



Government of the District of Columbia



Office of the City Administrator

Testimony of
Allen Y. Lew
City Administrator

**Joint Public Hearing on the
B20-805, “District of Columbia Soccer Stadium
Development Act of 2014”**

Before the
Council of the District of Columbia

Chairman Phil Mendelson
Committee of the Whole

Kenyan McDuffie, Chairperson
Committee on Government Operations

&

Jack Evans, Chairperson
Committee on Finance & Revenue

June 26, 2014
11:00 a.m.

Council Chamber
John A. Wilson Building
1350 Pennsylvania Avenue, NW
Washington, DC 20004

Good morning Chairman Mendelson, members of the Council. I am pleased to appear before you this morning to present our vision for a new Major League Soccer (MLS) stadium on the banks of the Anacostia River and the significant economic benefits that this proposal will create. For the record, my name is Allen Lew and I am the City Administrator for the District of Columbia.

It is clear and has been for some time that DC United needs a new home. Without a new stadium, DC United will be forced to leave the District. The current facility is simply unsustainable. We will be losing more than the most successful team in MLS history. We will be losing thousands of new jobs and hundreds of millions in new revenue that the deal before you represents.

Most sports stadium developments, including nearly all MLS stadiums, involve a partnership between the team and the government. Our challenge was to develop a transaction that resulted in the best value for the District. One that was affordable. One that drove economic development. One that created jobs. And one that would bring development and opportunity to underserved neighborhoods. The transaction we presented to the Council succeeds on all counts.

As the Mayor has indicated, the purpose for this transaction is not primarily to construct a soccer stadium, but rather to spur economic development along the Anacostia River and to create jobs and economic opportunity for District residents. My team and I have been working on this proposal for nearly a year and a half.

The proposal we are presenting will add more than \$385 million in new revenue for the District government; will create \$2.3 billion in new economic activity; and will generate more than 2,700 new jobs. It involves three separate transactions: the first at Buzzard Point, an area that has lain fallow for more than thirty years; the second along

the U Street corridor, an area undergoing continued vibrant growth where we will take "our profits" from the Reeves Center and place that land back on the tax rolls; and the third in Anacostia where we will reinvest our profits from the Reeves Center into a new Municipal Center at Martin Luther King Avenue and Good Hope Road in Anacostia.

This is a large and complex transaction and has involved the efforts of many different people to develop. At the table with me today is Scott Burrell, Senior Legal Counsel to the Office of the City Administrator, and Thomas Bridenbaugh from Leftwich & Ludaway who has served as transaction counsel to the District. In the audience are some of the others who have worked on this project, including Warren Graves and Tony Robinson from my staff, and consultants Alan Harwood from AECOM, Chris Dunlavey, Bill Mykins and Ryan Conway from Brailsford & Dunlavey as well as Phil Artin and James Beall from McKissack & McKissack who have assisted us in connection with the infrastructure aspects of this transaction.

At the same time Mayor Gray sent this legislation forward, we transmitted copies of the definitive, signed transaction agreements with DC United. We also transmitted a signed Exchange Agreement with Akridge and a letter of intent with Pepco. Earlier this week and at the request of the Committee of the Whole, we submitted copies of the appraisals underlying the Akridge transaction, a signed letter of intent with Rollingwood Property (Mark Ein) and a detailed economic analysis of the proposed transaction.

In my testimony today I would like to take you through the highlights of the proposed transaction. I will start with an overview of the economic benefits that this transaction will bring to the District and its residents; then I will describe key terms of the DC United agreements; and will conclude by discussing the land assembly and the proposed disposition of the Reeves Center.

1. Economic Benefits

In response to the Committee's request, we have submitted a detailed economic analysis of the proposed transaction. The key highlights of which are as follows:

- On a net present value basis, we estimate that the District will receive \$385 million in new revenue from the proposed transaction. This amount only reflects the direct revenue such as sales taxes, real estate taxes and participating rent that will come from the proposed transactions. It does not include any of the "spin off" revenue that will inevitably result from the transaction. We estimate that the District's obligations under the agreements with DC United will cost \$119 million and they are capped by the terms of the contract at \$150 million. As I will discuss in more detail later, the net financial impact on the District from moving to and operating a new municipal building in Anacostia is expected to be \$41 million more than remaining in the current Reeves Center. Thus, on the most basic level, the District will invest \$160 (\$119 million stadium costs and \$41 million in net relocation) to generate \$385 million in revenue. We will essentially double our money.
- The construction of the soccer stadium will generate 1,107 new jobs. Our agreements with DC United require that approximately 40% of the stadium construction jobs be worked by District residents. Once construction is complete, 452 full time equivalent jobs will be created at the soccer stadium and 105 at the redeveloped Reeves Center site. And again, our agreements with DC United require that 51% of these stadium operations jobs – not new hires, but actual jobs – go to District residents. In total, we project 2,471 new jobs from the proposed series of transactions. The District will work with DC United to target the soccer stadium construction and permanent jobs first for

residents of the immediate Southwest neighborhoods around the stadium and then other areas of high unemployment.

- Over a 30 year basis, the proposed transactions will generate \$2.3 billion in new economic activity.

These economic benefits are substantial and fully justify the transaction. The District, however, will realize a number of other significant benefits from the transaction. First, the soccer stadium will leverage the investment that the District has made along the Anacostia waterfront and will fill the "gap" between Nationals Ballpark and the Wharf. Second, by placing a new municipal center in Anacostia, we hope to spur development in Ward 8. Our hope is that the new municipal center will bring development and jobs to Anacostia just as the Reeves Center helped revitalize the U Street corridor.

2. DC United Transaction Documents

The proposed transaction with DC United consists of two separate agreements. Both of which have been fully negotiated and signed by DC United and Mayor. They are, of course, contingent upon the Council's review and approval and the passage of the Stadium Act before they become effective. The first of these agreements is the Development Agreement. It governs the development and construction of the stadium. The second agreement is the Groundlease and it covers the operation of the stadium once it has been constructed and delivered.

The Development Agreement calls for the District to act as a horizontal developer and to acquire and prepare the site and for the team to construct the stadium. This is similar to the model that was used for Verizon Center. The Development Agreement contemplates that the District will bear the horizontal development costs – namely

acquisition, remediation, demolition and infrastructure. Our costs for these activities are capped under the agreement at \$150 million. If our costs exceed this amount, DC United is required to fund the difference. The Development Agreement also requires DC United to design, permit and construct the stadium – all at its own cost.

Under the Groundlease, DC United will have a 30-year lease on the facility plus three 5-year options. During this period DC United is obligated to pay all operating costs for the facility and the events that it conducts. The team is responsible for any future capital maintenance or upgrade costs. DC United is also required to reimburse the District for "day of game" costs such as any police or traffic control officers that may be required. DC United will also bear any additional costs charged by Metro as a result of events that extend beyond Metro's normal operating hours.

As contemplated in the Term Sheet that was announced last summer, the Groundlease contemplates a phase-in of sales and real estate taxes associated with the soccer stadium. These limited tax concessions were necessary in order to make the stadium financially viable from DC United's operational standpoint. No sales taxes will be collected during the first 5 years of the stadium's operations and only fifty percent (50%) during the second five years. Thereafter, full sales taxes will be collected. The value of this concession is \$19.4 million on a net present value basis. Similarly, real estate taxes will be phase-in over the first 20 years. The value of this concession is \$24.6 million on a net present value basis.

In consideration of these concessions, we negotiated a revenue sharing formula where beginning in year 11 the District will receive \$2 per ticket for any event held in the stadium. This fee will increase based on the Consumer Price Index beginning in year 21 and is in addition to the then full sales taxes that will also be collected. The value of this revenue sharing is estimated to be \$11.4 million on a net present value basis. While

this amount does not fully "offset" the sales tax concession, it followed several months of negotiation involving dozens of proposed financial structures and we believe that is was the most that we could obtain from DC United.

It is important to note that all of these figures – including the tax concessions – are included in our economic analysis and the estimated \$385 million that the District will receive from the transaction. Put another way, the tax concessions have already been removed from the \$385 million and that figure is calculated on a net present value basis which is to say that it factors in the time value of money.

3. Land Assembly

The District has agreements in place to acquire all the parcels that make up the stadium site for \$84.9 million. This figure includes \$21.1 million for the Akridge parcel, \$8.6 million for the Mark Ein parcel, \$14.1 million for the Super Salvage parcel, and \$41 million for the Pepco parcels.

4. Reeves Disposition

In developing and planning a series of transactions that would accomplish these goals while limiting impact on the debt cap and other District cash needs and priorities, the District began considering accessing the value in some of its owned assets. The Reeves Center, due to its attractive location, inefficient configuration, inordinately high operating costs, and unused density represented an asset with significant untapped value.

While we understand the idea of a land swap has raised concerns, they are not unprecedented in the District. For instance, a swap transaction was a key element of

the land assembly for the new Marriott Marquis, which opened less than a month ago across from the Walter E. Washington Convention Center.

More importantly, a land exchange transaction provided a level of financial and planning certainty that was necessary to advance the negotiations with DC United. A typical Section 10-801 land disposition process takes several years and the value of the proceeds are not known until the end of the process. Given that the land proceeds are roughly two-thirds of the District's transaction costs, we felt we needed this financial and planning certainty. Correspondingly, it was also important that we had willing land assembly participants in order to convince DC United that a transaction could be reached and to engage in serious negotiations. At the end of the day, both the land assembly process and the stadium negotiations needed to proceed relatively concurrently and a land exchange helped accomplish that goal.

Analyzing this further, we determined that, considering all the relevant costs and revenue, moving to a New Reeves building provides a net benefit to the District. The 30-year net present value of the all the costs of moving into a new Reeves is \$161 million, including the short term lease of the existing Reeves building during the transition, the long-term lease of a New Reeves Center, the cost for relocating employees, and the cost of relocating the DCNet and DDoT IT facilities. The 30-year net present value cost of staying in the existing Reeves Center, with its inefficient layout, outdated operating systems, and deferred maintenance obligations, is \$120 million. The difference between these two numbers is the \$41 million figure discussed earlier.

Netted against these costs is \$85 million in 30-year net present value of new taxes generated by redeveloping the Reeves site. Accordingly, the impact of operating a new, efficient building and the taxes generated by the development at 14th and U outweigh the relocation costs and new Reeves Center lease costs by \$44 million. To be clear,

these are the costs and benefits associated with the Reeves and New Reeves portion of the transaction and are part of, not in addition to, the overall \$160 million in costs and \$385 million in revenue discussed earlier as part of the overall deal economics.

The value of both the Reeves Center and Akridge's land on Buzzard Point was determined based on a "three appraiser method." Under that approach, both the District and Akridge selected an appraiser and those two appraisers selected a third appraiser to serve as the Chairman of a Land Valuation Panel ("LVP"). This three-appraiser method of valuation is routinely used in commercial transactions in circumstances where it is necessary to establish an accurate and independent fair market value.

The three members of the LVP are among the top commercial real estate appraisers in Washington, D.C. They have a combined 117 years of experience in appraising commercial property in the District of Columbia. Their clients include Bank of America, GSA, Eagle Bank, the District Government, Wells Fargo Bank and ULLICO. The valuation judgments of these appraisers are regularly relied upon by major commercial and financial institutions in making significant real estate investment decisions.

The appraisals were conducted pursuant to the Uniform Standards of Professional Appraisal Practice, 2012-2013 Edition (USPAP) as adopted by the Appraisal Standards Board of the Appraisal Foundation; the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute; and the appraisal licensing laws of the District of Columbia. The USPAP Standards are rigorous standards that were first developed in response to the S&L crisis in the 1980's, and are designed to ensure the quality and integrity of real estate appraisals.

The three appraisal method determined that the highest and best use of the property is to demolish the building and redevelop the site and ascribed a value of \$55,600,000 for the Reeves parcel and \$21.1 million for Akridge's Buzzard Point land.

Subsequent to this appraisal, the Office of the Chief Financial Officer engaged an independent appraiser to value both the Reeves site and the entire Buzzard Point footprint. The OCFO's appraiser concurred that the highest and best use of the Reeves Center was to demolish the building and redevelop the site and ascribed a value of \$69,400,000 for the Reeves Center. It should be noted, however, that the OCFO's appraiser also valued the Buzzard Point land at \$99.897 million rather than the \$84.860 million for which we agreements. Across the board, the OCFO appraiser found higher values – both for the Reeves Center and for the land that we will be acquiring.

While there are significant differences between the individual land values ascribed by these various appraisers, on balance they are quite close. In fact, if the OCFO's numbers were used across the board, the net land cost to the District would be \$1,235,837 higher than that which we have negotiated – a difference of 1.2%. But in any event — we believe that three experienced appraisers meeting to agree on a consensus value is a more rigorous process that is likely to correct for outlying data and result in a more accurate valuation.

Again, we believe the case for this deal is compelling. It will create jobs; and as I have said, it will spur development. I did want to take this opportunity to note that it's not just me or the Mayor saying this, but in the June 16th edition of the Washington Post Capital Business section, there was an article submitted by staff of the CoStar Group which read in part, "...further development could be in store for the Capital Riverfront neighborhood should a new D.C. United soccer stadium get the green light for construction in Buzzard Point."

As you may know, CoStar Group is a national leader in commercial real estate data and analytics. You may not take our word for it, but their analysis is impartial and based on real time data tracking real estate trends. When exploring the value proposition of a new soccer stadium, it is important to consider the economic impact of other sports arenas in the District, such as the Verizon Center (formerly the MCI Center) and Nationals Park. The facts show that the construction of sports complexes serve as a catalyst for private development and help revitalize neighborhoods.

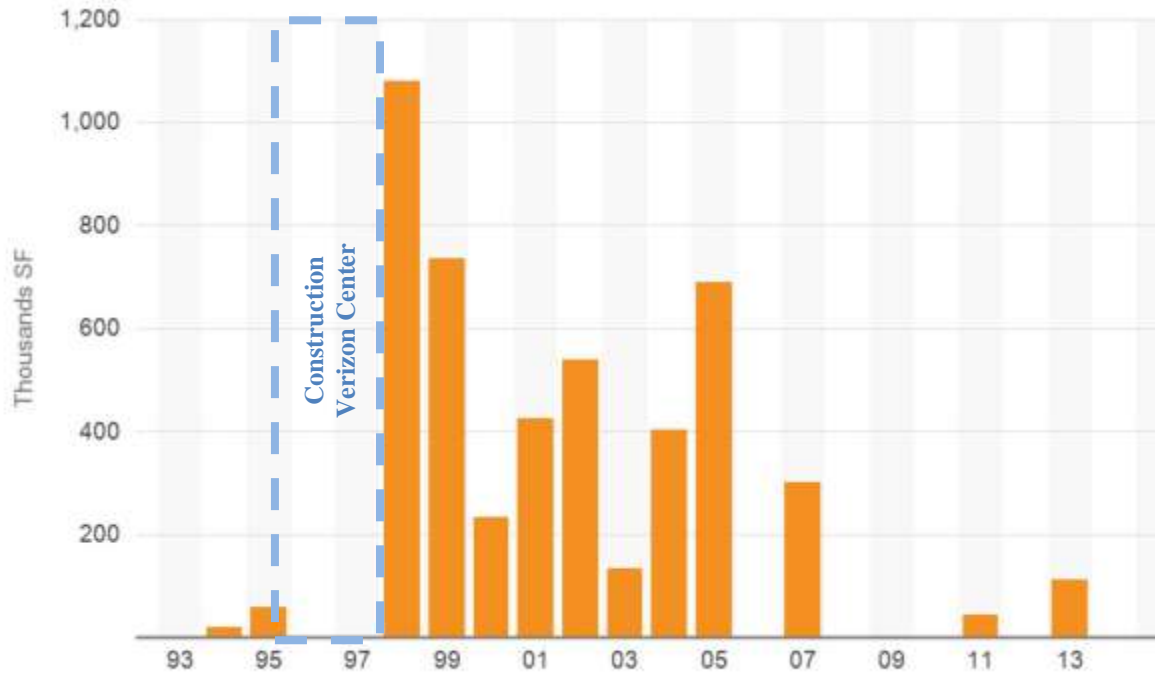
Verizon Center

According to data obtained from CoStar Group, the Verizon Center had an immediate and long-term impact on the entire Gallery Place/Chinatown neighborhood. Using a search radius of a quarter mile, the Verizon Center was a catalyst for new construction, reduced vacancy rates, and generated economic growth.

Catalyst for New Construction – Verizon Center

Within a quarter mile of the Verizon Center, less than 200,000 square feet of new construction was started between 1993 and 1997. However, immediately following the opening of the Verizon Center, there was approximately 1.1 million square feet of construction in 1998, and another 700,000 square feet of new construction in 1999. In total, even though there was only 200,000 square feet of new construction before the opening of the Verizon Center, there was approximately 3 million square feet of new construction over the same period of time immediately after the opening of the Verizon Center – an increase of approximately 1,400 percent.

Construction Starts – Verizon Center

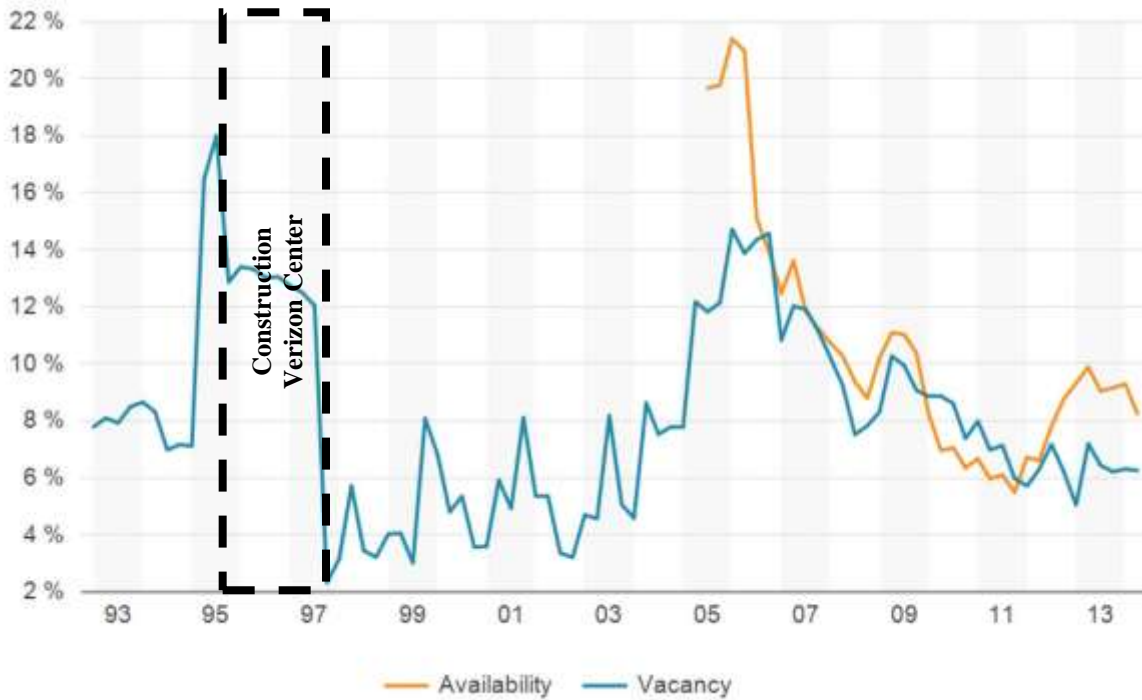


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Reduced Vacancy Rates – Verizon Center

Within a quarter mile of the Verizon Center, vacancy rates hit an all-time high of 18% in 1995. However, the vacancy rates plummeted to only 2.3% when the Verizon Center opened its doors in 1997. The vacancy rates continued to stay within a healthy 2 – 8% for almost a decade.

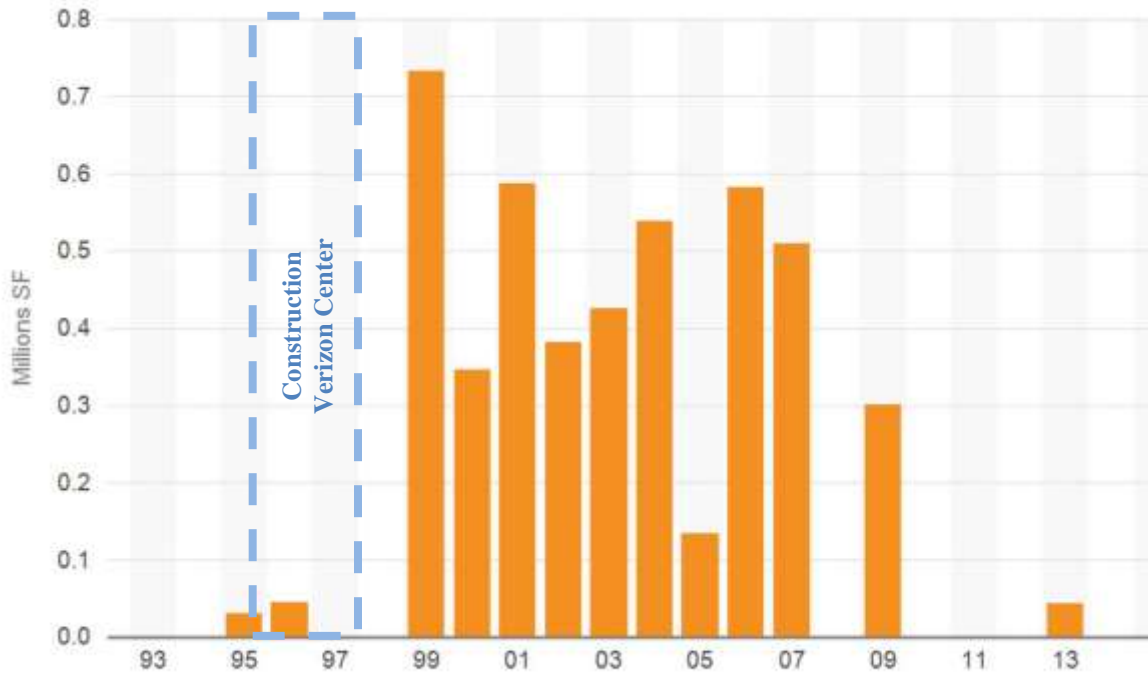
Availability and Vacancy – Verizon Center



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In 2005, vacancy rates increased to over 14%, but the corresponding 21% of rental availability indicates that the vacancies were primarily due to new leases and more properties being listed but not yet coming online. In 2005, only 150,000 square feet of new office space was delivered, with almost 600,000 square feet of office space coming online in 2006. As more properties continued to come online, the vacancy rate continued to decline. The vacancy rate follows the trend of the availability rate between 2005 and the present, which is now close to 6%.

Office Construction Deliveries – Verizon Center

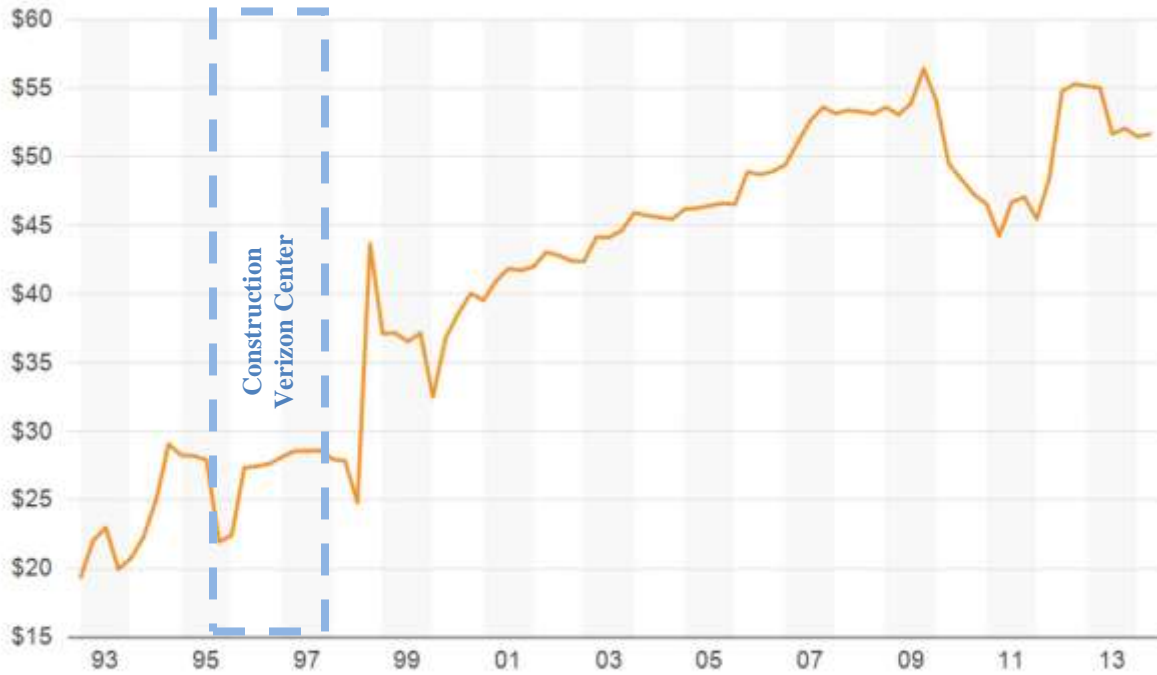


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Economic Growth – Verizon Center

The construction of the Verizon Center also had an immediate and long-lasting impact on economic growth. The gross asking rent was under \$30/per square foot in 1997. Within a year, rent increased 50% and has steadily increased ever since (with a small decline between 2009 and 2011 to account for the recession). The asking rent in the area is currently \$54/per square foot, an increase of about 80%.

Asking Rent – Verizon Center



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Nationals Park

Similar analysis of data from CoStar indicates the same type of economic impacts for Nationals Park.

Catalyst for New Construction – Nationals Park

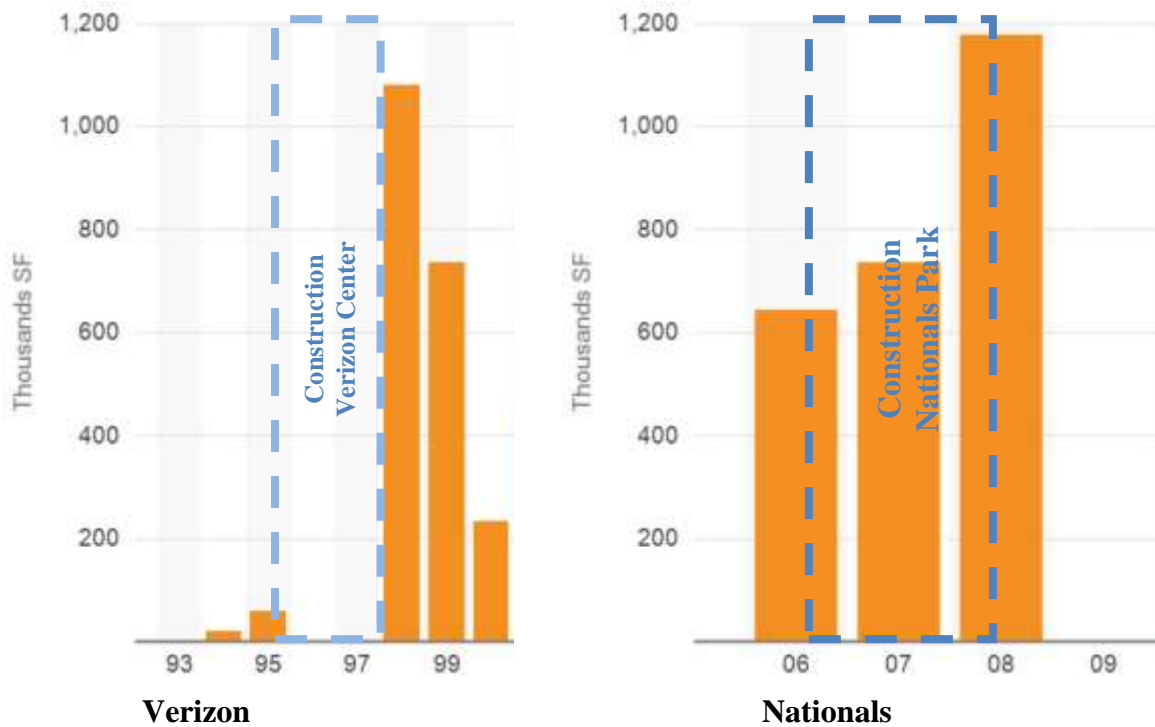
The construction of Nationals Park served as a catalyst for almost 2.4 million square feet of new construction between 2006 and 2008. There was virtually no

construction between 2009 and 2010 due to the recession, but new construction picked up again as the economy began to improve in 2011.

Data obtained from CoStar also indicates that most of the properties were timed to come online with the completion of the stadium. In 2006, approximately 500,000 square feet came online, while more than 1.6 million square feet came online in 2007 – about a 220% increase. Between 2006 (the start of construction) and 2009 (the year after opening day), about 4.1 million square feet of construction was delivered in the neighborhood immediately surrounding Nationals Park.

Catalyst for New Construction – Comparison of Verizon Center and Nationals Park

When reviewing the start of construction for areas around Verizon Center and Nationals Park during their respective construction, the data revealed an interesting correlation between the two projects. The construction spurred by the development of Verizon Center primarily began after the center was complete; almost 2 million square feet over the next three years. When compared to Nationals Park, a total of 2.5 million square feet of construction was initiated just prior to the construction of the ballpark and lasted well past opening day.



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While we are mindful of the impact of such rapid development in the city and the impact it may have on some neighborhoods and long-time residents, this type of growth is precisely what we want to see. The District is not like other municipalities that see public investment in sports facilities as a corporate give away. As I have just demonstrated, these investments paired with careful transportation, infrastructure and housing planning work.

The proof is in the bottom line for the District. We are experiencing record surpluses and it is due primarily to the tremendous growth throughout the central core and we need to push that development into areas that have not prospered as much like Buzzard Point and Anacostia.

Again, Mr. Chairman, the new soccer stadium is the right economic development vehicle at the right time. It fills the gap between the investment in the Nationals Ballpark and the Wharf project producing even more revenue for the District.

It is also fitting that the District – a major international city and destination – will have a first class soccer stadium befitting of this great city and its residents. With that, on behalf of the Mayor and my team, we ask that you support this bill and the jobs it will create.

That concludes my prepared testimony and we are available to answer any questions that the Committee may have.

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