitment to support this project, culminates the work of hundreds of leaders and activists throughout our city who have come together to make this exciting structure a possibility by the 1997 Bullet's and Capital's seasons. Much of this work was accomplished through the organization of the National Capital Development Corporation.

On March 6, 1995, Mr. Pollin and Mayor Barry signed an exclusive development rights agreement which spells out the key elements of this transaction.

Under this agreement, the Pollin organization, called NEWCO, will underwrite all costs associated with the design, construction, financing, equipping, and operation of the arena. This includes all infrastructure costs within the building's footprint, except for the demolition of buildings at 605 and 613 G Street N.W., and utility relocation.

In addition to providing a long-term lease of the land, the District Government agrees to pay for demolition of the buildings, tie-in facilities to the Metro System, environmental remediation, land acquisition (for two parcels required to complete the footprint), relocating D.C. employees from the present buildings, off-site infrastructure cost, and securing all regulatory approvals necessary for construction.

The price of the DC participation is estimated at $53 million. With wide support in the business community, our Council passed an Arena Tax on for-profit businesses to defray these costs. A further indication of the viability of this project is that we have in hand an offer by a consortium of banks to furnish the funds immediately so that time as well as money can be saved. Repayment of these obligations are assured by an estimated $9 in revenues each year. A rider included in the Council legislation allows for upward adjustment of the Arena Tax should these projections fall short.

We are still entertaining other offers which may improve our costs in both time and money.

H.R. 1843, introduced by Delegate Norton, would allow a designated District agency or authority to borrow funds to finance DC's share of the development and construction of a sports arena in downtown Washington, D.C. The bill will also allow the District to pledge certain dedicated revenues as security for the borrowing of such funds.

NEWCO will lease the land from the Redevelopment Land Agency for a period of 30 years, with two 10-year renewal options. The arena will be owned by Mr. Pollin or his successors. The leases will be binding on any subsequent owner or owners of the teams. The Pollin organization will manage the arena and be responsible for maintenance and replacement costs.

The review process for this project includes this committee, the entire Congress, the DC Council, the National Capital Planning Commission, the Fine Arts Commission, the Chinatown Steering Committee, the Historic Preservation Review Board, and the Advisory Council on Historic Preservation. These reviews have been discussed as barriers, but I assure you that this Administration sees them as stepping stones. We do not expect to reach the full hopes for this exciting and fruitful project without the full partnerships of all these appropriate interests.

These benefits are handsome. In the Arena's first year, at least $115 million in new economic activity will be generated. Using the most conservative assumptions, we expect $8 million in new tax revenue. This calculation is based conservatively on present attendance at the USAir Arena. And we have not calculated the new development that will be induced in the neighborhood.

Mr. Chairman, while the primary focus of my testimony has been on the Arena, I also speak in strong support of the legislation this committee is considering to initiate the construction of our new convention center.

Again, our business and commercial community has come together to insure a continuation of our positive experience in hosting conventions. To facilitate this effort, Delegate Norton, with your co-sponsorship, has brought to the Congress H.R. 1862, for which we seek approval today.

This act would authorize the obligation and expenditure of revenue for preconstruction activities associated with the new convention center. This would include land acquisition, conducting environmental impact studies, architecture and design studies, and surveys.

The estimated cost of completing the required studies and other preconstruction activities is approximately $8.8 to $12 million. This estimate includes $6.3 to $9 million for design and engineering, $1.5 to $2 million for special studies (such as environmental, traffic, and transportation), and $1 million for project structuring and feasibility work.

The DC Government has been collecting the revenue allocated for the Convention Center Project and anticipating its use for up-front costs for the project. However, the revenue cannot be used without the requested congressional authorization.

Therefore, we ask this committee's favorable and expeditious consideration of both H.R. 1862 and H.R. 1843. These are well developed, broadly supported projects which bring significant benefit to America's capital city and the entire region. They represent the best collaboration of private and public resources to achieve economic development truly in the public interest.

We welcome your scrutiny and request your support of both of these legislative proposals. The timely and enthusiastic passage of these bills by this committee and the Congress will be deeply appreciated by our city and our region.

Thank you.

END

Mr. DAVIS. Thank you, Mr. Campbell.

Next we are privileged to have Council Chairman David Clarke with us again. David, you can proceed. Thank you for being here.

Mr. CLARKE. Thank you very much, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to testify on the proposed amendments to our city's charter that will authorize the issuance of revenue bonds for the financing of the arena and convention center.

Pursuant to the city's charter, the council may, by act, authorize the issuance of revenue bonds to finance undertakings in various areas such as the following: Housing, facilities for health, transit, utilities, recreation, industrial and commercial development, and others.

Last year, the council passed a resolution requesting that the Congress amend the city's charter to permit the council to authorize the issuance of revenue bonds for special projects. While somewhat generic in character, the resolution did make mention by way of including but not limited to language, three specific projects: The arena, a convention center, and a parking authority.

Legislation creating the Washington Convention Center Authority as an independent corporate body was passed by the council last year. The legislation directs the city to delegate its authority to issue revenue bonds backed with dedicated tax revenues to the Washington Convention Center Authority for the purposes of constructing a larger convention center. The revenue bonds are a crucial part of the financing mechanism that is necessary for the construction of a new convention center.

The arena project, like the convention center project, was authorized by the council last year and is critical to the economic revitalization of downtown and the District as a whole.

In order to finance the District predevelopment cost associated with the development of a new sports and entertainment complex at Gallery Place, a Home Rule Act amendment is necessary to permit the Redevelopment Land Agency or such other agency the Mayor might designate to dedicate this tax security as security for borrowing or other financing to obtain the necessary funds estimated by the Mayor to be approximately $53 million.

Although the arena law has been in place for 1 year, amendments were recently adopted and already in effect on an emergency basis to clarify the purposes and use of the tax and to clearly authorize the RLA or such other agency as the Mayor may direct to pledge the tax as security to finance the District's predevelopment costs and to provide for an escalator clause similar to a provision existing in the convention center legislation to ensure that the arena tax revenues do not fall below $9 million a year.

It is these amendments which have been adopted on a permanent basis by the Council on the first reading yesterday and which will come up for a final reading on July 25.

According to testimony provided by the District of Columbia Department of Finance and Revenue at a public hearing on the arena tax amendments which I chaired on June 30, it is estimated that the arena tax will generate $9.5 million this year. That number is based on the actual amount of revenue which the District has col-

lected from the same base of taxpayers for the 1994 public safety fee on which the arena tax was modeled.

As you know, the arena tax is a tax on all business operating in the District and ranges from $25 to $8,400 annually, based upon the gross receipts of a business. Nearly two-thirds of all arena taxpayers are paying the $25 level while only 1 percent of the taxpayers are being taxed at each of the two higher levels, $5,000 or $8,000.

You should know that, like the convention center project with its associated taxes needed to finance the project, the arena project and its related taxes were essentially brought to the city by the business leadership of the city, particularly the Federal City Council, the District of Columbia Chamber of Commerce, and the Greater Washington Board of Trade.

The business community continues to strongly support the project, along with taxes needed to pay for the District's cost because they, like most of the city's elected leadership and citizenry, see the significant benefits which will ultimately result from providing an in-town venue for two professional sports teams and over 100 other cultural attractions each year.

The economic benefits include: the creation of approximately 400 construction jobs and 560 new permanent jobs as a result of the arena and its operation; the generation of approximately $385 million in additional tax and rent revenues as a direct result of the arena over a 30-year life.

The generation of $8 million in tax revenues is a direct result of the arena in the first year of operation, and the attraction of a projected $115 million annually in private spin-off investment in the economy of both the District and the region.

In addition to these positive economic impacts, the downtown arena will also provide those who live, work, and visit our city with the intangible but significant benefit of having something and somewhere in the heart of downtown where we can all go and have something to cheer for and be entertained.

From this perspective, the arena provides a multi-million-dollar vote for private and public confidence in the future life and vitality of our city which will help to serve and reinvigorate the District's traditional position as the economic and cultural core of the region.

Now, I spoke with you about this briefly, Mr. Chairman, before this meeting, but there has been a widespread publicity on both the arena and the convention center and the impact that both will have on the economic development within the city. I mentioned that there were three pieces.

The third piece that the council passed was the parking authority. And while the parking authority has received minimal coverage in the press compared to the arena and the convention center, it too will stimulate economic growth and commercial revitalization.

This legislation was also passed by the council last year and seeks to provide off-street parking facilities in the District at the expense of those persons who will benefit the most, the small business in the neighborhoods that choose to have such a facility in their neighborhood.

Holders of commercial property in a neighborhood would petition for the establishment of parking districts in their neighborhood and

would also agree for a special tax to be levied upon them for the purposes of financing parking facilities. The special tax would be used to pay the debt service on the revenue bonds that are needed to finance the parking projects.

The parking authority is important, but not just to establish industries that are represented by the Board of Trade and the Federal City Council, but to hundreds of small businesses whose livelihood depends upon persons having access to them in order to do business.

When determining whether the parking authority is necessary for the city, we must also consider the restriction of vehicular access to streets around Washington by the Federal Government, which has undoubtedly compounded the parking problems of the city. These restrictions have adversely affected numerous residents, businesses, and visitors.

In closing, I would like to express my support for both H.R. 1862 and H.R. 1843, and would also request that this committee consider the inclusion of the parking authority as one of the entities to which the city can delegate its revenue bonding authority. Adequate parking is crucial for the economic revitalization of the city.

Thank you for allowing me to testify here this morning, and I am available maybe for a few minutes to answer any questions.

[The prepared statement of Mr. Clarke follows:]

COUNCIL OF THE DISTRICT OF COLUMBIA

WASHINGTON, D.C. 20004

David A. Clarke
Chairman

TESTIMONY OF

D.C. COUNCIL CHAIRMAN DAVID A. CLARKE

BEFORE THE SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA OF THE

U.S. HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

ON THE D.C. SPORTS ARENA FINANCING ACT (H.R. 1843) AND

THE D.C. CONVENTION CENTER PRECONSTRUCTION ACT (H.R. 1862)

U.S. CONGRESSMAN THOMAS M. DAVIS, CHAIR

WEDNESDAY, JULY 12, 1995

9:00 a.m.

311 Cannon House Office Building

Good morning, Chairman Davis, Congresswoman Norton and Members of the Subcommittee on the District of Columbia. Thank you for inviting me to testify today on the proposed amendments to the city's charter that will authorize the issuance of revenue bonds for the financing of the arena and convention center.

Pursuant to the city's charter, the Council may by act authorize the issuance of revenue bonds to finance undertakings in various areas such as the following: housing, facilities for health, transit, utilities, recreation, industrial and commercial development, and others.

Last year the Council passed a resolution requesting that Congress amend the city's charter to permit the Council to authorize the issuance of revenue bonds for special projects. While somewhat generic in character, the resolution did make mention by way of "including - (but) - not - (limited) - to" language, three specific projects -- the arena, a convention center, and a parking authority.

Legislation creating the Washington Convention Center Authority ("Authority") as an independent corporate body was passed by the Council last year. The legislation directs the city to delegate its authority to issue revenue bonds backed with dedicated tax revenues to the Washington Convention Center Authority for purposes of constructing a larger convention center. The revenue bonds are a crucial part of the financing mechanism that is necessary for the construction of a new convention center.

The Arena Project, like the Convention Center project, was authorized by the Council last year and is critical to the economic revitalization of downtown and the District as a whole. In order to finance the District's predevelopment costs associated with the development of a new sports and entertainment complex at Gallery Place, a Home Rule Act amendment is necessary to permit the Redevelopment Land Agency, or such other Mayorally-designated agency, to dedicate this tax as security for borrowing or other financing to obtain the necessary funds -- estimated by the Mayor to be approximately $53 million.

Although the arena tax law has been in place for one year, amendments were recently adopted, and are already in effect on an emergency basis, to: (1) clarify the purposes and use of the tax; (2) clearly authorize the RLA or such other Mayorally-designated agency to pledge the tax as security to finance the District's predevelopment costs; and (3) provide for an "escalator clause" -- similar to a provision existent in the Convention Center legislation -- to ensure that the arena tax revenues do not fall below $9 million a year. It is these amendments which have been adopted on a permanent basis by the Council on first reading yesterday, and which will come up for a final reading on July 25th.

According to testimony provided by the Department of Finance and Revenue at a public hearing on the arena tax amendments which I chaired on June 30th, it is estimated that the arena tax will generate $9.5 million this year. That number is based on the actual amount of revenue which the District has collected from the same base of taxpayers from the 1994 public safety fee,

on which the arena tax was modelled. As you may know, the arena tax is a tax on all businesses operating in the District, and ranges from $25 annually to $8, 400 annually based upon the gross receipts of a business. Nearly two-thirds of all arena taxpayers are paying the $25 level, while only 1% of taxpayers are being taxes at each of two highest levels ($5,000 and $8,400).

You should know that – like the Convention Center Project with its associated taxes needed to finance the project – the Arena Project and its related taxes were essentially brought to the city by the District's business leadership, particularly the Federal City Council, the D.C. Chamber of Commerce and the Greater Washington Board of Trade. The business community continues to strongly support the project, along with the taxes needed to pay for the District's costs, because they, like most of the city's elected leadership and citizenry, see the significant benefits which will ultimately result from providing an in-town venue for two professional sports teams and over a hundred other cultural attractions each year.

The economic benefits include: the creation of approximately 400 construction jobs and 560 new permanent jobs as a result of the arena operation; the generation of approximately $385 million in additional tax and rent revenues as a direct result of the arena over a 30 year life; the generation of $8 million in tax revenues as a direct result of the arena in its first year of operation; and the attraction of a projected $115 million annually in private spin-off investment in the economy of both the District and the region. In addition to these positive economic impacts, the downtown arena will also provide those who live, work and visit our city with the intangible but significant benefit of having something and somewhere in the heart of downtown city where we can all go and have something to cheer for and be entertained. From this perspective, the arena provides a multi-million dollar vote of private and public confidence in the future life and vitality of our city, which will help serve to reinvigorate the District's traditional position as the economic and cultural core of the region.

There has been widespread publicity on both the arena and the convention center and the impact that both will have on economic development within the city. While the parking authority has received minimal coverage compared to the arena and convention center, it too will stimulate economic growth and commercial revitalization.

This legislation was also passed by the Council last year and seeks to provide off-street parking facilities in the District at the expense of those persons who will benefit the most - small businesses. Holders of commercial property in a neighborhood would petition for the establishment of parking districts in their neighborhood and would also agree to a special tax to be levied upon them for the purposes of financing the parking facilities. The special tax would be used to pay the debt service on the revenue bonds that are needed to finance the parking projects.

The parking authority is important to not just established industries that are represented by the Board of Trade and the Federal City Council, but to hundreds of small businesses whose livelihood depend on persons having access to them in order to do business.

When determining whether the parking authority is necessary for the city, we must also consider the recent restriction of vehicular access to streets around the White House by the federal government which has undoubtedly compounded the parking problems in the District. These restrictions have adversely affected numerous residents, businesses and visitors.

In closing, I would like to express my support for both H.R. 1862 and H.R. 1843 and I would also request that this committee consider the inclusion of the parking authority as one of the entities to which the city can delegate its revenue bonding authority. Adequate parking is crucial for economic revitalization of the city.

Thank you again for allowing me to testify here this morning and I am available to answer any questions that you may have.

Mr. CLARKE. Mr. Chairman, you were the former chairman of the Metropolitan Development Committee for COG, as was I. I happen to be chairman this year and I have a meeting I have to go to, so if I leave, my colleague, Ms. Charlene Drew Jarvis, can represent the council on this.

Mr. DAVIS. OK. I would prefer not to try to resolve the whole parking issue here today. We could add that as a committee amendment—but we will get back to you on that issue. We tried to prioritize matters and, frankly, the arena and convention center legislation is very time-sensitive and that's why we tried to move ahead with it.

Mr. CLARKE. If that were added as an amendment that would be greatly appreciated by the small businesses.

Mr. DAVIS. We have that option. We'll be discussing this issue in the future. Thank you very much. And, Mr. Clarke, if you have to leave I understand. We appreciate having you here today. I know Ms. Jarvis appreciates being here to answer all the tough questions after you've gone.

Mr. CLARKE. She's good at it.

Mr. DAVIS. Our next witness is Councilwoman Charlene Drew Jarvis, who is the chairwoman of the Economic Development Committee and a strong proponent of both of these projects. Welcome, Charlene.

I would like to take this opportunity to thank you for your work on these projects. I don't believe that I will be contradicted if I say that we would not be where we are today on these projects if it weren't for you.

Ms. JARVIS. Thank you very much for that, Congressman Davis and Mrs. Norton. I am delighted to be before the committee this morning. I am Charlene Drew Jarvis. I chair the council's Committee on Economic Development which oversees all aspects of the Washington Convention Center. My committee also oversees the Redevelopment Land Agency, the RLA, which is the District's financial agent for the new sports arena and is leasing the land to Abe Pollin for this project.

I am pleased to appear before you today to testify in support of both H.R. 1862, the District of Columbia Convention Center Pre-Construction Act of 1995, and H.R. 1843, the District of Columbia Sports Arena Financing Act of 1995. These two projects will be the cornerstones of downtown Washington's economic revitalization in the 21st century.

The District's problems. Since I first came to the council, the District's economy has been getting increasingly out of balance. Our population has decreased from 640,000 in 1979 to 560,000 today, resulting in a decreased tax base. Concurrently, we have become home to a disproportionate number of our region's dependent population and the tax base we need to support the increased demand for services is too small.

Our economy is not sufficiently diverse or diversifiable. We are too dependent on our government and tourism to generate jobs. We have too little land for new residential or commercial development and almost all of the new and high-paying jobs created in the District in the 1980's and early 1990's went to suburban residents.

Many of the District's middle-class African-American residents living east of the Anacostia moved to the suburbs in the 1980's and evidence suggests that when low-income residents find middle-income jobs they too soon look to move out of the city.

There are opportunities and solutions. To my mind, we cannot tax our way to prosperity so we must grow the local economy to solve these problems. This has become my No. 1 priority.

At the council we have been working on government initiatives that will address our economic problems and the two proposals before you today to build a new and expanded convention center and to prepare a downtown site for the construction of a new sports arena are the most visible initiatives on our plates.

I believe that the convention center and arena projects will do more to grow our downtown economy than any alternative projects. I am also convinced the regional economy will benefit more from these projects being located downtown than anywhere else in the region.

The convention center. We started to build the current convention center in the mid-1970's. At that time, Congress constrained us from constructing the center we wanted to build. We were unable, for example, to build a facility with parking spaces or with the capacity to expand. Although we had the fourth largest convention center in the country when it opened in 1983, today it is the 30th largest and losing market share every year.

One of Washington's clearest competitive advantages over other U.S. cities is its attractiveness to large national and international conventions that periodically want to come to the Nation's Capital. So long as Washington can offer adequate facilities to sponsor the largest shows, we know that the shows will come.

Since the Washington Convention Center opened 12 years ago, several large hotels and many restaurants have been built to accommodate conventioneers and many of our existing hotels have reaped the economic benefits of this facility. These businesses are labor-intensive and hire many District of Columbia residents.

Spin-off spending from conventions in our economy is $450 million annually. This figure is projected to rise to over $1.2 billion as soon as the new center is opened. I might add that only 44 percent of visitor dollars spent in our region are spent in the District; 56 percent of visitor spending occurs in Maryland and Virginia. Maryland and Virginia are also home to a large number of businesses that service our convention industry. So the benefits of the new center are regional even though the District is paying 100 percent of the cost of the center.

Our current convention center, at approximately 275,000 square feet of exhibit space, is simply too small to attract the large national shows that bring in millions of dollars in spin-off revenue every year; thus, I introduced legislation in the council in 1993 to authorize the construction of a new 800,000 to 1 million square foot convention center and the Mayor followed with a bill to create a Convention Center Authority.

The committee held extensive hearings on this subject and marked up a comprehensive convention center bill in the spring of 1994. The full council authorized a new convention center and passed a financing mechanism in July 1994.

When the council passed that legislation a year ago, we anticipated that the Congress would act on it prior to the start of the next fiscal year. With this in mind, we included a provision that removed the budget of the current convention center operations, about $7 million, from the general fund appropriation and allowed the newly established Washington Convention Center Authority to spend the newly levied convention center taxes to operate the existing facility.

Our miscalculation of the time it would take to pass the legislation before you today has caused the council to allow the convention center to draw down from the District's rainy day fund. When these funds are repaid by the Convention Center Authority they will be used to reduce the District's 1995 Medicaid debt or other obligations since the Mayor has sent over a different reprogramming.

The new Washington Convention Center will have a greater positive fiscal impact on the District's economy than any other development project we pursue for the next 10 years. The convention center legislation before you today will allow the Washington Convention Center Authority to continue operating, to conduct feasibility and predevelopment studies, and begin the land acquisition process. Your legislation does not allow the Authority to issue debt, to obligate tax revenues, or to begin construction.

After you pass the legislation before you today to give the Convention Center Authority limited powers, I urge the members of this committee to take action as soon as possible to give the Authority the full powers granted by the council and the Mayor to build this facility so that when the time comes to move full speed ahead that's exactly what we will be able to do.

My only other comment on this subject is that this is a free-standing project. The city has been poised to proceed on it for a year. The District is ready and able to proceed with this vitally important development and we ask your speedy support.

The sports arena. I have also been closely involved with several of the most important aspects of the downtown sports arena proposal. In January of this year, the committee held hearings on both a proposal to lease Redevelopment Land Agency Parcel 6 for the development, and on the exclusive rights agreement between the District and Mr. Pollin, which is essentially the financial and development agreement between the two parties.

The committee took an exhaustive look at all aspects of the deal and made a number of recommendations on how the city might improve key elements of the project. In February 1995, the committee marked up both resolutions and issued a report which looked closely at the financial aspects of the project.

The following excerpts from this report states the conclusion I have reached about why we are asking to build this arena and what we hope to see it return to the District.

And I quote:

> Other uses of the land that generate both property and other taxes are likely to exceed the net present value of the arena deal since they do not require large up-front costs to the District. It is the opinion of the committee, however, that this proposal can not be accurately judged against other more typical development.

There will only be one arena in this region. It will draw over 2.2 million visitors to it every year and create tangible social, cultural, and economic spin-off benefits to the District that can not occur from any alternative proposed use.

The financial cost of these tangible and intangible benefits, therefore, is the difference between the 30-year financial benefit of the arena and any straight financial returns of an alternative development for the site. The value of the arena project to the District, therefore, has not been and should not be measured in dollars alone, although they are critically important, but in the cumulative social, cultural, financial, and multiplier benefits that will accrue to the District.

Having said this in my report, I still believe that it is incumbent on me and my colleagues to be as frugal as possible with taxpayer money and, therefore, have urged the executive and the RLA Board to seek alternative financing proposals for the $53 million that the District will have to borrow.

How Congress can help. I am glad that you have given the District all the flexibility we need to pursue either bank or bond financing at either a fixed or variable rate. We are currently evaluating—the RLA board is currently evaluating three separate financing proposals.

Due diligence has been completed on one of the proposals and just beginning on the other two, and I would like to be able to tell you that prior to July 25 the other two offerors will complete their due diligence and that the District will complete a comparative evaluation of the proposals and make a final decision.

It may take until after the Congress recesses to complete these tasks, and you will hear more about that from Michelle Bernard of the RLA board. If Congress requires the District to make a final financing decision prior to the completion of the process, the District may be locked into using the only one financial deal that is on the table at the moment. And this may, in fact, be the District's best option but we must consider every proposal before us.

I understand Congress' desire to closely monitor the District's financial decisions. I hope you will agree that it is wiser for Congress to set parameters within which the District can flexibly pursue the best financial terms to borrow money.

I suggest that you approve our ability to finance this project using any one of the three proposals that are before the board. This will allow us the time to complete the evaluation process and choose the most favorable package, whether this occurs prior to July 25 or after Congress goes into summer recess. I believe that the legislation before you today gives us the flexibility we need, and I urge you to keep it in just this way.

District elected officials, members of the board, are partners in the private sector and I must say again, as Ms. Norton said in her introductory comments, that they have been extraordinary partners in the private sector to this deal to whom we are grateful. I believe that given the constraints of land, time, money, and authority, we have created remarkable proposals that can rival any in the country for similar facilities.

I am heartened by the positive words I have heard from members of the committee and I believe with timely congressional action we will all soon be attending ribbon cutting at both projects. I thank you for the invitation to appear before you today.

[The prepared statement of Ms. Jarvis follows:]

COUNCIL OF THE DISTRICT OF COLUMBIA
WASHINGTON, D. C. 20004
(202) 724-8052

CHARLENE DREW JARVIS
Councilmember-Ward 4
Chairperson
Committee on
Economic Development

Committee Member
Human Services
Housing and Urban Affairs
Labor and Human Rights

TESTIMONY OF
DISTRICT OF COLUMBIA COUNCILMEMBER

CHARLENE DREW JARVIS

CHAIR OF THE COMMITTEE ON ECONOMIC DEVELOPMENT

BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA
THOMAS M. DAVIS, CHAIR

WEDNESDAY, JULY 12, 1995
9:00 AM
311 CANNON HOUSE OFFICE BUILDING

Good morning Mr. Chairman, Mrs. Norton, members of the Committee and Staff, I am DC Councilmember Charlene Drew Jarvis (D-Ward 4). I Chair the Council's Committee on Economic Development which oversees all aspects of the Washington Convention Center. This Committee also oversees the Redevelopment Land Agency (RLA), which is the District's financial agent for the new sports arena and is leasing the land to Abe Pollin for this project.

I am pleased to appear before you today to testify in support of both H.R. 1862 the "District of Columbia Convention Center Preconstruction Act of 1995." and H.R. 1843 "the District of Columbia Sports Arena Financing Act of 1995." These two projects will be the cornerstones of downtown Washington's economic revitalization for the 21st century.

THE DISTRICT'S PROBLEMS

Since I first came to the Council in 1979, the District of Columbia economy has been getting increasingly out of balance.

- Our population has decreased from 640,000 in 1979 to 560,000 today, resulting in a decreased tax base. Concurrently:
- we have become home to a disproportionate number of our region's dependent population, and the tax base we need to support the increased demand for services is too small.
- Our economy is not sufficiently diverse or diversifiable. We are too dependent on Government and tourism to generate jobs.
- We have too little land for new residential or commercial development (with just under 20% of the region's population, fewer than 2% of new housing units are built here annually).
- Almost all of the new, and higher paying, jobs created in the District in the 1980's and early 1990's went to suburban residents.
- Many of the District's middle-class African-American residents living east of the Anacostia River moved to the suburbs in the 1980's and evidence suggests that when low-income residents find middle-income jobs, they soon look to move out of the city.

OPPORTUNITIES AND SOLUTIONS

To my mind, we cannot tax our way to prosperity, so we must grow the local economy to solve these problems. This has become my number one priority. At the Council we have been working on government initiatives that will address our economic problems. The two proposals before you today, to build a new and expanded Convention Center, and to prepare a downtown site for the construction of a new sports arena, are the most visible initiatives on our plate. I believe that the Convention Center and Arena projects will do more to grow our downtown economy than any alternative projects. I am also convinced the regional economy will benefit more from these projects being located downtown, than anywhere else in the region.

CONVENTION CENTER

We started work to build the current Convention Center in the mid 1970's. At that time Congress prevented us from constructing the Center we wanted build. We were unable to build a facility with parking spaces or with the capacity to expand. Although we had the 4th largest Convention Center in the country when it opened in 1983, today, it is the 30th largest and losing market share each year.

One of Washington's clearest competitive advantages over other U.S. cities is its attractiveness to large national and international conventions that periodically want to come to the nation's capital for their meetings. So long as Washington can offer adequate facilities to sponsor the largest shows, we know that the shows will come. Since the Washington Convention Center opened 12 years ago, several large hotels and many restaurants have been built to accommodate conventioneers, and many of our existing hotels have reaped the economic benefits of this facility. These businesses are labor intensive and hire many DC residents. Spin-off spending from conventions in our economy is $450,000,000 annually, this figure is projected to rise to over $1.2 billion as soon as the new Center is opened. I might add that only 44% of visitor dollars spent in our region are spent in DC. 56% of visitor spending occurs in Maryland and Virginia. Maryland and Virginia are also home to a large number of the businesses that service our convention industry, so that the benefits of the new Center are regional, even though it is the District that will pay 100% of the cost of the new Center.

Our current Convention Center--at approximately 275,000 square feet of exhibit space--is simply too small to attract the large national shows that bring in millions of dollars in spin-off revenue each year. Thus, I introduced legislation into the Council in 1993 to authorize the construction of a new--800,000 to 1 million square foot--Convention Center, and the Mayor followed with a bill to create a Convention Center Authority. My Committee held extensive hearings on this subject and marked up a comprehensive Convention Center bill in the spring of 1994. The full Council authorized a new Convention Center and passed a financing mechanism in July of 1994.

When the Council passed that legislation a year ago, we anticipated that Congress would act on it prior to the start of the next fiscal year. With this in mind, we included a provision that removed the budget of the current Convention Center operations (approximately $7 million) from the General Fund appropriation, and allowed the newly established Washington Convention Center Authority to spend the newly-levied Convention Center taxes to operate the existing facility. Our miscalculation of the time it would take to pass the legislation before you today has caused the Council to allow the Convention Center to draw down the District's Rainy Day Fund. When these funds are repaid by the Convention Center Authority they will be used to reduce the District's 1995 Medicaid , or other, obligations.

The new Washington Convention Center will have a greater positive fiscal impact on the District's economy than any other development project we pursue for the next 10 years. The Convention Center legislation before you today will allow the Washington Convention Center Authority to continue operating, conduct feasibility and pre-development studies and begin the

land acquisition process. Your legislation does not allow the Authority to issue debt, obligate tax revenues or begin construction. After you pass the legislation before you today to give the Convention Center Authority limited powers, I urge the members of this Committee to take action as soon as possible to give the Authority the full powers granted by the Council and the Mayor to build this facility, so that when the time comes to move full speed ahead, that's exactly what we'll be able to do.

My only other comment on this subject is that this is a free standing project. The city has been poised to proceed on it for a full year. The District is ready and able to proceed with this vitally important development and we ask for your speedy support.

SPORTS ARENA

I have also been closely involved with several of the most important aspects of the Downtown Sports Arena proposal. In January of this year I held hearings on both the proposal to lease Redevelopment Land Agency parcel 6 for the development, and on the Exclusive Development Rights Agreement between the District and Mr. Pollin, which is essentially the financial and development agreement between the two parties. My Committee took an exhaustive look at all aspects of the deal and made a number of recommendations on how the city might improve key elements of the project.

In February 1995, the Committee marked-up both resolutions and issued a Committee Report which looked closely at the financial aspects of the project. The following excerpts from these reports state the conclusion that I have reached about why we are asking to build this arena, and what we hope to see it return to the District.

> "... other uses of the land that generate both property and other taxes are likely to exceed the net present value of the arena deal, since they do not require large up-front costs to the District...It is the opinion of the Committee however, that this proposal cannot be accurately judged against other, more typical, development. There will be only one arena in this region. It will draw over 2.2 million visitors to it every year and create tangible social, cultural, and economic spin-off benefits to the District that cannot occur from any alternative proposed use. The financial cost of these other tangible and intangible benefits therefore, is the difference between the [30 year financial benefit of the arena] and any straight financial returns of an alternative development for the site. The value of the arena project to the District therefore, has not been, and should not be, measured in dollars alone, but in the cumulative social, cultural, financial and multiplier benefits that will accrue to the District."

Having said this in my report to the Council, I still believe that it is incumbent on me, and my colleagues, to be as frugal as possible with the taxpayer's money. I have urged the Executive and the RLA Board to seek alternative financing proposals for the $53 million that the District will have to borrow. In this regard, there is much that this Committee and the Congress can do to ensure that the District spends as little as possible to finance this money.

HOW CONGRESS CAN HELP

I am glad that you have given the District all the flexibility we need to pursue either bank or bond financing at either a fixed or variable rate. We are currently evaluating three separate financing proposals. Due diligence has been completed on one of these proposals and is just beginning on the other two. I would like to be able to tell you that prior to July 25th, the two other offerers will complete their due diligence, the District will complete a comparative evaluation of the proposals, and we will make a final financing decision. Unfortunately, it may take until after Congress recesses to complete these tasks. If Congress requires the District to make a final financing decision prior to the completion of this process, the District may be locked into using the one financing deal that has been firmed-up to date. Although this may well be the District's best option, I believe that it is our duty to consider every proposal before us, and to pursue the most favorable terms we can get.

I understand Congress' desire to closely monitor the District's financial decisions. However, I hope that you will agree that it is wiser for Congress to set parameters within which the District can flexibly pursue the best financial terms to borrow money, than to insist on approving a specific deal by a certain date, which may be more costly. I suggest that you approve our ability to finance this project using any of the three proposals before us. This will allow us the time to complete the evaluation process and chose the most favorable package, whether this occurs prior to July 25th, or after Congress goes into summer recess. I believe that the legislation before you today gives us the flexibility we need and I urge you to keep it this way.

District elected officials, members of the RLA Board, and our partners in the private sector have worked long and hard on these two exciting projects. I believe that given the constraints of land, time, money and authority, we have created remarkable proposals that can rival any in the country for similar facilities. I am heartened by the positive words that I have heard from members of this Committee and I believe that with timely Congressional action on these bills, we will all soon be attending a ribbon cutting at both projects.

I thank you for your invitation to testify before you today and welcome your questions.

Mr. DAVIS. Thank you, Ms. Jarvis. The last witness on the first panel is the chairwoman of the Redevelopment Land Agency, designated as the lead agency on the arena project, which will oversee the project and the financing of the District's costs.

Michelle Bernard has attracted quite a bit of attention recently. I, for one, would like to commend her for taking the RLA Board through the strenuous process of bringing this important project toward completion.

A few steps are left to be completed, but I am confident of the RLA Board's ability and desire to complete its actions within the timelines imposed in the exclusive rights agreement as adopted on June 22.

Ms. Bernard, please proceed.

Ms. BERNARD. Thank you very much, Mr. Chairman and members of the subcommittee. Again, my name is Michelle Bernard and, as chairperson of the Board of Directors of the District of Columbia Redevelopment Land Agency I thank you for this opportunity to give testimony on H.R. 1843, the District of Columbia Sports Arena Financing Act of 1995, and to specifically address the RLA Board's management plan to develop the site and the terms of the proposed loan agreement with Crestar Bank and NationsBank.

I would like to begin, however, first by just stating that I firmly believe, as does every member of the RLA Board, that the development of a high quality multipurpose arena in the heart of the District is a tremendous opportunity to revitalize one of the District's many urban renewal areas and, thereby, provide significant economic and social benefits to the District.

As a citizen of the District of Columbia and as chairperson of the RLA Board, I truly believe in this project and am personally fully committed to the development of the arena in a manner that will not only allow Mr. Pollin to be in a position to break ground in mid-October but will provide the District with a transaction that, in all respects, is the best that the city can obtain.

The members of the RLA Board have been honored and pleased to service the city through delivering to the city the same skill and professional expertise that we provide to our clients in private practice or as employees of the District that we provide to the citizens of the District of Columbia.

We have scrutinized every proposal and agreement brought before us and have asked many questions at every juncture of the process to insure that the economic needs of the District and its citizenry are met.

In this regard, I am delighted to report that on Thursday, June 22, the RLA Board unanimously approved an exclusive right agreement between the RLA Board and the National Capital Development Corp. Among other things, the ERA establishes a timetable which allows Mr. Pollin to break ground in mid-1995.

I understand that the subcommittee is interested in what the RLA's management plan is, so I will begin with the exclusive right agreement and where we go from there. In connection with the RLA's management plan to develop the site, I would note that it is my understanding from RLA staff that the ERA will be executed by both parties sometime this afternoon. I note this only because

the timeline we are working under is tied to the execution of the exclusive right agreement.

Assuming that the ERA is, in fact, executed today, our process and the timeline to be met would require the submission of a proposed land disposition agreement to the RLA Board by Monday, July 31, 1995, and the following actions by NCDC on or before August 11.

First, NCDC would have to provide the board with a good faith deposit of $200,000. Also, NCDC would have to execute what we term a letter of agreement on general business terms with the RLA Board. NCDC would have to submit a community participation program, as well as an affirmative action plan to the Board, and NCDC or the responsible entity developing and managing the arena would have to submit organizational documents such as corporate charter, et cetera, to the RLA Board.

Finally, also, NCDC would have to submit to the board letters of intent or commitment from a qualified lending institution indicating its willingness to provide funds sufficient for construction and financing. A development schedule and preliminary drawings would also have to be submitted to the board by August 11.

After receipt of all of these plans and documents from NCDC, RLA staff members will review NCDC's responses to insure that all requirements of the ERA have been met. Shortly after that time, RLA staff will make an informal certification to myself and the members of the board that NCDC has conformed with all of the requirements.

And then after the RLA Board has approved the submission of the materials received from NCDC and also has a submission of a firm commitment letter from Mr. Pollin's financing of his share of the costs associated with the development of the arena, the board will give 30 days notice and hold a public hearing—that would be about September 11—on the terms and conditions of the proposed final land disposition agreement.

On or about October 11, final approval of the LDA by the board following the public hearing, the parties would execute the final land disposition agreement.

I would add that my legal opinion is, and it is my belief of the RLA Board, that the RLA Board will concur with appropriate action to request at that time that in addition to NCDC, its successors or assigns, that Mr. Pollin, on behalf of the Center Group, Washington Hockey and the Capital Bullets Basketball Club, also execute the final LDA. This would legally protect the District's future interests since, to date, all legal agreements have been between NCDC and the District government itself.

Now getting onto the financing of the District site acquisition costs, at this time there are two proposals before the Board for their consideration. Prior to yesterday we were looking at three proposals. We have since then narrowed it down to two.

The most significant factors distinguishing the proposals is that one proposal is a bank loan with a floating 30-day interest rate tied to LIBOR. The other proposal is a combination taxable issue tax-exempt bond issue with a blended fixed interest rate of about 7.12 percent. I will refer to the bond proposal as the Morgan Stanley proposal.

At this juncture, the board must consider which proposal makes the most economic sense for the District and can be funded in time to meet the development schedule. We are confident that this issue will be resolved in the immediate future.

On June 1, 1995, the District's Arena Task Force Office provided the members of the board with estimated Gallery Place site development costs. In looking at these proposed costs and the April 21 term sheet for financing which have been provided by Crestar and NationsBank, the issue was raised in the public RLA Board meeting informally as to whether more than one source had been considered for financing.

That statement generated additional proposals for financing, one of which was developed in detail by Morgan Stanley and was presented to me as chairperson of the board.

The RLA Board is most appreciative that Crestar and NationsBank, two very strong local banks, are interested in funding this very important project, especially since it will have a significant economic impact on our local community for years to come. Both Crestar and NationsBank stepped up to the plate at a time when the District's financial situation was not optimum.

However, some concerns were expressed about the bank proposal, and they are as follows. First, the lead banks would fund only $20 million of the amount that is necessary for the site development acquisition costs and the remaining $33 million would be syndicated to other banks.

Second, the repayment of the loan requires that the annual debt service amount equal the greater proceeds of the arena tax and land lease or the amount required to fully amortize the loan within the term which will be determined during the due diligence period. And it's my understanding that that term is not to exceed 7 to 10 years. Such a short-term repayment of the loan requires a debt service that is equal to or can exceed the anticipated annual arena tax. This could be decreased by a longer period of amortization or a fixed rate.

Third, a fixed rate would also enable the District to budget and plan for a known repayment amount. Fourth, the floating rate adjusted every 30 days with the interest payment being 200 basis points above that rate was a concern. Protection of that rate through a cap could cost as much as 2 to 4 percent of the loan amount.

Finally, there were concerns about the proposed fees, but rather than going into those in detail today I have attached for your convenience the bank's proposed term sheet to my written testimony for the subcommittee's review.

In conclusion, Mr. Chairman and members of the subcommittee, I would like to state that the board believes that it has a firm offer for the District's portion of the site acquisition and development costs from both Crestar and NationsBank; however, in keeping with our fiduciary duty to the residents of the District of Columbia, the board is, in fact, analyzing the alternative bond financing proposal provided by Morgan Stanley and we are quite sure that this issue will be resolved in the immediate future.

Thank you.

[The prepared statement of Ms. Bernard follows:]

TESTIMONY OF MICHELLE D. BERNARD, CHAIRPERSON

OF

THE DISTRICT OF COLUMBIA REDEVELOPMENT LAND AGENCY

BEFORE

THE CONGRESS OF THE UNITED STATES

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

HEARING ON H.R. 1862, DISTRICT OF COLUMBIA CONVENTION CENTER PRECONSTRUCTION CENTER ACT OF 1995 AND H.R. 1843, DISTRICT OF COLUMBIA SPORTS ARENA AND FINANCING ACT OF 1995

WEDNESDAY, JULY 12, 1995

Chairman Davis, members of the Committee, as Chairperson of the Board of Directors of the District of Columbia Redevelopment Land Agency (the "RLA Board"), I thank you for this opportunity to give testimony on H.R. 1843, the District of Columbia Sports Arena Financing Act of 1995 and to specifically address (1) the RLA Board's management plan to develop the site; and (2) the terms of the proposed loan agreement with Crestar Bank, N.A. and NationsBank, N.A. (the "bank proposal").

I firmly believe, as does every member of the RLA Board, that the development of a high quality, multi-purpose arena in the heart of the City is a tremendous opportunity to revitalize one of the District's many urban renewal areas and thereby, provide significant economic and social benefits to the District. As a citizen of the District of Columbia and as Chairperson of the RLA Board, I truly believe in this project and am personally, fully committed to the development of the arena in a manner that will allow Mr. Pollin to be in a position to break ground in mid-October, and will provide the District with a transaction that in all respects is the best it can obtain.

The members of the RLA Board have been honored and pleased to serve the City through delivering to the City, the same skill and professional expertise that we provide to our clients in private practice or as employees of the District, that we provide to the citizens of the District. We have scrutinized every proposal and agreement brought before us and asked many questions at every juncture of the process to ensure that the economic needs of the

District and its citizenry are met.

In this regard, I am delighted to report that on Thursday, June 22, 1995, the RLA Board unanimously approved an Exclusive Rights Agreement ("ERA") between the RLA Board and the National Capital Development Corporation ("NCDC"). Among other things, the ERA establishes a timetable which allows Mr. Pollin to break ground in mid-October 1995.

A. THE RLA'S MANAGEMENT PLAN

In connection with the RLA's management plan to develop the site, I would note that it is my understanding from RLA staff that the ERA will be executed by both parties this afternoon. I note this only because the time line we are working under is tied to the execution of the ERA.

Assuming that the ERA is executed today, our process and the time line to be met would require the submission of a proposed land disposition agreement ("LDA") to the RLA Board by Monday, July 31, 1995 and the following actions by NCDC on or before Friday, August 11, 1995:

1. NCDC, its successors or assigns ("NCDC"), would have to provide the Board with a good faith deposit of $200,000;

2. NCDC would have to execute a "Letter of Agreement on General Business Terms" with the RLA Board;

3. NCDC would have to submit a community participation program to the RLA Board;

4. NCDC would have to submit an affirmative action program to the RLA Board;

5. NCDC or the responsible entity developing and managing the arena would have to submit organizational documents (i.e., corporate charter, etc.) to the RLA Board;

6. NCDC would have to submit to the RLA Board, letters of intent or commitment from a qualified lending institution(s) indicating its willingness to provide funds sufficient for construction financing;

7. NCDC would have to submit to the RLA Board, a development schedule for the project including the design period and a phasing schedule; and

8. NCDC would have to submit preliminary drawings to the RLA Board.

After receipt of the above from NCDC, RLA staff members will review NCDC's responses to the above to ensure that all of the requirements of the ERA have been met. Shortly thereafter, RLA staff will make an informal certification to the members of the Board that NCDC has conformed with all the above-referenced requirements.

Immediately following approval of the above by the RLA Board and submission to the Board of a firm commitment letter for Mr. Pollin's financing of his share of the costs associated with the development of the arena, the Board will give 30 days notice and hold a public hearing (September 11) on the terms and conditions of the proposed final land disposition agreement ("LDA"). Within 30 days (October 11) of final approval of the LDA by the RLA Board (following the public hearing), the parties will execute the final

LDA. My legal opinion is and it is my belief that the RLA Board will concur with appropriate action to request that in addition to NCDC, its successors or assigns, that Mr. Pollin, on behalf of the Centre Group, L.P., Washington Hockey L.P., and the Capital Bullets Basketball Club, Inc., also execute the final LDA. This would legally protect the District's future interests since to date, all legal agreements have been between NCDC and the District government itself.

B. THE FINANCING OF THE DISTRICT'S SITE ACQUISITION COSTS

In connection with the proposed financing of the District's site acquisition and development costs, at this time, there are two proposals before the Board for consideration. The most significant factors distinguishing the proposals is that one proposal is a bank loan with a floating 30 day interest rate tied to LIBOR. The other proposal is a combination taxable issue/tax-exempt bond issue with a blended fixed interest rate of 7.12% (the "Morgan Stanley proposal"). At this juncture, the Board must consider which proposal makes the most economic sense for the District and can be funded in time to meet the development schedule. We are confident that this issue will be resolved in the immediate future.

On June 1, 1995, the District's Arena Task Force Office provided the members of the Board with estimated Gallery Place site development costs. In looking at these proposed costs and the April 21, 1995 term sheet for financing by Crestar and NationsBank, the issue was raised in a public RLA Board meeting informally as to whether more than one source had been considered for financing.

That statement generated additional proposals for financing, one of which was developed in detail by Morgan Stanley and presented to me as Board Chairperson.

The RLA Board is most appreciative that Crestar and NationsBank, two strong local banks, are interested in funding this very important project, especially since it will have a significant economic impact on our local community for years to come. Both Crestar and NationsBank stepped up to the plate at a time when the District's financial situation was not optimum.

However, some concerns were expressed about the bank proposal. They are as follows:

* The lead banks would fund only $20 million with the remaining $33 million to be syndicated to other banks;
* The repayment of the loan requires that the annual debt service amount equal the greater proceeds of the arena tax and land lease or the amount required to fully amortize the loan within the term which will be determined during the due diligence period (a period not to exceed 7 to 10 years). Such a short term repayment of the loan requires a debt service that is equal to or can exceed the anticipated annual arena tax.
* This risk could be decreased by a longer period of amortization or a fixed rate.
* A fixed rate would enable the District to budget and plan for a known repayment amount.
* The floating rate adjusted every 30 days with the

interest payment being 200 basis points above that rate was a concern. Protection of that rate through a cap could cost as much as 2% to 4% of the loan amount.

* Finally, there were concerns about the proposed fees. For your convenience, we are attaching the proposed term sheet.

In conclusion, the Board believes that it has a firm offer for financing of the District's portion of the site acquisition and development costs from Crestar and NationsBank.

In keeping with its fiduciary duty to the residents of the District of Columbia, the Board is analyzing the alternative bond financing proposal provided by Morgan Stanley & Company.

This proposed term sheet does not represent a commitment on behalf of the Lenders to provide the requested facility. This proposed term sheet outlines the terms and conditions that will be further explored during the due diligence phase and is being presented for discussion purposes only.

Gallery Place Arena Site Development
Revised Term Sheet
April 21, 1995

Amount:	Up to $53,000,000 Term Loan with Draw Period. The final amount will be determined after the Lenders review and approve the costs associated with the project, and review and analyze the projected tax receipts. This amount is contemplated prior to the receipt of 1995's revenue from the Arena Tax Amendment Act of 1994 or any amendments thereof ("the Arena Tax"). The loan amount will be reduced with the proceeds thereof.
Borrower:	District of Columbia ("the District") or an Agency thereof, to be determined, and also to be deemed satisfactory to The Lenders.
Lenders:	NationsBank and Crestar shall provide up to $20,000,000 with remaining Lenders to be obtained on a best efforts basis during the due diligence phase.
Purpose:	This facility shall be used to complete the site development of Square 455 ("the Site"). Specifically, project costs shall include the acquisition of two (2) adjacent non-District of Columbia owned properties, completion of the underground Metrorail connection to the Site, relocation of displaced District of Columbia employees, and other Site development costs including demolition, off site utilities, environmental assessment, legal and consulting expenditures. Such Site is being developed for the construction of a first class, 20,000+ seat, multi-purpose arena.

This proposed term sheet does not represent a commitment on behalf of the Lenders to provide the requested facility. This proposed term sheet outlines the terms and conditions that will be further explored during the due diligence phase and is being presented for discussion purposes only.

This proposed term sheet does not represent a commitment on behalf of the Lenders to provide the requested facility. This proposed term sheet outlines the terms and conditions that will be further explored during the due diligence phase and is being presented for discussion purposes only.

Interest Rate:	The interest rate on all outstanding balances shall be 30 day Libor + 200bp.
Interest Rate Protection:	The variable interest rate must be hedged using a swap, cap or some other instrument acceptable to the Lenders.
Commitment Fee:	A total fee equal to 1.625% of the commitment amount ($861,250 based on $53,000,000 commitment) shall be due and payable as follows: (1) $150,000 initial payment of Commitment Fee upon acceptance of NationsBank/Crestar commitment for up to $20,000,000. (would be credited towards the total commitment fee). (2) the remaining balance of $711,250 upon closing (based on $53,000,000 commitment amount).
Repayment Term/Amount:	This facility shall fully amortize over a period not to exceed 7 to 10 years, depending upon the initial amount of the facility and discovery during the due diligence phase. The annual debt service amount shall equal the greater of: (1) the entire amount of proceeds from the Arena Tax and land lease, or (2) the amount required to fully amortize this facility within the term which shall be determined during the due diligence phase. Proceeds of the Arena Tax shall be directly remitted to a lockbox and deposited to a cash collateral account maintained by a designated agent. June 15

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Sources of Repayment:

(1) All proceeds of the Arena Tax
(2) Income from the land lease
(3) Additional sources of repayment will be identified and approved by all appropriate legislative, regulatory and other authorities required to obligate, pledge and dedicate any additional sources of repayment necessary to retire the debt.

Power and Authority:

The District shall obtain statutory approval of the Congress of the United States of America to enter into the proposed transaction, incur the obligations as described, and pledge, assign and dedicate the collateral described herein.

Security:

(1) A perfected pledge and first lien on all proceeds generated from the Arena Tax. add on
(2) An assignment of the land lease between Redevelopment Land Agency (the Lessor), and NEWCO, a Company controlled by Abe Pollin(the Lessee), and all income thereof. If the land lease has not been executed, a deed of trust on the arena site shall be provided as security until such land lease is executed.
(3) A perfected pledge on the identified additional sources of repayment, such as unencumbered assets.

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Other: The following additional conditions must be met by the District and/or Borrower:

(1) the District and Borrower shall obtain an opinion of counsel satisfactory to the Lenders stating that.
   (a) the District and Borrower have the authority to enter into this transaction.
   (b) the District, Borrower and Lessor have the ability to pledge and encumber proceeds of the Arena Tax, the land lease, additional sources of repayment, or any assets required herein,
   (c) the District has the authority to use and assign the Arena Tax proceeds for the intended purposes (arena site development),
   (d) the lenders have a valid, perfected first priority lien on all security, and
   (e) any other requirements as deemed necessary by Lenders' attorney.

(2) the District shall covenant and agree to amend the Arena Tax as necessary to meet the financial terms and conditions of this facility.

(3) the District agrees that under no condition (including the lack of arena construction/completion) shall it rescind or amend the Arena Tax without the Lenders' written consent.

(4) the District shall obtain the necessary and appropriate Congressional approvals required to enter into and pledge collateral as required herein.

(5) Borrower shall provide a detailed budget of the project expenditures and a list of the project manager and major contractors to the Lenders for review and acceptance during the due diligence phase.

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Financial Reporting Requirements:	The District and Borrower shall provide the following financial information to the Lenders: (1) annual audited financial statements, (2) quarterly financial statements, or management information deemed acceptable to the Lenders (3) information on the taxpayers and projections for the Arena Tax as required by the Lenders, (4) annual District budget, and (5) all other information deemed appropriate by the Lenders.
General	Advances under this facility shall be halted the sooner of 9/30/95 or $30,000,000 in total advances, if the Exclusive Rights Agreement between NEWCO and the District has not been fully executed, and the Gallery Place Arena financing has not been committed and deemed acceptable to the Lenders.
Costs:	Borrower shall pay all costs associated with closing this facility, including but not limited to recordation and filing fees and legal costs.
Legal Costs:	The Lenders' Counsel, Hunton and Williams, has agreed to cap legal cost at $150,000 subject to the terms and conditions contained in a separate engagement letter between the Lenders' Counsel and the Borrower.

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Due Diligence: Borrower shall pay a non-refundable fee of $150,000 to the Lenders for due diligence performed in connection with the credit facility. The Borrower shall pay $75,000 upon acceptance of this revised term sheet and $75,000 upon acceptance of the NationsBank/Crestar commitment. During due diligence the Lenders shall review and research all pertinent issues to determine its final ability to enter into this facility. If the Lenders provide a commitment, then the commitment fee shall be due and payable as described herein.

Additionally the Borrower shall agree to pay all legal fees incurred by the Lenders to complete the due diligence process. The Borrower shall pay $25,000 to be held by the Lenders, towards such legal costs upon acceptance of this revised term sheet.. Additionally, the Borrower will pay $25,000 upon acceptance of the NationsBank/Crestar commitment. Such funds shall be disbursed to the Lenders counsel as legal fees are periodically billed

Refunding of Fees: If Lenders are unable to arrange the remaining lenders to participate in the full commitment (up to $53,000,000), then the following fees shall be refunded:

(1) none of the Due Diligence Fee,
(2) the $150,000 initial payment of Commitment Fee, and
(3) unexpended funds reserved for legal costs ($50,000 less total billings).

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Mr. DAVIS. Thank you, Michelle. Thank you very much. What I would like to do is now proceed to questions. Dave, how about 1 minute? I appreciate you bearing with us and sitting through everybody's testimony.

Do you know what the schedule for final passage of the Arena Tax Amendment Act is?

Mr. CLARKE. We have called an additional meeting of the council for the 25th. I might indicate as an indicator of how serious we are, that is right in the middle of our 15 days that we have on the authority issue that's going to come to us Friday, so we are going to take a little time out of that to hold an additional meeting because we heard that your shop needed it by that date.

Mr. DAVIS. Well, let me ask you this: Do you agree that until the Arena Tax Amendment Act legislation is on the books that the financing for the District's portion of the arena project cannot go forward?

Mr. CLARKE. Not necessarily, no, because we already have an arena tax on the books, albeit an emergency and temporary legislation. The money is being collected and we've got the first reading on this permanent legislation and we're going to get the second reading on it, so it may be something of an academic issue because everything is being done.

Mr. DAVIS. If you pass this on the 25th, can you deliver it to Congress, do you think, that day and have the paperwork done?

Mr. CLARKE. Well, we can, yes. That's correct, we can get it up here.

Mr. DAVIS. And have you talked to the Mayor and his staff about that?

Mr. CLARKE. Yes, we've communicated to the Mayor by letter and I think he's personally aware of the necessity to do that. But I've written a memorandum to the Mayor and to the director of intergovernmental relations on that very point that once it's done we can get it to the other city hall in One Judiciary Square and then get it to you.

Mr. DAVIS. Thank you. The subcommittee may submit written questions to any of the witnesses, and we would appreciate a rapid response if we do that.

I will ask Ms. Norton very quickly before Mr. Clarke leaves if she has any questions for him. I have some questions for the other panelists but, Dave, I want you to be able to go over and chair this important committee and continue the long legacy of effective leadership on that committee.

Ms. NORTON. Just one question, Mr. Clarke. Mr. Clarke did hear the chairman say he is duly considering his parking authority legislation.

Mr. CLARKE. I very much appreciate it.

Ms. NORTON. Because I know that has been a special concern of yours and I had indicated that I would also followup with the chairman. I just want to make sure that we all have the same understanding because our August recess will be upon us.

And really as a followup in somewhat more detail the chairman's question, we are likely to have to do everything before the House and the Senate—our aim is to do everything the House and the Senate before August recess, which is sometime in the first week

of August. Now, that presses the District to move in a little unusual fashion.

Could I ask you, after the second reading of a bill, can it be signed that same day, because that's the day before the scheduled markup?

Mr. CLARKE. That's—I guess——

Ms. NORTON. I mean, is there anything that could keep that in regulations or in law?

Mr. CLARKE. You can get it from the city council to the Mayor the same day. And then the way it usually goes is, the Mayor gets it back to us for transmission to the Congress and we can get it back from our offices to the Congress as soon as the Mayor has signed it.

Mr. DAVIS. I think what you are saying is that nothing, at least offhand, occurs to you as far as any legal impediments to making that happen?

Mr. CLARKE. No legal impediments at all.

Mr. DAVIS. You got the practical side of it but——

Mr. CLARKE. That's precisely correct. There are no legal impediments to that at all. We have to wait till the 25th, however, because we just had the first reading on it yesterday and the charter requires 13 days intervening.

Mr. DAVIS. Thanks. David, thank you very much and we appreciate your being here with us.

Mr. CLARKE. Thank you.

Mr. DAVIS. I have a few more questions, actually, for each panelist and I will try to go through them quickly and then yield to Ms. Norton.

Mr. Campbell, let me ask you, does the Mayor support the Arena Tax Amendment Act?

Mr. CAMPBELL. Yes, he does.

Mr. DAVIS. Do you think, congruent with what Mr. Clarke has just said, that he is willing to sign the bill immediately upon passage so that the Council could expedite its transmission to Congress by the 25th?

Mr. CAMPBELL. The Mayor is prepared to sign it and turn it around immediately.

Mr. DAVIS. Great, thanks. And is the Barry administration, as far as you know, still receptive to a better financial offer to pay for its part of the arena?

Mr. CAMPBELL. Yes, as long as it can be consummated within the tight timeframe with which we are faced.

Mr. DAVIS. Is it the administration's understanding that the Redevelopment Land Agency can use the resources made available by this legislation, the arena tax, only to fulfill the District's contract with Mr. Pollin's organization?

Mr. CAMPBELL. Yes, that is our understanding.

Mr. DAVIS. And what would you expect the RLA to do with any revenue in excess of those needed for the debt service?

Mr. CAMPBELL. Well, it would be our expectation that the RLA would use that to retire the debt as quickly as possible.

Mr. DAVIS. So any extra they could use for debt retirement?

Mr. CAMPBELL. Yes.

Mr. DAVIS. Do you agree that the newly created Financial Management Authority should have a strong role to play in this borrowing, whether or not the borrowing is required to be approved by it?

Mr. CAMPBELL. Well, as to whether it's a requirement or not, that is unclear. We certainly would coordinate with the Authority.

Mr. DAVIS. Have you or others in the administration been in contact with the Authority on this matter yet?

Mr. CAMPBELL. Not to my knowledge.

Mr. DAVIS. What is the current status of the convention center and what would happen if the convention center legislation were not passed?

Mr. CAMPBELL. Well, I think the most immediate effect of the convention center legislation not passing is the fact that in fiscal year 1995 there is no operating subsidy from the appropriation for the operation of the convention center. In addition, we will continue to lose revenue.

In 1994, I think it generated about $575 million, which was down $80 million from the previous year, and that is anticipated to continue in the future. So the quicker we can pass this legislation, the quicker we will be in a position to realize economic gain rather than loss.

Mr. DAVIS. Thank you very much. Ms. Jarvis, let me ask you a couple questions. Under the Arena Tax Payment and Use Amendment Act, are there any expenditures that the RLA could make other than those contemplated by the District's exclusive rights agreement with Mr. Pollin that you are aware of?

Ms. JARVIS. No, Mr. Chairman, the RLA may use the money for the repayment of the debt, demolition of the buildings, et cetera, and any costs associated with the arena, but no non-arena associated costs.

Mr. DAVIS. Was it your intent in the arena tax amendment legislation to put the revenue in a lock box which could be used only for this project?

Ms. JARVIS. Yes, sir.

Mr. DAVIS. Would the District Council have to authorize RLA's expenditures for anything other than debt service?

Ms. JARVIS. Yes, they would. Debt service and other costs associated with the arena. And if—yes.

Mr. DAVIS. OK. Would Congress have to authorize such expenditures?

Ms. JARVIS. Yes, sir.

Mr. DAVIS. And what would you expect the RLA to do with any funds from the arena tax in excess of the debt service? I asked the same question.

Ms. JARVIS. Well, I would expect them to pay down the debt service ahead of time if there were dollars available to do that.

Mr. DAVIS. Accelerate it if there is extra money, to pay it ahead?

Ms. JARVIS. To accelerate it and potentially reduce the number of years of the arena tax.

Mr. DAVIS. What are the exact items that you would forsee the District paying for under the arena legislation?

Ms. JARVIS. Acquisition of additional land, the demolition of a current building used to house government workers, the relocation of those workers, the costs associated with Metro and the arena,

and other costs associated with the arena that may, for example, be infrastructure.

Mr. DAVIS. And right now the estimated cost of those items is?

Ms. JARVIS. It's $53 million.

Mr. DAVIS. Do you feel comfortable with that? The GAO is going to testify later on some of the items on the appraisals and the land value.

Ms. JARVIS. Well, now, Mr. Chairman, I have not, in fact, looked at the appraisals. That is a matter before the board and I have not looked at those numbers. Am I comfortable with the items that are incorporated within the $53 million?

Mr. DAVIS. Right.

Ms. JARVIS. I am, to the extent that I know which of the financing deals would be done, in other words, costs associated with the financing, if bond or debt would be different and would draw on it differently.

Mr. DAVIS. And how would these costs be financed?

Ms. JARVIS. Well, either by loan—as Ms. Bernard has said, the NationsBank-Crestar proposal is on the table. They came quickly to the table. And you heard that there are, and I was concerned about some of the up-front costs and other of the costs. The board is looking at another proposal which is a bond financing proposal and they are making comparative judgments.

Mr. DAVIS. What is the current status of the convention center project?

Ms. JARVIS. Well, Mr. Chairman, the bill before you today would permit the convention center to do certain things—predevelopment, for example, acquisition of land.

It would not give to the Authority the full authority that it needs, for example, to issue debt and so, in the wisdom of the Congress, there is a two-step process here which, as I said in my testimony, I hoped could be telescoped so as to give the new Convention Center Authority quickly the authority to issue debt in its own name.

Mr. DAVIS. The arena legislation only allows spending for the studies necessary to begin real planning for the new convention center. Who will make the decision on the convention center project?

Ms. JARVIS. The Convention Center Authority was established by law and it is the Authority that will review the possible plans for a convention center and will issue the debt.

Mr. DAVIS. Would the council have to take further action on that project, on the convention center project?

Ms. JARVIS. Mr. Chairman, on the appropriation for the repayment of the debt, the council would take no further action that's not subject to the appropriation because that is simply a condition that we know is important for the bond market, that there be an identifiable source of revenue. We need your approval to be able to do that.

Your question is would the council have any subsequent authority with respect to the center?

Mr. DAVIS. I think you've answered it. Would the Congress have to take further action?

Ms. JARVIS. Yes, sir, you do have to take further action to issue the debt.

Mr. DAVIS. Now, it is my understanding that no decisions have been made on the convention center and that all options are open, including a private development as well as public financing.

Ms. JARVIS. Yes, sir. Both of those options are open. May I just indicate staff has reminded me that the council would have to approve the inducement resolution at the time bonds were issued.

Mr. DAVIS. OK. I think that's pursuant to Federal law.

Ms. JARVIS. Yes.

Mr. DAVIS. Thank you very much. Ms. Bernard what is the status of the exclusive rights agreement?

Ms. BERNARD. The RLA Board unanimously agreed to all the provisions of the exclusive right agreement and we are contemplating that it will be executed by both NCDC and the RLA Board this afternoon.

Mr. DAVIS. What does the exclusive rights agreement obligate the District to do?

Ms. BERNARD. Actually, at this point the ERA does not really obligate the District to do anything. What it does is it sets forth the requirements of what NCDC or its successors or assigns are obligated to provide the District with, which is what I went into in my testimony.

There are a lot of things that have to be provided to the RLA Board by NCDC that are set forth in the ERA, and all of that information is due back to us probably sometime about August 11.

Mr. DAVIS. So what specific items is the RLA committed to pay for under this?

Ms. BERNARD. At this time we are committed to pay for all of the costs associated with the site development and acquisition of I guess what we're calling parcel 6 over there at the Gallery Place site. That includes certain infrastructure changes, demolition of some of the buildings, relocation of the employees. That type of thing.

Mr. DAVIS. We have had testimony on this before, but do you agree on the estimated and aggregate costs on this?

Ms. BERNARD. I mean, at this point, Mr. Chairman, I am actually not in a position to agree or disagree with it. I have not yet seen, for example, the appraisals and that type of thing. Information is being given to us by the task force on a daily basis so I don't know.

Mr. DAVIS. What would happen if the cost estimates proved to be too low and more money is needed?

Ms. BERNARD. I am actually not in a position to answer that question; however, there is another board member here that could do so if you would like that provided to you today. Otherwise, I can get it back to you in written form.

Mr. DAVIS. That would be fine. Can you tell us the relationship between the ERA and the financing arrangement in the pending legislation?

Ms. BERNARD. They are all tangentially connected to each other. The ERA really sets forth and puts us into high gear for what has to happen next, in keeping with what NCDC has to get to the RLA Board. The financing plan is tied to that because Mr. Pollin is not able to—I believe is not able to go forth with his part of the financ-

ing until the District's end of the financing is taken care of as well, so that is how they are connected.

Mr. DAVIS. Are you and the RLA satisfied that the ERA can be successfully adhered to, including a decision on a financing package and actually receiving the money?

Ms. BERNARD. Absolutely.

Mr. DAVIS. Who is going to make the final decision on which financing package to accept?

Ms. BERNARD. The RLA Board.

Mr. DAVIS. Can you give me a timeline for approving a final decision, and why the final authority rests where it does?

Ms. BERNARD. It is my understanding that the final authority rests with the RLA Board simply because the way the statute is set up and the fact that the RLA Board itself owns the property and is the entity that is going to be taking out the loan or committing itself to bond financing, whichever financial package we decide to go with.

This is new. It's almost what we would call a case of first impression. We are trying to move as quickly as possible in analyzing both proposals and we are working with an independent financial analyst as well as with some contact that we have had with the General Accounting Office and the Control Board just to determine whether or not what the numbers show on their face.

And what we have all said is that once we get the information we need, it will be very easy to look at both proposals on their face value and determine which is, in fact, a better deal for the District and, based on that information, we will hold a public hearing and take a vote on which package to go with.

Mr. DAVIS. Do you think the Financial Responsibility and Management Assistance Authority, the Control Board, should have a strong role in this borrowing or at least should be consulted prior to the RLA making a final decision?

Ms. BERNARD. I have not honestly read the legislation that sets forth what the role of the Control Board is, but I will tell you that I have been in contact with Mr. Hill, who is the executive director of the Control Board, pretty often dealing with this issue, and I think that with everybody working together we put ourself in the best posture to get the best deal that we possibly can obtain for the District.

Mr. DAVIS. I guess my last question would be, under the existing authority and the pending legislation, could the RLA, in fact, select either of the pending offers as the financing mechanism for the arena project?

Ms. BERNARD. Absolutely. That is the way that the District's legislation is set up.

Mr. DAVIS. Thank you very much.

Ms. BERNARD. Thank you, Mr. Chairman.

Mr. DAVIS. I yield now to Ms. Norton for any questions.

Mr. CAMPBELL. Mr. Chairman, if I might, excuse me 1 second.

Mr. DAVIS. Please.

Mr. CAMPBELL. I would like to clear up one thing, and that is in terms of the costs of the District. The $53 million relates to the loan or financing that is anticipated.

Mr. DAVIS. You have some land that you are giving and some other things?

Mr. CAMPBELL. That's right. We are projecting a total preconstruction cost to be in the neighborhood of $60 million, which would also include an interest reserve of about $3.8 million, so I just wanted to clear that up.

Mr. DAVIS. I appreciate that.

Mr. CAMPBELL. We are looking for a $53 million financing——

Mr. DAVIS. I know that but I'm not sure the record reflected that, so I appreciate that. Thanks.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. I just want to clarify—perhaps Ms. Jarvis and Ms. Bernard can help in clarifying the questions that have been raised for some time, which I believe the council has attempted to answer in the present legislation before you concerning the sufficiency of the arena tax.

Apparently, there is an escalator clause, and I would like you to describe how that would work in case the arena tax falls short of the $9 million a year.

Ms. JARVIS. Yes, Mrs. Norton, on or before December 1 of each year the Mayor certifies to the council the amount of revenues received by the District is the amount estimated to be collected in the current fiscal year is less than the $9 million, the Mayor shall increase the rate of the fee to provide that the estimated revenue in the then current fiscal year is not greater than $9 million, the Mayor shall notify the council and fee payers of any new rates in the fee.

That is the escalator clause. So he certifies and acts.

Ms. NORTON. Now, Ms. Bernard has testified at page 5 of your testimony in discussing the factors that affect your evaluation of the proposals before you. You say that a short-term repayment of the loan requires a debt service is equal to or can exceed the anticipated annual arena tax.

I mean, does that mean significantly or substantially exceed it, because that obviously would relate to whether or not the council would have to raise in a substantial fashion?

Ms. BERNARD. The problem, Delegate Norton, is that we honestly can't tell you if it would be significant or not. There is really no way of knowing when you are dealing with a variable rate, interest rate that's floating and changes on a 30-day basis, so there is no way to estimate whether it would be significant or insignificant.

It is my understanding, however, that the way the arena tax legislation has been drafted that there is an escalator clause that would allow for the District to, I believe, increase the arena tax to make up for that shortfall were we to go with the bank loan financing.

Ms. NORTON. If your testimony is that there would be no way under the variable rate to know whether or not the tax would need to be substantially increased, I can understand why you are seeking some greater degree of certainty.

Ms. Jarvis, there had been some concern expressed about the gross receipts tax and it is clear that most businesses would pay what can only be called a nominal amount, beginning at $25, and

1 percent, apparently, of businesses would pay between $5,000 and $8,400.

Has the council found any way to respond to the concerns of some that gross receipts for some businesses could be declining or that you could meet a situation where some businesses would have falling receipts in any case and then the tax hits them as well and the concern with businesses and their viability in the city?

Ms. JARVIS. Ms. Norton, I must say that the council did have a public hearing. There were some businesses, for example, in the gasoline business that came forward to say that they were concerned about the gross receipts tax. The Department of Finance and Revenue indicated that they thought it would be a real problem to remove any businesses from the assignment of the tax.

If there are falling gross receipts, then the tax would be less. Eighty-seven percent of the businesses that would be taxed would pay $100 or under, 87 percent, so that this is really for most businesses a de minimis problem.

Ms. NORTON. Have any of you—would any of you like to respond to the objections about downtown placement of the arena, the traffic and the rest of the concerns that have been raised?

Ms. BERNARD. Mrs. Norton, I don't have a comment about that but just before we go on, if I could, I just wanted to make it clear for the record my general counsel to the RLA Board has told me that the escalator clause in the arena tax is, in fact, designed to cover any shortfall in the arena tax. I didn't know if I had said that earlier but I wanted to make that clear.

Ms. NORTON. Yeah, I understood that but the uncertainty meant that the escalator clause could, in fact, require the District to raise the tax. I mean, the legislation would have to raise the tax, obviously, to cover the amount anticipated, and to the extent that we don't know what that would be I was—I can see the concern that you raise and that I'm sure the Council would have.

Ms. BERNARD. Congresswoman, if I might, I would like to respond to both of the issues that you raised. One, with respect to the variable rate and whether the tax would cover that, it is my understanding that in negotiating the deal with Crestar and NationsBank it was anticipated that a cap would be placed within the financing. This is generally, from my understanding, something that is done close to closing the deal itself.

But during the first year it was anticipated there would be $53 million from the loan itself and an additional $9.1 million from the arena tax. Based on our projections now, including the tax interest for the first year, we are looking at around $60 million in expenditures. So we have a float of about $2 million in there from anticipated revenue available.

It was anticipated to use that in some way to negotiate a cap such that we could keep the variable rate capped at a particular percentage. It is not anticipated that we would just let the tax go as high to cover any difference. I just wanted to put that on the record.

Second, with respect to the selection of the arena site, this decision was made prior to Mayor Barry coming into office but it is something he is working with. My understanding is it was four principal reasons for the selection of the proposed site.

One was that it had the luxury of having three different Metro lines go to that particular site. Second, it was anticipated that it offered of the sites reviewed the maximum opportunity for off-site spin-off economic development. Third, it has been vacant and dormant for quite some time and somewhat of a blight to the area and this offered an opportunity to develop it.

And, fourth, it also offered an opportunity for us to expend less costs since the District already owned a considerable amount of the property necessary for the project.

Ms. JARVIS. Ms. Norton, may I just also indicate about the escalator, what gives the lenders comfort is that there is an escalator. That is what gives businesses discomfort that there is an escalator. And it is really our intention to make sure that the lenders have a level of comfort that if there is more money needed for debt service that it will be available.

It is not our intention to support a project that would require an escalating debt service—I mean an escalator to be put in place in order to pay the debt service, which is what Ms. Bernard's point was, I think.

With respect to parking congestion, et cetera, there has been a parking study done that demonstrates that there are thousands of parking places within a 10-minute walk from the convention—I mean, sorry, well, from the convention and arena—but from the arena site, that could accommodate the traffic and, in fact, is preferable to having all of the traffic come into one site and have to leave from one site. Instead, people are dispersed in those private sector parking garages and, therefore, the traffic is dispersed. It is anticipated that over 50 percent of the arena patrons would be coming by Metro.

Ms. NORTON. Finally, how much revenue taxes have been collected thus far for these taxes?

Ms. JARVIS. Ms. Norton, I think as of June 27, $5.94 million have been collected from 17,292 taxpayers. We expect $9.1 million from 30,000 taxpayers by July 15, although I heard the chairman say 9.5 so I have to get some clarity on that.

Mr. CAMPBELL. Ms. Norton, I think I have more up-to-date figures. As of July 10, for the arena tax there was a collection of $7 million, and that is of an estimate of 9.1 at this point. And that is from 20,000 of the 30,000 businesses.

Ms. NORTON. Thank you very much. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much, and I want to thank the panel. Is there anything else that anybody wants to add?

[No response.]

Mr. DAVIS. Thank you all very much. We appreciate your being here. As the panel leaves I would like at this time to call our next panel. We have Abe Pollin. Mr. Pollin is accompanied by Mr. Wes Unseld, the executive vice president of the Washington Bullets, and by Mr. Peter Biche of Legg Mason.

Gentlemen, if you could step up here, it is the custom of our committee to swear in all witnesses before they testify.

[Witnesses sworn.]

Mr. DAVIS. Thank you very much. Let me say it is a real honor for the committee to have you here, Mr. Pollin. We are grateful to you and your civic mindedness in bringing your teams to downtown

Washington, and especially for your willingness in this time of fiscal constraint in the city to fund this arena yourself. I look forward to hearing your testimony on this project and your role in it.

You can proceed.

STATEMENT OF ABE POLLIN, CHAIRMAN, CENTRE GROUP USAIR ARENA, ACCOMPANIED BY WES UNSELD; AND PETER BICHE

Mr. POLLIN. Thank you, Mr. Chairman. It is a special privilege to accept your invitation to be with you this morning. I am especially grateful to the committee for the deep interest that is shown in this important project. I am particularly grateful to you, Chairman Davis, and you, Congresswoman Norton, for your deep and continuing interest in everything that affects our community.

Over 23 years ago I engaged in a discussion with the government of the District of Columbia, at that time for the purpose of building a state-of-the-art facility in the city, in the District. The city was not able to proceed in a timely fashion at that time. Under the terms of the National Hockey League franchise award, it was necessary for me to initiate construction promptly.

This resulted in the opening and operation of the Capital Centre, known as USAir Arena. It has been a highly successful regional facility of which I am quite proud and which was also privately financed. That building, while still quite useful, is not longer the state-of-the-art facility it once was or that the evolving economics of sports require in order to assure the stability with the franchise and, hence, change must occur.

It has been my long-stated view that holding both an NHL and an NBA franchise is a unique privilege, albeit at times quite an expensive privilege, and one which I have tried to exercise responsibly on behalf of the entire region. These franchises are valuable assets for me and my family and, from my perspective, valuable assets for the entire region.

My love of sports of this community began many years ago while watching as a child the Senators play at Griffith Stadium. And I might add I saw the first game the Washington Redskins played in 1937 at Griffith Stadium. My dream calls for providing similar opportunities for children of today and of the future. It calls for them to have a home team to cheer and root for.

This dream, like many others, has a practical side in order to assure its reality; that is, the construction of a modern, state-of-the-art facility which will justify long-term leases with both the Bullets and the Capitals, leases which will ensure both teams staying in this community well beyond the time when my control ceases.

My further hope is to give leadership and direction toward helping our region become a major entertainment locale for the east coast. The opening of the MCI Center and the continuing and rejuvenated use of USAir Arena will be major steps toward this goal.

I had discussions with multiple jurisdictions early on and was truly impressed with the seriousness, purpose, and sophistication of the jurisdictional leaders; however, the aggressive, timely, and business-like approach of the District's civic, business, and academic community persuaded me to focus within the city's boundaries.

Since then, positive, diligent negotiations initially led by civic leaders and outstanding dedication in close concert with then-Mayor Kelly and, more recently, direct negotiations with Mayor Barry and the city council, have allowed us to agree on a program that is real and do-able.

These negotiations were intense, participatory, and subject to several full public hearings. Like every negotiation, each party would prefer some changes; however, like every successful negotiation, the mutual focus was always on achieving the goal, that of opening in the fall of 1997 Washington's newest monument in the form of a world-class, state-of-the-art entertainment center.

My pledge to provide the financing has been fulfilled. Private financing has been arranged to build the new MCI Center in downtown Washington. The financing will cover all design and construction costs, including any contingencies or cost overruns, and the related up-front development expenditures such as legal, financing, marketing, and start-up costs required in a project of this size and complexity.

The largest component of the integrated financing package is a senior loan from a syndicate of national local banks to be assembled by NationsBank. NationsBank is a leader in the specialized field of financing sports related enterprises, including teams and facilities.

In addition to the bank loans, MCI Communications Corp. is providing a major part of the financing in the form of a subordinated debt. MCI will be the naming rights sponsor and telecommunications partner for the new arena.

Lastly, additional funding will come from Ogden Corp., the concessionaire at the MCI Center as well as USAir Arena, and through the sale of founders luxury suites and certain arena-related sponsorship rights.

We believe this combination of bank and naming sponsor financing is unique and extremely strong. I have with genuine optimism relied on the elected leadership of the District of Columbia to fulfill its commitments under our agreement.

We have submitted to an intense and fatiguing regulatory process. Scrutiny has been applied at every level and we have complied and will continue to comply with every reasonable procedural requirement, be it neighborhood, city, or Federal, all with the goal of a fall opening, the fall of 1997.

This opportunity cannot be allowed to pass. We are close to the realization of our dream. There is no reason to allow it to fail. I am fully and completely committed to the success of this project and believe firmly the city has the capacity and the will to fulfill its commitment.

Thank you for allowing me to participate in this hearing, and I would be pleased to answer any questions you may have. Thank you very much.

[The prepared statement of Mr. Pollin follows:]

STATEMENT OF ABE POLLIN
BEFORE THE
CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
ON
WEDNESDAY, JULY 12, 1995
9:00 A.M.
ROOM 311, CANNON HOUSE OFFICE BUILDING
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

AUG

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I am particularly grateful to Chairman Davis and Congresswoman Norton for their deep and continuing interest in everything that affects our community.

Over 23 years ago I engaged in a discussion with the Government of the District of Columbia for the purpose of building a state-of-the-art facility in this City. The City was not able to proceed in a timely fashion. Under the terms of the NHL franchise award it was necessary for me to initiate construction promptly. This resulted in the opening and operation of

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USAir Arena, and through the sale of Founders Luxury Suites and certain other arena-related sponsorship rights. We believe this combination of bank and naming sponsor financing is unique and extremely strong.

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a Fall opening. This opportunity can not be allowed to pass.

We are close to full realization of our dream. There is no reason to allow it to fail. I am fully and completely committed to the success of this project and believe firmly the City has the capacity and the will to fulfil its commitment. Thank you for allowing me to participate in this hearing. I would be pleased to respond to questions should you have any.

Mr. DAVIS. Thank you very much. You are to be commended for the efforts you have put forward on this project from the very start. The initial proposal from the Federal City Council was handled very well, given the circumstances in the city at the time. Your willingness to be flexible, change the proposal, especially your willingness to finance the actual construction yourself, is a fine example of public spiritedness.

Also, your faith in the project, as exhibited by your willingness to finance it personally, goes a long way toward alleviating any concerns I might have about how well the project might eventually perform as a moneymaker. You have your money on the line in this particular case.

I am going to ask: As a successful businessman, would it be fair to say that you wouldn't be building this arena yourself if you thought it was a bad project or in a bad location?

Mr. POLLIN. No, I don't think it's a bad project. I would not be building it if I thought it was a bad project. I think it's a great location. And I might add, sir, as I stated earlier, I had the dream of building an arena in downtown Washington 20-some years ago and at that time, unfortunately, was not able to prevail because of certain limitations on timing.

I have lived in this city most of my life. The city has been very good to me. I feel that it is incumbent on me. I have two very special assets in the teams that I own. I feel it is incumbent on me to put something back into the city, and that is why I think this project is a very important project for the city and a very important project for me and my teams.

Mr. DAVIS. How important is having it near the convention center? To me, it seems to make a lot of sense to have those almost colocated within a couple blocks of each other. Do you have any comment on that?

Mr. POLLIN. Yes, I think the convention center is also a very, very important project and I think the two projects, the arena and the convention center, will go a long way to revitalizing downtown Washington and making this, the Nation's Capital, the city that it should be and can be and will be.

Mr. DAVIS. They ought to help each other, shouldn't they?

Mr. POLLIN. Absolutely. We expect to have folks who go to the conventions come and see our games and see our stuff and people who come to our building go see the conventions, so I think it will be very helpful, particularly since they are within walking distance of each other.

Mr. DAVIS. Do you intend to continue to work with interested community groups or other organizations with an interest in this project or this area of the city, to try to do all that you can to alleviate their concerns and deal with any continuing problems they might have?

Mr. POLLIN. Absolutely. We have met and will continue to meet with any of the concerns of any of the citizens that they have. I have personally met with a group just a week ago and expressed—listened to what they had to say and took care of all their problems. So we will continue to do that.

Mr. DAVIS. Do you feel that your financing is secure and offers a reasonable chance to operate the arena in an acceptable business manner?

Mr. POLLIN. Absolutely. The financing is secure and Mr. Biche here can comment on that, but we think we have a very, very unusual and very good package financing this project and I think that Mr. Biche can answer and elaborate on it. We think we have probably the best financing package of any arena in the country.

Mr. BICHE. I concur with all his comments. [Laughter.]

Mr. DAVIS. He's getting paid by the hour. I'm surprised he's so brief. [Laughter.]

Do you feel you are going to have any problems complying with the terms of this agreement, that is, are you satisfied with the terms of the exclusive rights agreement as finally approved?

Mr. POLLIN. Yes, absolutely.

Mr. DAVIS. And, Mr. Pollin, as long as the RLA is able to meet the ERA timeline for deciding on the financing package and securing the funds necessary to carry its obligations, is the mechanism the RLA chooses of material interest to you?

Mr. POLLIN. No, the RLA, that is obviously their decision and their—and in your jurisdiction their decision of how they want to handle the financing. My one concern is, and it's a major concern, is the timeliness of it. This project is geared to break ground in October and all the financing is based on that.

All the terms of our negotiations with our builders and our subcontractors and suppliers are all based on breaking ground in October and, therefore, as long as anything that's done in that timely fashion is fine with me. That's their decision.

Mr. DAVIS. Let me add that I concur. I mean, we share the concern about meeting the timeline, and, we don't want to make this body, the House of Representatives, part of the holdup in this legislation. We want to work with you to make sure we stay on schedule.

Thank you very much. Those are my questions. Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. Mr. Pollin, would such an arena be viable if a sports franchise did not come with it?

Mr. POLLIN. No, there would be no way you could build an arena, there is no way you could finance an arena, there is no way you could economically finance and build an arena if you didn't have sports franchises.

Ms. NORTON. You indicated that you had desired to build in the District before but time considerations did not cooperate. Are you convinced that the timelines that you say are necessary will, indeed, materialize?

Mr. POLLIN. Absolutely. I am convinced that the schedule that we have set forth is a very, very tight schedule but it has been met every step of the way and we are definitely on target. And we are on target to break ground in October and we certainly think that's what's going to happen.

Ms. NORTON. You have indicated that you believe that the development of the arena, and I suppose the convention center as well but I am interested particularly in how the development of the arena in particular, would spur development of downtown Wash-

ington. Often, much of the development occurs inside such arenas themselves.

How much of the development do you believe will occur inside the arena and how much of it will occur in the surrounding blocks and among other businesses?

Mr. POLLIN. Well, we have been told that by many of the people in the area that once we break ground there will be at least 20 or 25 additional businesses ready to come in—restaurants, entertainment facilities, et cetera—that are ready to come into the area.

We know that having checked and been around the country and visiting other arenas, the most recent being the Cleveland arena, what it has done to revitalize downtown Cleveland.

We know that—we feel very strongly that this arena, MCI Center, will be really a spark plug for revitalizing the whole downtown area because we expect this building to be rather unique in that not only will it be used in the evenings for events, we expect this building to be open from 10 a.m. till 11 p.m. every day all year long because we expect to have all kinds of exciting restaurants, entertainment facilities, to attract people.

So when 20 million people who visit this city every year as tourists, we expect to make this a stop on their tour because this building will be that kind of a building. We are dedicated to making this building the best building in the country.

Ms. NORTON. Finally, you indicated and, indeed, the record is that you have been accommodating to and willing to meet with various groups who have raised issues. One of those groups was the Chinese community. I wonder if you have met with them yet and satisfied their concerns.

Mr. POLLIN. Well, I met personally with the Chinese community. We have attempted and will continue to attempt to take care of their concerns. We have hired a specialist, a Howard University professor who is a Chinese historian and architect. He is now on our team and he is working with our architects to try to satisfy the Chinese community that we are indeed taking their concerns as part of our problem. And we are and will continue to do that.

Ms. NORTON. Thank you very much, Mr. Pollin. Thank you, Mr. Chairman.

Mr. DAVIS. I just want to say that I would be remiss with Coach Unseld if I didn't ask him a question. Coach, how are the Bullets going to do next year? And I want to remind you you are under oath. [Laughter.]

That's OK. We're going to have a better year, aren't we?

Mr. UNSELD. Well, Mr. Chairman, I can take the oath again and guarantee you that this team is going to do well. It's on the verge of making a tremendous breakthrough because we've got great young talent there, a great nucleus to be a good team. And by the time we get downtown, you better purchase your seat now. [Laughter.]

Mr. DAVIS. I see why you're executive vice president.

Ms. NORTON. If I might say, Mr. Chairman, I think the coach's rights were violated. He should have been warned that anything he said would be used against him. [Laughter.]

Mr. DAVIS. Thank you very much. We appreciate it. I will dismiss the panel now. We have a vote over on the House floor so I am

going to declare about a 10-minute recess. We'll call in our next panel in about 10 minutes. The committee will be in recess.

Thank you very much.

Mr. POLLIN. Thank you very much.

[Recess.]

Mr. DAVIS. The chair will reconvene the committee. We will now proceed to panel three, and we have Mr. Eugene Godbold and Ms. Patricia Brooks-Smith of NationsBank and Daniel O'Neil of Crestar Bank.

As you know, it is the custom of this committee to swear all witnesses before they testify, and I would like you all to rise with me and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS. Let me say that we are very pleased to have you with us today. If it weren't for your willingness to step forward with true civic spirit—when the city is in such difficult times—we wouldn't be here today looking to begin construction on a new arena.

Mr. Godbold, you may proceed.

STATEMENTS OF EUGENE GODBOLD, SENIOR VICE PRESIDENT, NATIONSBANK, ACCOMPANIED BY PATTY BROOKS-SMITH, SENIOR VICE PRESIDENT, NATIONSBANK; AND DANIEL O'NEIL, JR., VICE PRESIDENT, CRESTAR BANK

Mr. GODBOLD. Thank you very much. Good morning, Chairman Davis, members of the subcommittee, ladies and gentlemen. My name is Gene Godbold and I am a senior vice president with NationsBank here in Washington, DC. I am here today with my colleagues, Patty Brooks-Smith, also a senior vice president at NationsBank, and Dan O'Neil, a vice president at Crestar Bank.

It is our pleasure to testify in support of House bill 1843, the District of Columbia Sports Arena Financing Act of 1995. We are pleased to be here this morning as the purpose of our testimony is to address the importance of the passage of House bill 1843.

As you know, the District of Columbia has experienced financial difficulties over the past several years and in January 1995 the District's credit rating was downgraded to a noninvestment rate status.

During the same time period, it became clear that the District had a unique and positive opportunity to bring a new sports arena and entertainment complex to the District that would be home to the Washington Bullets and the Washington Capitals sports franchises.

This new endeavor, to be located in the Gallery Place downtown area, would revitalize the area, create new jobs, and would encourage the creation of new businesses in the Gallery Place area.

The majority of the Washington business community were and are very enthusiastic about the proposed arena project. Not only will the arena project generate new income for the District and its residents, it will also be a source of pride for Washington area residents.

In December 1994, the District and the Pollin organization entered into an agreement whereby the Pollin organization agreed to finance the costs of the arena structure and the District agreed to

provide the Pollin organization with the Gallery Place site. The site would be ready for construction no later than October 2, 1995.

However, in order to provide the site the District must relocate employees currently located in buildings on the site, acquire additional parcels of land to complete the site, demolish buildings, construct a new Metro entrance into the arena, and relocate utilities.

As a result, in April 1995, NationsBank and Crestar Bank were approached by the District of Columbia and were requested to provide financing for the previously mentioned infrastructure costs to be incurred by the District. NationsBank and Crestar both viewed the new arena as a community transaction which was positive and beneficial to the short- and long-term future of the District.

With this intent, Crestar and NationsBank have committed to act as lead lenders for a consortium of local banks to make a $53 million loan to the District to finance the District's portions of the cost of the arena project.

Working with the District, we issued a term sheet outlining the terms and conditions which needed to be met in order for the loan to close in August 1995 so that the arena construction could commence in October of this year. One of the conditions of the banks making the loan to the District is the passage of necessary legislation by the council of the District of Columbia and the Congress of the United States. The congressional bill is the before-mentioned House No. 1843.

The Council enacted legislation in July 1994 which imposes a tax which is the arena tax on District businesses. The legislation provides that the revenues from the arena tax may be pledged to repay the loan. Currently, there is legislation pending in the council which requires that the arena tax be adjusted if necessary to a level to insure that the arena tax revenues are sufficient to repay the loan.

This legislation has already been enacted on an emergency basis and the council approved the permanent legislation on first reading yesterday. As you know, a second reading is scheduled for July 25.

Now turning to the 1996 Sports Arena Act, this act essentially achieves the following objectives. First, the act permits the District to pledge the arena tax to repayment of the loan. The reason this is so important to the banks is that the primary security for the repayment of the loan are the revenues collected from the arena tax.

Two, the act permits the use of the arena tax revenues to repay the loan without the council or the Congress first appropriating the arena tax revenues. This provision insures the banks that they will have a secure source of repayment for the loans each year and that this source of repayment will not be subject to any annual budgetary process.

Three, the act insures that the obligation to repay the loan is not a general obligation of the District. It does not involve the full faith and credit of the District and, thus, not implicate the calculation of the District's debt limitations.

We believe that once the Congress passes the 1995 Sports Arena Act and certain other conditions are met, the banks will be in a position to close upon the transaction during the first part of August. In fact, today we have firm commitments for $30 million of the $53

million needed and we have received very positive intents from other local lenders to provide the remaining $23 million.

We still expect to be able to issue a commitment letter by the end of July with firm commitments from local banks for the entire $53 million. We anticipate closing by August 15 in order for the project to remain on time.

As referred to in our testimony, the primary goal of the banks was to see the new arena built here in downtown District of Columbia. When we were approached by the District in April 1995 about financing the District's costs associated with the arena, our challenge was to arrange financing that would be in the best interest of the District of Columbia and its taxpayers.

And we very much appreciate the RLAs' efforts to obtain the most favorable financing for the District and for its taxpayers. In our opinion, our deal better addresses the needs of the District and taxpayers because of the following. No. 1, as of today, $30 million is committed by the two-lead lenders with the remainder to be accomplished within the next several weeks.

No. 2, one of the things that appears to be somewhat confusing, and I would like to address, is that our proposal requires that the interest rate be fixed prior to closing. This fixed rate can be obtained via a swap mechanism and can be done at no cost in today's market. There are also other types of swaps in financial arrangements that can convert and limit the interest rate exposure for this transaction without any cost to the District of Columbia. And I did want to share that with the committee because of several questions that were asked earlier.

No. 3, as we understand it, the costs on our transaction up front are lower than other proposals which we have seen. No. 4, the tax collections at the $9 million level are adequate to service the debt service as we have proposed in our transaction. No. 5, the interest expense for our transaction is lower over the term of the loan.

No. 6, the transaction has the ability to be repaid or refinanced at any point in time without any repayment penalty. No. 7, a 9-year obligation on business taxpayers to pay the arena tax as compared to longer term alternatives. Furthermore, we committed to a timeline for this financing and we are on time or slightly ahead as of today's date.

While we do not know all the terms and conditions of the various alternatives before the RLA or other District officials, we firmly believe the banks made a fair and reasonable proposal that is in the best interests of the District and the taxpayers.

In closing, we remain enthusiastic about the construction and completion of the new downtown sports arena. The local banks are working together to support the project and are hopeful that the project will be started and completed on time.

The passage of House bill 1843 is extremely critical to the success of this project and the support of the Congress is greatly appreciated. We urge this committee and the full Congress to act favorably and promptly on House bill 1843.

Thank you very much for the opportunity to discuss this matter with you, and my colleagues and I would be happy to answer any questions which you may have. Thank you, sir.

[The prepared statement of Mr. Godbold follows:]

TESTIMONY

OF

NATIONSBANK, N.A.

AND

CRESTAR BANK, N.A.

BEFORE THE

HOUSE SUBCOMMITTEE

ON THE

DISTRICT OF COLUMBIA

Good morning Chairman Davis, members of the subcommittee, ladies and gentlemen, my name is Eugene Godbold. I am a Senior Vice President and Market Manager at NationsBank, N.A. I am here today with a colleague Patricia Brooks-Smith, also a Senior Vice President at NationsBank, N.A.. and Daniel O'Neill, a Vice President at Crestar Bank, N.A. It is a pleasure e to testify in support of House Bill No. 1843, the "District of Columbia Sports Arena Financing Act of 1995."

We are pleased to be here this morning as the purpose, of our testimony is to address the importance of the passage of House Bill No. 1843. As you know, the District of Columbia has experienced financial difficulties over the past several years and in January of 1995, the District's credit rating was downgraded to a non-investment grade status. During this same time period, it became clear that the District had a unique and positive opportunity to bring a new sports arena and entertainment complex to the District that would be home to the Washington Bullets and Washington Capitols sports franchises. This new endeavor to be located in the Gallery Place downtown area, would revitalize that area, create new jobs and would encourage the creation of new businesses in the Gallery Place area. The majority of the Washington business community, were and are very enthusiastic about the Arena Project. Not only will the Arena Project generate new income for the District and its residents, it would also be a source of pride for Washington area residents.

In December 1994, the District and the Pollin organization entered into an agreement whereby the Pollin organization agreed to finance the costs of the arena structure, and the District agreed to provide the Pollin organization with the Gallery Place site (the "Site"), in a state which would be ready for construction no later than October 2, 1995. However, in order to provide the Site, the District must relocate employees currently located in buildings on the Site, acquire additional parcels of land to complete the Site, demolish buildings, construct a new Metro entrance into the Arena, relocate some utilities, complete any necessary environmental remediation and pay for certain other pre-development costs.

As a result, in April of 1995 NationsBank and Crestar Bank were approached by the District of Columbia and were requested to provide financing for the previously mentioned infrastructure cost to be incurred by the District. NationsBank and Crestar both viewed the new Arena as a community transaction which was positive and beneficial to the short and long term future of the District. With this intent, Crestar and NationsBank have committed to act as lead lenders for a consortium of local banks to make a fifty-three million dollar loan to the District to finance the District's portion of the costs of the Arena Project. Working with the District we issued a term sheet outlining the terms and conditions which needed to be met in order for

the loan to close in August so the Arena construction could commence in October of this year.

One of the conditions of the banks making the loan to the District is the passage of necessary legislation by the Council of the District of Columbia and the Congress of the United States. (The Congressional Bill is the before mentioned House Bill No. 1843 - The District of Columbia Sports Arena Financing Act of 1995.)

The Council enacted legislation in July of 1994 which imposed a tax, the Arena Tax, on District businesses. The legislation provides that the revenues from the Arena tax may be pledged to repay the Loan. Currently, there is legislation pending in the Council which requires that the Arena Tax be adjusted, if necessary, to a level to ensure that the Arena Tax revenues are sufficient to repay the Loan. This legislation has already been enacted on an emergency basis and the Council approved the permanent legislation on first reading yesterday. Second reading is scheduled for July 25.

Now, turning to the 1995 Sports Arena Act, this Act essentially achieves the following objectives:

- The Act permits the District to pledge the Arena Tax to repayment of the Loan. The reason this is so important to the banks is that the primary security for the repayment of the Loan are the revenues collected from the Arena tax.

- The Act permits the use of the Arena Tax revenues to repay the Loan without the Council or the Congress first appropriating the Arena tax revenues. This provision ensures the Banks that they will have a secure source of repayment for the Loan each year, and that this source of repayment will not subject to any annual budgetary process.

- The Act ensures that the obligation to repay the Loan is not a general obligation of the District, does not involve the full faith and credit of the District, and thus does not implicate the calculation of the District's debt limitation.

We believe that once the Congress passes the 1995 Sports Arena Act and certain other conditions are met, the Banks will be in a position to close upon the transaction during the first part of August. In fact, to date, we have firm commitments for thirty million of the fifty-three million needed and we have received very positive intents from other local lenders to provide the remaining twenty-three million. We still expect to be able to issue a

commitment letter by the end of July with commitments from other local banks for the entire fifty-three million.

In closing, we remain enthusiastic about the construction and completion of the new downtown Sports Arena. As previously indicated, the local banks are working together to support the project and are hopeful that the project will be started and completed on time.

As previously mentioned, the passage of the House Bill No. 1843 is extremely crucial to the success of this project and the support of Congress is greatly appreciated.

In conclusion, we urge this committee and the full Congress to act favorably and promptly on House Bill No. 1843. Thank you for the opportunity to address this matter. My colleagues and I would be happy to answer any questions.

Mr. DAVIS. Well, thank you. And once again, let me just say not just for the city but for the whole region, we appreciate your stepping forward at this time and being proactive in this process.

Would you be able to actually make the loan to the District before the permanent arena tax amendment is actually on the books?

Mr. GODBOLD. No, sir, we would not. That is one of the conditions which needs to be met.

Mr. DAVIS. Thank you very much. Can you give the subcommittee a description of how and when you became involved in this project?

Ms. BROOKS-SMITH. We initially became involved in the project after being contacted by a representative, the Mayor's representative, and also head of the arena task force.

Mr. DAVIS. And when was that? Was this right after Mr. Pollin indicated that he was going to——

Ms. BROOKS-SMITH. This was in about March of this year.

Mr. DAVIS. And do you remember what the District's credit worthiness was at the time?

Ms. BROOKS-SMITH. At that time the credit worthiness was uncertain. It had recently been downgraded by at least one of the major rating agencies.

Mr. DAVIS. Well, why did you proceed to put together a package on the project at that point?

Ms. BROOKS-SMITH. Essentially, we were acting as good corporate citizens who had a vested interest in, obviously, the success of Washington, DC. And the arena project is—was at that time and is—viewed as a very strong catalyst for the downtown economic development and revitalization and we wanted to help the District in regard to meeting its financial obligation.

Mr. DAVIS. Why is your proposal for 7 to 10 years, essentially, utilizing almost 100 percent of the expected revenue from the arena tax to fund the proposal? Sometimes these kinds of proposals can be extended over a period of 20 years or so. Any thoughts on that?

Ms. BROOKS-SMITH. Yes, it should be—well, obviously, it's known that this is a general obligation of the District of Columbia and—it's not a general obligation. It is a revenue obligation.

Mr. DAVIS. Right.

Ms. BROOKS-SMITH. And so, therefore, we have one primary source of repayment, which is the arena tax. We have operated on the premise that the arena tax would be used to repay the debt and, therefore, based upon the first year's collection and the estimated second year collection of about $9 million, our deal was structured primarily around the anticipated revenue stream. And given that revenue stream, the tax can be paid—or the loan can be fully repaid within the 9-year timeframe.

Mr. DAVIS. OK. But, also, is that why you asked for the automatic escalator to be included in the arena tax? Because you are bumped right up to the margin at this point should attendance go—I mean——

Ms. BROOKS-SMITH. Yes, the escalator would give us some assurance that that minimum revenue collection that we are looking to, as any issue of financing for this type of revenue issue, would expect.

Mr. DAVIS. OK. What actions at this point remain to be completed before you would be willing to commit to the loan?

Ms. BROOKS-SMITH. At this point in time, as stated in our testimony by Mr. Godbold, the banks have committed to $30 million of the financing. We have positive indications on the remaining $23 million; therefore, we are expecting to get commitments on the balance of that.

Mr. DAVIS. OK, but the actions that remain to be completed before you would be willing to commit the loan: I take it the District would have to make the amendment permanent, the tax permanent; you would need congressional authorization.

What else?

Mr. O'NEIL. Well, regular legal documentation and developing a commitment letter, all the legislative and regulatory approvals. And there has been contemplated the review of the Control Board in some fashion.

Mr. DAVIS. OK. Would you want to have the Control Board at least take a look at this?

Mr. O'NEIL. Yes.

Mr. DAVIS. Whether they legally need to be involved or not—I guess there is some question from the witnesses today. But their stamp of approval would give you a comfort level, right?

Mr. O'NEIL. That's correct.

Mr. GODBOLD. If I may, we view this as a project with everyone involved here working together for the same goal and we would welcome their input.

If I may come back, the two critical issues to closing are the passage of this legislation and the obtaining of the additional $23 million in commitments and, as said earlier, we feel that that's very much in hand and in line.

Mr. DAVIS. We are relying heavily on the GAO in this matter and I understand that the banks have worked extensively with the GAO for several months now.

Can you describe for us your work with the GAO and whether you believe it has contributed to your efforts to moving the arena project forward, or if it has hindered those efforts?

Mr. O'NEIL. You are correct. We have worked very extensively with the GAO and their experience in reviewing and auditing District matters was very helpful. They were also very helpful in helping us to get a handle on specific costs related to the project.

And given the strain in resources at the District government and the hard work that the employees go through over there, they were also a good assistance, I believe, to the people in the District in putting together numbers relative to the specific project. So that their work was very strong and highly professional.

Mr. DAVIS. This process has not been acrimonious at all. It has not been a process that has pit one group against another. There has been a real team spirit present all the way through.

Even in arriving at the numbers, you have not seen the District and GAO and Congress fighting, because we all want to know what the real number is and to be able to deal with it accordingly. That is the kind of spirit I have seen from the city and the banks and the RLA and everybody else involved with this process. I think that's why it's been a success.

Somebody told me earlier, you know, it looks like this thing is going through smoothly. That is only true because of a lot of hard work that went on before we got here today—and you all are a major part of that. Again, I want to thank you for your efforts to date.

Now I would like to yield to Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. You indicated that you were approached by the District and that that's how we began along this path.

Ms. BROOKS-SMITH. Correct.

Ms. NORTON. You did not respond to an RFP?

Ms. BROOKS-SMITH. That is correct.

Ms. NORTON. And that may be, in part, because the District's bond rating had fallen and the District was, itself, in search of financing?

Ms. BROOKS-SMITH. I don't think we can speak to exactly why we were approached on that basis or why there was no RFP.

Ms. NORTON. Do you recall yourself in a competition now as to who will do this financing for the District?

Mr. GODBOLD. Yes, we do. And as testified to earlier, we respect and appreciate the RLA trying to seek out the best alternative for the District as well as its taxpayers.

Ms. NORTON. Would you like to take this opportunity to indicate to us which of the two deals that are before the District now you think will cost the District less, will cost the taxpayers less, and why?

Mr. GODBOLD. I think, without having seen all of the details of the other transactions, it would be——

Ms. NORTON. Based on what you know. And don't dodge my question. There is a lot that you know. There is a lot that's been in the newspaper.

Mr. GODBOLD. Right.

Ms. NORTON. There is a lot that you know about their deals. It is not a secret at this moment. If you don't want to take the opportunity, that's your burden.

Mr. GODBOLD. No, I will certainly do that, but I would please ask that you understand that my comments will be based upon what I, in many cases, have read in the paper or heard.

Ms. NORTON. Fair enough.

Mr. GODBOLD. So they might not be entirely accurate. From what I have heard and from what our understanding is in comparing the two transactions is that, first of all, it is very difficult to compare a bond transaction to a bank transaction, so to sit down and pencil that out is very difficult to do. And as I know the District, or I understand the District has engaged a financial advisor to take a look at both of the proposals and see which is the most appropriate for the needs of the District.

But, again, sharing what we do know is that our proposal does include a fixed rate. I know that has come up several times in testimony earlier that there was some confusion about the floating versus the fixed rate, but our proposal would include a fixed rate.

Ms. NORTON. So you flatly deny that there is any floating rate here?

Mr. GODBOLD. Pardon?

Ms. NORTON. You flatly deny that there is a floating rate here?

Mr. GODBOLD. There is an option of a floating or a fixed rate, and one of the requirements of our commitment was that the floating rate be converted to a fixed rate prior to closing so there would not be any floating rate feature after closing.

Ms. NORTON. Go ahead.

Mr. GODBOLD. Several of the other issues——

Ms. NORTON. Will that rate be locked in?

Mr. GODBOLD. Yes, ma'am; it would.

Ms. NORTON. The fixed rate will be locked in?

Mr. GODBOLD. For the life of the loan, yes, contemplated to be 9 years at this point in time. Several other issues, again, only reacting to what we have heard and read, is that the up-front costs with our proposal is less than that being proposed by the Morgan Stanley transaction, as we understand it.

One of the other issues in the comparison is that the life of our loan contemplates that it would be repaid in 9 years, or potentially less if the Department of Transportation ISTEA grant of $10 million ultimately comes through, which would lower the amount by $10 million. Our loan would be repaid in 9 years or less, as compared to the Morgan Stanley transaction, as we understand it, of 20 years. As a result, there would be significant lower interest expense in the transaction we have proposed.

One of the other issues that we view as a positive is that our transaction may be prepaid or refinanced without penalty at any point in time so there is no limitation as to early prepayment. And as I understand, the other transaction does have a prohibition against early prepayment.

Those are the major points as we see them.

Ms. NORTON. Finally, may I ask you about the controversial element of your proposal which has to do with your fee.

Mr. GODBOLD. Pardon?

Ms. NORTON. A controversial element of your proposal has to do with your fee. Would you like to explain—would you like to take this opportunity to explain the basis for your fee and to indicate whether you believe your fee is greater or less than the fee of the competing proposal that would be involved in the competing proposal?

Ms. BROOKS-SMITH. The competing proposal that we have reviewed required underwriters' fees and credit enhancers' fees totaling $1,365,000. The bank alternative, as proposed in our term sheet, requires a fee and a due diligence fee. The total amount of those fees is $1,011,000. So as we view it, there is literally a $364,000 differential between those two numbers.

Ms. NORTON. Thank you very much. And thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much, and I appreciate you being here, and all you are doing.

Mr. GODBOLD. Our pleasure.

Mr. DAVIS. Our final panel today consists of Mr. Jeffery Steinhoff, who is Director of Planning and Reporting at GAO. Mr. Steinhoff, you know the rules. I understand you just returned from a trip to the west coast and I appreciate your being here today. The work that the GAO has done, and we just heard this in the pre-

vious testimony, on this as well as other District matters, is outstanding and deeply appreciated.

As you know, it is the custom of the committee to swear in all witnesses before they testify. Would you please rise with me and raise your right hand?

[Witnesses sworn.]

Mr. DAVIS. Thank you. Mr. Steinhoff, thank you very much for being a witness, and I understand you have with you Mr. Charles Culkin and Richard Cambosos.

Mr. STEINHOFF. Yes, I do.

STATEMENT OF JEFFERY C. STEINHOFF, DIRECTOR OF PLANNING AND REPORTING, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CHARLES CULKIN; AND RICHARD CAMBOSOS

Mr. STEINHOFF. Mr. Chairman, Delegate Norton, we are pleased to be here today to discuss our continuing work on the District's planned sports arena, and new convention center. For the sports arena, I will focus on three areas: The estimated cost to the District; the financing of these costs; and, finally, the projected revenues from the new arena tax.

For the new convention center, I will also focus on three areas: First, on how much is being collected from the new convention center tax; second, where these funds have been deposited; and, finally, how the District plans to use these moneys. I have a full statement for the record and, with your permission, will summarize my remarks.

First, with regard to the sports arena, we found that the District has included all costs that are known and can be estimated at this time. The bulk of the current $56 million cost estimate falls into two areas: Land acquisition estimated at $30.1 million which is based on a certified appraisal; and the Metrorail connection, presently projected at $13.5 million, which we expect will be further refined when the final design plans are completed.

The actual cost, however, could be about $11 million less if the District is awarded a Federal grant to cover 80 percent of the Metrorail connection cost.

As others have already talked about today, in the past few days there has been a second financing proposal. We have not really had a chance as yet to examine this new proposal but will continue to monitor this issue.

As shown though on pages 14 and 15 of my full statement, depending on the loan amount, interest rate, and repayment timeframe, the annual debt service could vary from a high of $10.2 million to borrow $53 million at 9 percent for 7 years, to a low of $3.9 million to borrow $42 million if the Metrorail connection grant is approved at 7 percent for 20 years.

If you look, however, on page 14 at the amounts if you borrowed for 9 years at 8 percent, which is the expected rate right now, you will see that the projection of revenues easily covers that amount. That amount is $8.3 million.

If you shift over to page 15, where we talk about the annual debt service cost on a $42 million loan, assuming that the grant is, in fact, approved, then you will see that the public arena tax, even if

it falls below the projected $9 million, would be more than sufficient to pay off this loan at any amortization period, even if it was paid out over 7 years.

As others have pointed out today, before construction can begin, before the amounts can be borrowed, before this project can move ahead, H.R. 1843 would have to be passed. This would give the District the ability to borrow the funds and to pledge the arena tax revenues.

Shifting now to the new convention center, for the 7-month period ending April 30, the District received and deposited in escrow in a money market account, earning 3.34 percent as of June 30, $16.2 million from the new convention center tax. This represents 53 percent of the $30.8 million that is projected for collection this year.

Other than collecting the new tax, the new convention center, which is in the early stage of development, has essentially been on hold. As others have pointed out already, H.R. 1862 will be needed to allow the District to proceed ahead to do the necessary studies to better solidify this project and to pay for the operations of the existing convention center.

So it is key that this bill be passed and that would really enable not only this project to go ahead but for these funds that have already been collected to be used to pay for operations of the existing convention center.

Mr. Chairman, Delegate Norton, this concludes my summary remarks. We would be pleased to respond to any questions you may have at this time.

[The prepared statement of Mr. Steinhoff follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on the District of Columbia
Committee on Government Reform and Oversight
House of Representatives

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DISTRICT OF COLUMBIA

Status of Sports Arena and Convention Center Projects

Statement of Jeffrey C. Steinhoff
Director, Planning and Reporting
Accounting and Information Management Division

GAO/T-AIMD-95-189

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our work that you requested on the proposed new sports arena and convention center projects in the District of Columbia. For the sports arena project, we will discuss the District's predevelopment costs for the project, how those costs will be financed, and what revenues will be generated from a new dedicated tax to finance the costs. For the convention center project, we will discuss what revenues have been generated from new dedicated taxes, where they have been deposited, and how the District plans to use these revenues.

RESULTS IN BRIEF

The District's estimated predevelopment costs for the sports arena project total $56 million. To finance these costs, the District planned to borrow, through the Redevelopment Land Agency (RLA), up to $53 million from a syndication of banks headed by NationsBank and Crestar Bank and use an estimated $9 million in annual revenues from the Arena Tax to repay the loan over 7 to 10 years. However, during the past week, the RLA has received other financing proposals, which involve issuing a combination of tax-exempt and taxable bonds at various interest rates over a period of up to 20 years. Because these new financing proposals are so recent, we did not have an opportunity to gain a full understanding of their terms and conditions.

Our analysis indicates that (1) the District has included all predevelopment costs associated with the project that are known and can be estimated at this time and (2) the Arena Tax should provide sufficient revenue to repay the maximum amount of the loan if the District's key tax projection assumptions are achieved. In addition, if the District is successful in obtaining a federal grant to assist in constructing the Metrorail connection to the arena, the amount it would need to borrow would be reduced by about $10.8 million.

For the convention center, the District received and deposited $16.2 million in new taxes dedicated to the Washington Convention Center Authority[1] (Authority) as of July 11, 1995, covering the 7-month period October 1, 1994, to April 30, 1995. The tax collections to date, which have been deposited in an interest-bearing escrow account, are approximately 53 percent of the $30.8 million projected for fiscal year 1995. Until the Congress amends the District of Columbia's Self-Government and Governmental Reorganization Act (Home Rule Act)[2] to permit the Authority to use the dedicated tax revenues, the Authority cannot (1) contract for the various studies necessary to better define the project proposal for the new convention center and (2) expend funds for the operation and maintenance of the existing convention center during fiscal year 1995 and future fiscal years until such time that the new convention center is constructed and operating.

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[1]The Authority was created by the Washington Convention Center Authority Act of 1994, DC Act 10-314, signed by the Mayor on August 2, 1994 (Act 10-314: 41 DCR 5333).

[2]Public Law 93-198, 87 Stat. 744 (1973).

SCOPE AND METHODOLOGY

In our assessment of the sports arena and convention center projects, we (1) obtained an understanding of the methodology used for the revenue projections of the dedicated taxes associated with these two projects, (2) obtained the bank statements for the escrow and lock box accounts to support the taxes collected and deposited as of July 10, 1995, for the sports arena project and July 11, 1995, for the convention center project, respectively, and (3) obtained the documentation supporting the predevelopment costs and the bank financing for the sports arena project available at the time we performed our work.

We met with and obtained information from District officials on the Gallery Place Arena Task Force and other District officials in several of District agencies, including the Office of Finance and Revenue, the Office of the Corporation Counsel, the Office of the Executive Secretary, the Redevelopment Land Agency, the D.C Sports Commission, and the Washington Convention Center Authority. We also met with and obtained information from the staff of the Council of the District of Columbia and officials of NationsBank, Crestar Bank, the Washington Metropolitan Area Transit Authority, the D.C. Arena Associates, the National Capital Development Corporation, the Washington Convention and Visitors Association, and the Hotel Association of Washington, D.C.

We did not audit or review the reported taxes collected and deposited for the sports arena and convention center projects to determine if the District Government accurately

calculated and transferred all taxes dedicated to these projects to their respective escrow accounts. Also, we did not audit the historical data or evaluate the assumptions underlying the tax revenue projections. Furthermore, we did not audit the sports arena predevelopment cost estimates to determine their reasonableness, and we did not evaluate the various sports arena financing proposals to ascertain which proposals result in the least cost to the District. Accordingly, we do not express an opinion or any other form of assurance on the taxes collected, the District Government's revenue projections or assumptions, the sports arena's predevelopment cost estimates, or the various financing proposals for the sports arena. The information presented in this testimony was prepared for the Subcommittee as it considers H.R. 1843, the District of Columbia Sports Arena Financing Act of 1995 and H.R. 1862, the District of Columbia Convention Center Preconstruction Act of 1995. Events and circumstances may occur after the date of this testimony that may change the sports arena and convention center dedicated tax projections and cost estimates. Our assessment was built on previous work,[3] and we conducted new work from May through July 1995 in accordance with generally accepted government auditing standards.

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[3]District of Columbia: Status of Convention Center Project (GAO/AIMD-94-191, Sept. 15, 1994 and District of Columbia: Status of Sports Arena Project (GAO/AIMD-94-192, Sept. 15, 1994).

SPORTS ARENA PROJECT

Because of the District's financial crisis, the owner of the Washington Bullets and Washington Capitals (franchises) announced on December 28, 1994, that he would build a 20,600 seat, state-of-the-art arena, which the District was originally planning to build, if the District would pay for the predevelopment costs of the project. On March 6, 1995, the owner of the franchises and the Mayor of the District of Columbia signed an exclusive development rights agreement, whereby D.C. Arena L.P.--a limited partnership established by the owner of the franchises--will build an arena for an estimated $175 million, and the District will purchase the land and make other infrastructure improvements which are estimated to cost $56 million. The arena is to be built in the downtown area of the city commonly referred to as Gallery Place.

Under the agreement, D.C Arena L.P. will incur all costs associated with the design, development, construction, financing, and operation of the arena; arrange and repay all financing needed for the development, construction, and equipping of the arena and be responsible for all cost overruns and completion delays; sign a 30-year ground lease with the District with the option to extend the lease for two 10-year periods and pay $300,000 per year to the District with increases of $200,000 in years 7, 11, 16, 21, 26, and each 5-year interval period of any extension period; and have the Washington Bullets and Washington Capitals play all their home games in the arena for at least 30 years. Regarding arena operations, D.C. Arena L.P. will have the right to all revenues generated

from rent, title sponsorship, founders suites, suites, club seats, ticket sales, concessions, novelties, advertising, and parking. Also, D.C Arena L.P. will be responsible for all expenses associated with the project, including repairs and maintenance and all capital infrastructure costs. All tickets and merchandise sales will be subject to District sales tax, but the arena will be exempt from District real estate taxes during the term of the ground lease.

Predevelopment Costs of Project

Under the agreement, the District will incur all costs associated with (1) acquiring land, including the purchase of non-District owned property, (2) connecting the Gallery Place Metrorail Station to the arena, (3) relocating District employees now in a District-owned building and in a leased building located at the Gallery Place site, and (4) demolishing buildings, relocating utilities, and securing all regulatory approvals necessary for construction. As table 1 illustrates, the District's original estimate of $53 million for this project has been further refined, and it is now $56.3 million. The estimated cost of land acquisition and the Metrorail connection increased about $2.1 million and $6.5 million, respectively, while the estimated costs of (1) relocating District employees and (2) demolishing buildings, relocating utilities, and securing all regulatory approvals decreased by about $2.5 million and $2.9 million, respectively. Our analysis of the revised estimate of the predevelopment costs indicates that the District has included all

Table 1: The District's Predevelopment Costs for the Sports Arena

Predevelopment costs	Original budget	Revised budget
Land acquisition		
Appraisal/purchase price		$30,107,913
Appraisal fees		33,500
	$28,000,000	30,141,413
Metrorail connection		
Construction costs for station entrance/exit and mezzanine	7,000,000	13,499,788
Relocation of District employees		
Lease commitments and rent advances		1,985,907
Lease appraisals and space consultants		70,000
Leasehold improvements		972,370
Furniture and equipment move		638,123
Telecommunications equipment move		875,133
	7,000,000	4,541,533
Building demolition, utility relocation, legal and environmental consultants, and bank fees		
Building demolition		1,393,401
Utility relocations		3,439,740
Business relocation		25,000
Legal, environmental and other consultants		1,816,302
National Capital Development Corporation reimbursement		294,318
Bank fees and costs		1,161,250
	11,000,000	8,130,011
Total predevelopment costs	53,000,000	56,312,745

Source: District of Columbia Gallery Place Arena Task Force financial information on the sports arena project.

predevelopment costs associated with the project that are known and can be estimated at this time. Let me address the costs in each of the four major categories.

Land acquisition ($30.1 million) - The District's Redevelopment Land Agency currently owns the land between 6th, 7th, F, and G Streets which represents most of the land the arena will occupy. In addition, the arena will occupy up to 125 feet of property north of the G Street curb located between 6th and 7th Streets. The District currently owns the land and building at 613 G Street, but it will need to purchase two parcels of land, one of which includes a building. The parcel with the building, which the District is presently leasing is at 605 G Street, and it is owned by the Unification Church. The second parcel is between 7th Street and the 613 G Street property line, and it is owned by Washington Metropolitan Area Transit Authority (WMATA) and Mel Simon, a private developer.

On April 13 and 17, 1995, the two properties were appraised at $30,107,913 by a D.C. Certified General Real Property Appraiser, who has extensive real estate appraisal experience in the District. The District does not plan to purchase these properties until (1) the Congress has approved the necessary Home Rule amendments for this project, (2) the District has received approval of its financing, and (3) the D.C. Arena L.P. has submitted a financing plan. If the project goes forward, RLA will tender offers to the owners of the land required for the arena. If the owners do not accept RLA's offer, then RLA plans to take the property through condemnation and the owners can contest the

offer through the courts. The title to the land under the building at 613 G Street, which the District already owns, has already been transferred to RLA.

Metrorail connection ($13.5 million) - An integral part of this project is the connection of the Gallery Place Metrorail Station to the arena--estimated to cost $13,499,788. According to WMATA officials, the estimate is based on the best available data. When the final design plans are completed, they will be able to develop a final cost. The District plans to finance the construction of the Metrorail connection with funds from its bank loan. However, the District has also applied for a $15 million Capital Assistance Grant under the provisions of the Intermodal Surface Transportation Efficiency Act of 1991[4] to finance the construction costs of the Metrorail connection. The grant requires a 20 percent local contribution by the District--in this case, $3 million. If the grant is approved, the District would receive $12 million from the federal government. The project grant was approved by the WMATA Board of Directors on June 8, 1995. It must also be aporoved by (1) the Transportation Planning Board of the Metropolitan Washington Council of Governments, which could occur on July 19, 1995, when the Board is scheduled to meet, and (2) the U.S. Department of Transportation, which according to Transportation Department officials could take about 3 months after the Transportation Planning Board's approval. If the grant is approved, the District would lower its financing requirements for the sports arena

[4]Public Law 102-240, 105 Stat. 2090 (Dec. 18, 1991) authorizes the Secretary of Transportation to make grants or loans to assist states and local public bodies and agencies to finance the acquisition, construction, reconstruction, and improvement of facilities and equipment for use, by operation or lease, in mass transportation service in urban areas.

project by about $10.8 million, which is the difference between the current estimated construction costs of $13.5 million for the Metrorail connection and the District's related $2.7 million (20 percent of $13.5 million) contribution under the grant. The District could use the balance of the grant funds and the District's contribution ($1.2 million federal grant and $0.3 District contribution) for other transit-related projects.

Relocation of District employees ($4.5 million) - To assemble the necessary land for the sports arena, the buildings at 605 and 613 G Street must be vacated and demolished. As of June 27, 1995, there were 792 District employees located in these buildings. According to District officials, they plan to move 720 employees into leased space and 72 employees into District-owned space. The District plans to lease 166,586 square feet of space at 941 North Capitol Street, N.E. A final contract is still being negotiated, but District officials told us that they expect to lease the space at $21 per square foot. The lease payments for the offices relocated from 605 G Street, which the District was leasing, will be paid with funds from the affected District agency budgets. For those offices relocated from 613 G Street, which the District owned, lease payments will be paid from the sports arena financing for the first year only; thereafter, the affected District agencies are to make the lease payments. On the basis of $21 per square foot, the District has estimated this cost at $1,985,097 annually. Also, the District estimates that it will cost $70,000 for lease appraisals and space consultants and $972,370 for leasehold improvements. The District's estimated cost to move furniture and equipment is $638,123, and the telecommunications relocations are estimated at $875,133.

Building demolition, utility relocation, legal and environmental consultants, and bank fees ($8.1 million) - The District estimates that it will cost $1,393,401 to demolish the buildings at 605 and 613 G Street. This estimate includes $505,000 for soil remediation at the site. Relocating utilities, street lights, and traffic signals is projected to cost $3,439,240. The relocation of telephone facilities is the most expensive component--estimated at $2,934,240--because the cable duct currently runs down the middle of G Street, and there is not enough room for the duct, the floor of the arena (25 feet below street level), and the Metrorail Red Line (27 feet below street level) to fit in the same location.

The District estimates that legal, environmental, and other consultants associated with the predevelopment phase of the project will cost $1,816,302. The majority of these costs--an estimated $1,450,000--are for the preparation of the environmental impact study. The National Capital Development Corporation, which was originally going to own and operate the sports arena, will be reimbursed $294,318 for predevelopment costs it incurred on the project before D.C. Arena L.P. decided to build the arena. Fees and costs associated with the project's financing, if the loan with NationsBank and Crestar Bank is accepted, are estimated at $1,161,250, with $861,250 being for the 1.625 percent loan commitment fee (based on a loan amount of $53 million) and the remaining $300,000 being for legal costs and due diligence fees.

Financing of Project's Predevelopment Costs

To finance the predevelopment costs for the arena project, the District is currently negotiating a loan with NationsBank and Crestar Bank. The most recent and significant terms and conditions of this proposed loan are as follows:

- **Lenders** - NationsBank and Crestar Bank will provide up to $20,000,000 and syndicate the remaining $33,000,000 with other banks.
- **Borrower** - Redevelopment Land Agency.
- **Amount** - Up to $53 million term loan with a draw period.
- **Interest rate** - 30-day London Interbank Offered Rate (LIBOR),[5] plus 200 basis points. As of July 11, 1995, the 30-day LIBOR was 5.90625, plus 200 basis points (2 percent). This equates to 7.90625 percent.
- **Interest rate protection** - The variable interest rate must be protected by using a swap,[6] cap,[7] or some other instrument acceptable to the banks.
- **Repayment term** - Amortized over a period of 7-10 years.

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[5]LIBOR is a variable interest rate at which deposits of U.S. dollars are traded in London. It is the Eurodollar equivalent for the federal funds rate. LIBOR is usually the rate used for other large Eurodollar loans to less creditworthy corporations and government borrowers.

[6]A swap is used to protect a floating liability from adverse movements in interest rates by converting it into a fixed rate. In a swap, two parties agree to exchange periodic interest payment obligations on an agreed principal amount for a specified time period.

[7]A cap is used to provide protection against rising interest rates. A cap enables a borrower to set an upper limit on its floating interest rate expense.

- **Sources of repayment** - These include all proceeds from the Arena Tax, income from the ground lease with D.C. Arena L.P., and additional sources of repayment identified and approved by appropriate legislative, regulatory, and other authorities. The proceeds of the Arena Tax will be remitted directly to a lockbox and deposited to a cash collateral account maintained by a designated agent. (A lockbox has been established at Signet Bank.)
- **Security** - This includes a perfected pledge and first lien on all proceeds of the Arena Tax, an assignment of the ground lease between RLA and D.C. Arena L.P., and a perfected pledge on identified additional sources of repayment identified and approved by appropriate legislative, regulatory, and other authorities.
- **Loan commitment fee** - An amount equal to 1.625 percent of the loan commitment.
- **Closing costs** - Borrower pays all closing costs.
- **Legal costs** - Capped at $150,000.
- **Due diligence costs** - Non-refundable fee of $150,000, plus all legal fees incurred by lenders to complete due diligence process.

After reviewing the terms and conditions of this proposed loan, the RLA sought and received other financing proposals during the past week to determine if it could secure financing more favorable to the District. RLA received a proposed term sheet from Morgan Stanley & Co. on July 6, 1995, and a preliminary term sheet from William Blair & Company on July 7, 1995, both of which would issue a combination of tax-exempt and taxable bonds at various interest rates over a period of up to 20 years. Because these

new proposals are so recent, we did not have an opportunity to gain a full understanding of their terms and conditions.

For each financing proposal, it is important to understand, however, how total interest costs are affected by the amount borrowed, the interest rates, and the length of amortization periods. In table 2, we show the annual debt service costs if the District borrowed the $53 million needed for the predevelopment costs of the arena project assuming all principal was drawn down immediately, the interest rate was fixed, and the loan was amortized evenly over the life of the loan from the time of drawdown. While these assumptions are not intended to replicate the conditions of any of the current proposals, these tables do show how annual debt service costs can decrease as the principal of the loan is amortized over longer periods of time. However, extending the amortization period would increase total interest costs.

Table 2: Annual Debt Service Costs for a $53 Million Loan
Dollars in millions

Years to amortize	Fixed interest rate				
	7%	7.5%	8%	8.5%	9%
7	9.6	9.8	9.9	10.1	10.2
8	8.7	8.8	9.0	9.2	9.3
9	8.0	8.1	8.3	8.4	8.6
10	7.4	7.5	7.7	7.9	8.1
20	4.9	5.1	5.3	5.5	5.7

If the District is approved for the $15 million Capital Assistance Grant for the construction of the Metrorail connection to the arena, the amount it would need to borrow would be reduced by about $10.8 million. Table 3 illustrates what the annual debt service and total interest costs would be if the District borrowed $42 million using the previously discussed assumptions.

Table 3: Annual Debt Service Costs for a $42 Million Loan
Dollars in millions

Years to amortize	Fixed interest rate				
	7%	7.5%	8%	8.5%	9%
7	7.6	7.7	7.9	8.0	8.1
8	6.9	7.0	7.1	7.3	7.4
9	6.3	6.4	6.6	6.7	6.8
10	5.9	6.0	6.1	6.2	6.4
20	3.9	4.1	4.2	4.4	4.5

The total interest costs incurred can be reduced if the loan is repaid early. Over the term of the debt, however, interest costs are only one of the costs of obtaining financing. Various other costs such as commitment fees, due diligence costs, and insurance costs would have to be included in order to compare various proposals.

To pay for the loan and other predevelopment costs for the arena project, the District enacted the Arena Tax,[8] which became effective October 1, 1994. The tax uses the same rate schedule as the one-time Public Safety Fee[9] that was collected in fiscal year 1994. The District collected approximately $9.5 million in Public Safety Fee taxes from feepayers who are also subject to the Arena Tax. (See table 4.)

Table 4: Collections from 1994 Public Safety Fee

Gross receipt range (dollars)	0 200,000	200,001 500,000	500,001 1,000,000	1,000,001 3,000,000	3,000,001 10,000,000	10,000,001 15,000,000	15,000,001 & greater	Total collected
Fee amount	$25.00	$50.00	$100.00	$825.00	$2,500.00	$5,000.00	$8,400.00	
Amount paid	493,850	239,167	270,498	2,021,592	3,021,378	938,329	2,492,583	9,477,397
Returns filed	19,779	4,377	2,674	2,483	1,234	188	321	31,056

Note: The amounts represent the non-exempt filers as of June 26, 1995.

On the basis of the Public Safety Fee's 1-year collection history, the current Arena Tax fee structure, and assuming that the number of tax returns filed remains relatively unchanged, the District estimates that the Arena Tax collections should be no less than $9 million each year. As of July 10, 1995, the District reported that it had collected approximately $7.2 million from the Arena Tax which included about 21,000 returns filed, and additional returns are still be processed. Using the above assumptions, if the District borrowed (1) $53 million at fixed interest rates up to 8 percent for 8, 9, 10, or 20 years or

[8]Arena Tax Amendment Act of 1994, D.C. Law 10-189, September 28, 1994. The Arena Tax is a gross receipts tax on all for profit organizations.

[9]The Public Safety Fee was a gross receipts tax on all for profit and nonprofit organizations.

up to 9 percent for 9, 10, or 20 years or (2) $42 million at fixed interest rates up to 9 percent for 7, 8, 9, 10, or 20 years, the Arena Tax collections should be sufficient to cover the loan's annual debt service.

Legislative and Regulatory Approvals

Before construction can begin on the sports arena, a number of legislative and regulatory approvals must be obtained. Foremost is amending the Arena Tax Amendment Act of 1994 to (1) permit the use of the tax revenues to finance the acquisition of land, the demolition of buildings, the relocation of District employees, and the reimbursement of District agencies for any predevelopment and development costs associated with the arena project, (2) authorize RLA, or some other District agency, to borrow funds for the arena project and pledge the revenues from the Arena Tax as security for the borrowing of funds, and (3) require the Mayor of the District of Columbia to adjust the rates of the Arena Tax if the annual revenues estimated are less than $9 million. Legislation has been submitted to the D.C. City Council, and the Home Rule Act requires two readings of a bill before it can be passed. The D.C. City Council had its first reading of the bill on July 11, 1995, and the second reading is scheduled for July 25, 1995. If the bill is passed by the D.C. City Council and signed by the Mayor, the next step would be for the Congress to amend the Home Rule Act to permit RLA, or some designated authority, to borrow funds for the development and construction of a sports arena and to pledge

District revenues as security for the borrowing of funds. On June 7, 1995, Delegate Norton introduced H.R. 1843 to grant the necessary authorizations.

In addition, a number of regulatory approvals are necessary. The major ones include approval of (1) the urban renewal plan amendments by the National Capital Planning Commission (NCPC), the D.C. City Council, and RLA, (2) the environmental impact and historical preservation studies by NCPC, (3) the G Street and Alley closing by NCPC and the D.C. City Council, and (4) the ground lease agreement with D.C Arena L.P. by RLA. All of these regulatory approvals are in various stages, and they are scheduled to be completed by October 12, 1995. In addition, the District must acquire the necessary land, move its employees, and demolish two buildings by October 12th, so that the D.C. Arena L.P. can break ground for the arena on October 13, 1995.

CONVENTION CENTER PROJECT

In August 1994, when the District enacted legislation creating the Washington Convention Center Authority, it also established new taxes to provide a source of revenue for the Authority. These dedicated taxes, which became effective October 1, 1994, were as follows:

- 2.5 percentage points of the 13 percent hotel sales tax,
- 40 percent of the $1.50 daily hotel occupancy tax,

- 1 percentage point of the 10 percent restaurant sales and use tax, and
- one-quarter of 1 percent increment of the business franchise surtax.

For the reporting periods October 1, 1994 through April 30, 1995, the District received and deposited $16.2 million from these taxes in an escrow account at First Union National Bank of Washington in the name of the Washington Convention Center Authority. The funds are in a money market account earning 3.34 percent as of June 30, 1995. The $16.2 million collected and transferred to date for the above mentioned 7-month period represents approximately 53 percent of the $30.8 million in projected tax collections for fiscal year 1995.

Beyond collecting the new taxes, the convention center project has for the most part been on hold. Until the Congress amends the Home Rule Act, which Delegate Norton proposed under H.R. 1862, to permit the Authority to use these tax revenues, the Authority cannot contract for the various studies necessary to better define the project proposal for the new convention center. In our September 1994 report, we reported that such studies would need to be completed to better identify the economics of the project. The Authority estimates that it will cost about $12 million to conduct these studies.

In addition, the Authority is dependent on the tax revenues to operate the existing convention center. With the implementation of the new dedicated taxes on October 1, 1994, the District's fiscal year 1995 budget eliminated the annual transfer of general funds

to operate the existing convention center. Unable to use these dedicated revenues, the D.C. City Council authorized the Authority to receive up to $5.7 million from the District's Rainy Day Fund to operate the current convention center. To date, the Authority has received $2.2 million, but Authority officials believe that they will need the additional $3.5 million to cover projected operating costs for the balance of fiscal year 1995. The Authority is required to reimburse the Rainy Day Fund by September 30, 1995.

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This concludes my statement. My colleagues and I will be glad to answer any questions that you or other Members of the Subcommittee may have at this time.

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Mr. DAVIS. Once again, Mr. Steinhoff, I want to thank you and your GAO team for your countless hours of work on these two projects. I know that no one thought that the job would be so complicated when we first asked for the study.

I would like to continue to work with the city, the authority, and the RLA on the arena project, because we will probably need a further report before we mark up the legislation.

I noted in your testimony that based on the current collection rate the arena tax is sufficient to pay the anticipated annual debt service for either of the proposed financial packages.

How confident are you of these figures?

Mr. STEINHOFF. In looking at the experience from the public safety fee, and that fee had the same rate structure as the arena tax $9.5 million was collected in 1 year. Most of the taxes—68 percent—came from about 5 or 6 percent of the taxpayers. The vast majority of taxpayers paid a small amount.

As of July 11, $7.2 million has been received from 21,000 taxpayers for the sports arena tax. It is projected there will be about 30,000. I think we will know very soon what that amount will be for this year, so that uncertainty will be gone. Based on the projections to date, it is felt that about $9 million, at least, will come in

And what we are finding is under what will probably be the interest rate and the terms, the District won't even need that amount of money. The debt service under an 8-percent cap on interest rates for 9 years would be $8.3 million.

In addition to the tax, in time you would also have the revenue from the lease with Mr. Pollin to pay the debt service. And if you went down to a loan rate of $42 million, because when you look at the bank loan proposals, $53 million is the maximum amount that would be drawn. It doesn't say that the District has to borrow the full $53 million.

If the District is successful in getting the Metrorail connection grant, which my understanding is that there is a very good possibility of that, they would be borrowing a much lesser amount, in which case even if the revenue projections fell a bit short they would have more than enough to pay for it over 9 years.

Mr. DAVIS. I am also concerned about the District's spending plans for their part of the arena project. What steps has GAO taken to determine if the costs presented by the city are accurate and reasonable, and what provisions are there to deal with cost overruns?

Mr. STEINHOFF. The District has been working very hard at refining the cost figures. There have been a lot of studies that have been done. While I wouldn't say that these are the final cost amounts, they have gone from the initial projection of $53 million now up to $56 million.

We find that the two major cost components have been recently updated. The land is based on a certified appraisal. It has gone up by $2.1 million from the initial projections. The Metro connection cost does not have a final cost study yet but it does have a preliminary study which raised the initial projection from $7 million to $13.5 million.

With respect to the relocation costs and the cost of demolishing the existing building and preparing the site, those costs together

have gone down by a total of $5.4 million since the initial cost projection.

So what I would say is while the $56 million is certainly not cast in stone, I would expect that those amounts will vary somewhat, that those amounts have been, in fact, refined.

At this time I am not sure that there are specific provisions to deal with any costs that rise; however, as I mentioned a few minutes ago, there is a good chance that the Metrorail connection grant will be approved and that would provide more than enough of a cushion for this.

Mr. DAVIS. How much of the proposed site for the convention center does the city currently own?

Mr. STEINHOFF. My understanding is they own the vast majority of the land.

Mr. DAVIS. Is that site large enough to hold the entire facility?

Mr. STEINHOFF. Well, one of the important things that must be done now is they have to do the necessary site planning studies. This project has, I would say, essentially been on hold, and it will be very important that the legislation be passed to permit the city to really go out and do the $12 million of site studies that must be done at this time.

Mr. DAVIS. Those are my questions. Ms. Norton.

Ms. NORTON. Just one or two questions, Mr. Chairman. Do you have any view of the relative merits of the two financing proposals under consideration?

Mr. STEINHOFF. No, we have not had an opportunity to look at the second proposal. I do support personally the notion that Ms. Bernard put forward that the RLA would look at those in an expeditious manner.

Ms. NORTON. Are you going to look at those proposals at all?

Mr. STEINHOFF. I'm sorry?

Ms. NORTON. Is it a part of the procedure that you look at those proposals at all?

Mr. STEINHOFF. We have been, asked by the committee to work along with the RLA and to look at those proposals, and we will certainly be pleased to report back what we find.

Ms. NORTON. The Metro connection grant that you speak of, is that in the next ISTEA reauthorization?

Mr. STEINHOFF. Yes, yes. They have asked for $15 million, of which the District would have to put up $3 million in matching funds.

Ms. NORTON. And that reauthorization would be, what, 1997?

Mr. STEINHOFF. I'm not sure on that.

Mr. CULKIN. It is not a reauthorization bill, Ms. Norton. What they are doing is reprogramming, as we understand it, the Federal highway funds that the District has right now and they are going to shift them over to the urban mass transit funds.

This has been already approved by the WMATA Board of Directors. It is our understanding it will go through final approval by the Washington Metropolitan Area Council of Governments next week and then it will be sent over to the Department of Transportation. It is our understanding too that the Federal highway and urban mass transit folks are reviewing the proposal on parallel

tracks because they understand the importance of getting it approved as soon as possible.

Ms. NORTON. So this is money already appropriated?

Mr. CULKIN. That is correct.

Ms. NORTON. Finally, what is your view of the economic benefit for the District from these two projects?

Mr. STEINHOFF. Our study did not focus on that; however, in reading everything we read and looking at all the other studies that have been done and the experiences of other cities, it is very clear that these type of endeavors are very beneficial to any city. And it would seem like these are things that would be very important for the District to proceed on.

Ms. NORTON. Thank you very much. Thank you, Mr. Chairman.

Mr. DAVIS. If there are no other questions at this point—we, of course, will submit them if we think of any and continue to work with you. We appreciate your being here today.

Mr. STEINHOFF. It is our pleasure.

Mr. DAVIS. Thank you very much. I would like to thank all the witnesses today for their important and helpful testimony. These projects are important and timely. At this time of crisis and even despair in the city, it is important to move forward with projects of this type which will enhance the economy and job market of the District, increase Metro ridership, benefit the entire region both culturally and economically and, most importantly, move the city forward into a better future.

The subcommittee will take these bills under consideration and I hope that we will be able to proceed to a markup very soon.

And once again, Ms. Norton, I appreciate you initiating these bills and moving forward. I look forward to working with you in the coming weeks and, hopefully, getting these out in a timely manner. Thank you very much.

The meeting will be adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

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