



District of Columbia Housing Authority

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Michael Kelly, Executive Director

February 26, 2009

District of Columbia Zoning Commission
441 4th Street, N.W., 2nd Floor
Washington, DC 20001

Re: Capper/Carrollsborg Request For Extension of PUD and Community Center

On behalf of the District of Columbia Housing Authority and our development partners, I am writing to request an extension of time for the full implementation of the previously approved Planned Unit Development (PUD) for the Arthur Capper Carrollsborg HOPE VI site and for the permitting and construction of the Community Center within the PUD. We are requesting this extension because we need additional time to issue the bonds that will finance the infrastructure costs and the construction of the planned Community Center.

In September 2008, the Arthur Capper / Carrollsborg Public Improvements Revenue Bonds Approval Act took effect. This legislation permits the DC Housing Authority to issue up to \$55 Million in bonds backed by Payment in Lieu of Taxes made by homeowners and owners of office towers and apartment buildings constructed within the Capper PILOT area. The purpose of the bonds is to finance the extensive infrastructure improvements that this area requires as well as the construction of community amenities such as Canal Park, community green spaces and the Capper Community Center.

The PILOT legislation permitted the Housing Authority to use real estate taxes generated on previously tax-exempt parcels for public infrastructure and other public investments without the District Government having to appropriate funds annually from the operating or capital budgets.

The issuance of a PILOT bond is directly dependent on the development activity on the Capper Carrollsborg site, access to the capital markets and sufficient real estate tax revenues to pay debt service on the bonds. The present economic downturn has dramatically impacted each of these components preventing the Housing Authority from moving forward with the PILOT bond issuance at this time. Specifically,

- The capital markets have been hard hit in this economic downturn. The mergers, consolidations, bankruptcies and restructuring of key players in the capital markets

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have made access to capital for public infrastructure needs more difficult. As recently as early February 2009, the only bonds that were being purchased were bonds rated above investment grade. For these bonds, the interest rates on the bonds have reached historically high long-term rates. According to our investment advisors, the market should see steady improvement this year which would then permit the Capper PILOT to become viable in either the first or second quarter of 2010.

- The key to issuing a sizable PILOT bond lies in the construction of commercial properties at the site. For example, an office tower at the Capper site generates approximately \$1.85 million in annual real estate taxes, while a residential component produces less than \$500,000 annually.
- Softening of the real estate market, generally, has impacted our ability to issue a PILOT bond. Faced with an increase in the vacancy rate for commercial space in the near South East quadrant of the District, our development partners have decided not to move forward with the commercial components without having first identified anchor tenants for the buildings. Although the first taxable residential component closed its financing in May 2008, there has been a dramatic downturn in the Low Income Housing Tax Credit market, the principal financing vehicle for the public housing units that we are committed to replacing on a one-for-one basis at the Capper Carrollsborg site. Therefore, without relief in this area, construction of future residential components may be in jeopardy of slowing down considerably.
- Equally important, access to financing from private lenders has become more difficult and more expensive. Moreover, government resources previously relied upon as gap financing such as Housing Production Trust funds, HOME or CIP funds have been reduced considerably and the demand for such funds far exceeds the availability of such funds.

In anticipation of an eventual upswing in the capital markets, DCHA has worked with its financial advisors to develop interim financing options. We understand that without investment in the public infrastructure, the development of the parcels at the Capper Carrollsborg site would not be possible. Therefore, as an interim measure and in anticipation of a future PILOT bond, DCHA has obtained \$13 million in private financing. These funds were invested in land preparation costs and public infrastructure costs for the first phase of the residential component. DCHA has also considered other interim financing measures to stimulate the development activity at the Capper Carrollsborg site. We have met with the Office of the Chief Financial Officer, the Deputy Mayor for Planning and Economic Development, the District's Treasurer, Fannie Mae and numerous private

lenders. Our goal is to ensure that the construction of the public infrastructure does not delay any future development at the site.

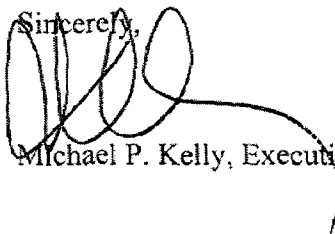
Once real estate taxes begin to be generated at a rate to support debt service payments, DCHA will issue a PILOT bond. Uses of the bond proceeds will be multifold and will include:

- Investing in the construction of the Community Center;
- Investing in public infrastructure for future development parcels. For example, we will invest in the infrastructure for the second phase of the town homes component on Squares 798, 799 and 800, and Squares 882 and 769 which are currently under review by the Zoning Commission for second stage PUD approval; and
- Investing in the demolition of the current DPW waste transfer station, connecting I Street through to New Jersey Avenue, and undertaking the massive underground utility realignment in and around the future Canal Park site.

The prioritization of all of these improvements is flexible, however, none are feasible without the closing of the PILOT bonds and the Zoning Commission's approval of our requested extensions.

We believe that the time extension requested in our petition is warranted because a) investment activity has slowed down dramatically throughout the real estate industry; b) our ability to issue a PILOT bond or multiple bond offerings has been impaired due to the tightening of the capital markets, and c) access to interim financing on terms that make implementation feasible is extremely difficult, if not impossible, to secure in the this tight market.

Given the economic factors discussed in this correspondence, DCHA requests that the Zoning Commission approve an extension of time for the full implementation of the PUD for the Capper Carrollsburg site and for the permitting and construction of the Community Center. Thank you in advance for your careful consideration.

Sincerely,

Michael P. Kelly, Executive Director