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BEFORE THE ZONING COMMISSION
FOR THE DISTRICT OF COLUMBIA

RE: Z.C. Case No. 01-17MM/93 5F/
91-18P (PUD AGC - 1957 E Street, NW)

January 17, 2002

Good evening Madam Chair, Mr. Vice Chair, and Commission Members:

For the record, my name is Sol Shalit, I am an economist, I live at 2500 Virginia Avenue, NW, Washington, DC 20037, and I'm testifying today as a pro bono expert witness for ANC 2A and in opposition to the above-referenced Application of George Washington University.

In preparation for my testimony, I have reviewed the original AGC PUD and related exhibits, the proposed GWU PUD and related exhibits, ShawPittman's latest submission of December 14, 2001, as well as the ANC 2A filings in the matter. My testimony today is based on these records.

In 1993 the Zoning Commission originally approved the AGC PUD based on a set of specified public benefits and amenities. In 2001, the proposed GWU PUD is based on another set of public benefits and amenities. My task this evening is to offer you some assistance by comparing the two. My approach was to look at the public benefits and amenities of the original AGC PUD, compare them with those of the proposed new GWU PUD, spell out the differences, and calculate a Present Value dollar figure for the change (positive or negative), whenever feasible. Present Value calculations are routinely used to deal with varying future dollar streams of varying time periods by bringing them into a common denominator and enabling their aggregation and comparison on a consistent basis. So the numbers in front of you are all comparable. All assumptions and sources were clearly spelled out in the accompanying Notes.

In the matrix below, I have tabulated, side-by-side, the two PUD's and analyzed the impact of the change on the public amenities and benefits. I shall not take your time in going over the entire matrix as it is self-explanatory; I'll confine my remarks to a few observations and will then stop to answer any questions you might have.

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What strikes you immediately when you look at the matrix is that we don't have here a minor change, but an entirely new, different PUD -- different in both use and amenities. I'll leave to others the task of examining these differences in detail, and shall only address their economic implications in order to help you determine whether the proposed PUD offers (today) a total value of public amenities and benefits that is at least equal to the one the Zoning Commission arrived at (in 1993) as justification for granting AGC a zoning change that clearly has considerable market value. Let me briefly go over a few important elements in the matrix:

1. The most significant items, it seems to me, are "A" and "B" relating to the change in use. These can be quantified, but not without further study. The fact that they are not quantified here with dollar figures does not imply they are amorphous or unimportant; quite the opposite. For now, they would just need to be evaluated qualitatively.

2. Since no detailed breakdown was available for the original PUD amenity of a \$2.54 million increase in annual DC tax revenue (item J), I have assumed, conservatively, that item H (new job creation) and item I (property taxes) were already included in J, and did not calculate for them separate values so as not to risk "double counting". The 1993 dollar figure was adjusted to reflect 2001 dollars.

3. It is important to understand the role that DC Industrial Revenue Bonds play in this PUD (see item M). The \$380 million of DC tax-exempt Industrial Revenue Bonds the District gave GWU is a long-term financing vehicle; it grants GWU a considerable subsidy in interest costs for many years to come. The savings to GWU in borrowing costs on the \$380 million issue are conservatively estimated to be at least \$7.6 million per year (about 2% tax-rate differential). There are additional substantial savings in GWU's cost of borrowing through DC tax-exempt Industrial Revenue Bonds, when compared to open market alternatives: Tripling the average term to maturity, lower transaction and refinancing costs, lower interest rate risk, less stringent loan covenants, etc. Thus, the annual \$7.6 million figure is very conservative as it underestimates the true magnitude of the subsidy to GWU.

4. Of the above-mentioned \$380 million subsidized loan, about \$71 million are earmarked to finance the presently proposed PUD (see item M). The District's financing subsidy on this proposed PUD has a capitalized Present Value of \$25.36 million (see Note 5, below). I'm providing this figure only to emphasize that GWU had agreed to some requirements -- and assumed some employment obligations -- when it accepted this \$25 million gift from the District. These past obligations were incurred to partially compensate the District in consideration for its generous subsidy. They cannot now be somehow transfigured and be passed off to this Commission as "benefits and amenities" for this PUD. It's like selling the same rug twice to two different buyers.

5. Although there are some legitimate questions about the actual value of GWU's \$500,000 offer (spaced over five years) of subsidized meals to the poor and homeless (see item K), I have nevertheless included the full amount. The only adjustment made was to bring it to Present Value, just like all the rest.

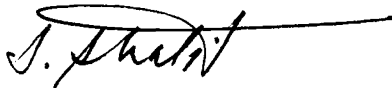
6. Although there are serious questions about the viability of the proposed rentable retail space (see item L), and although the numbers provided do not exactly compute, I have nevertheless included the full amounts GWU claims as potential DC sales tax and property tax revenues.

My conclusion: At a very conservative estimate, the proposed PUD falls short by nearly \$57 million when compared with the PUD which this body had approved nine years ago. This grossly underestimates the loss of public amenities and benefits entailed in approving the proposed PUD because the above figure was based only on those PUD elements that could be readily quantified. The real loss is far greater since many PUD elements were not estimated; almost all are serious and quite negative.

In closing, a PUD zoning change is a valuable and scarce public resource, just like granting pollution rights, or segments of the broadcasting spectrum. It is long-established public policy that the allocation of public resources not be misallocated or squandered. Indeed, and to that end, the District of Columbia Municipal Regulations for PUD's (Ch. 24, 2400-2499, Rev. 03-06-96) stipulate procedures and substantive grounds for awarding a PUD. When it granted the original AGC PUD, this Commission, in effect, set a price tag for this public resource; this price tag constitutes a minimum threshold which GWU's proposed PUD must meet. It does not.

I hope my testimony is helpful in your deliberations.

Sincerely,



Sol S. Shalit
Professor Emeritus of Economics & Finance

Matrix Comparison of AGC and GWU PUDs

	AGC Approved PUD	GWU Proposed PUD	Effect of Change	Impact \$ millions
A	1/3 of Building: 45-56 market-rate upscale condominium residential units for purchase by permanent residents with approximate occupancy of 45-100 residents.	Student dormitory of 55 residential units, housing 193 students.	Amenity Loss: Loss of non-student, upscale permanent taxpayer residential housing by converting condominium to dormitory. Adverse impact: Loss of DC income and property tax revenue. Further reduction of neighborhood stock of non-student residential housing. Increasing concentration of student residences (additional 193 students on Square 122, which already houses 1,000+ [Thurston Hall] and 330+ [Mitchell Hall] students). Inconsistent with mandate of Comprehensive Plan: Student overpopulation, increased noise, traffic, and nuisance. Further degradation by conversion of residential neighborhood to campus	Negative, not estimated See Remark 1, above
B	2/3 of Building: Commercial office use	University classroom use for 800 students [drawings actually show occupancy capacity of 1,355 seats + 1 floor of offices + 3 floors of Executive Education Center + lounge and dining -- all with unspecified capacity].	Amenity Loss: Loss of jobs and DC tax revenue (see H below) by conversion of tax-paying commercial uses to tax-exempt university use. Adverse impact: (See A, above) Moving a new, highest-intensity-use facility far away from existing Campus Core Area and <u>outside</u> Campus Boundary. Round-the-clock use of the facility, resulting in increase in traffic, noise and nuisance, further pressuring and degrading the residential character of the adjacent neighborhood.	Negative, not estimated See Remark 1, above
C	2 loading docks 2 parking garages	1 loading dock on 19th Street. 1 combined parking garage with access on 19th Street only.	Amenity Loss: Previously separate parking and loading facilities for commercial and residential portions are now combined with loss of separate parking for long-term condominium tenants. Adverse impact: 50 more transient cars. Concentration of vehicle traffic on 19th Street, where intersections are already failing. Increase in traffic and use intensity.	Negative, not estimated
D	Open balconies on residential condominium portion	Eliminate open balconies due to dormitory use.	Amenity Loss: High-quality design feature indicative of upscale residences. Adverse impact: Continuing loss of neighborhood's residential character by conversion of high-end downtown condominium to campus dormitory.	Negative, not estimated
E	Granite/limestone cladding	Limestone and limestone/pre-cast panels.	Amenity Loss: Superior building materials and quality required by PUD standards. Adverse impact: Does not fit with high-quality materials of adjacent buildings. Cheaper materials unlikely to hold up over time. Negative impact on adjacent sites eligible for historic designation.	Negative, not estimated

	AGC Approved PUD	GWU Proposed PUD	Effect of Change	Impact \$ millions
F	Retention of a major national trade association (33,000 members and 100 chapters nationwide) continuously operating in DC since 1918.	Retention of GWU in DC is not in question; its continued stay is assured by a franchise and a huge fixed investment – both attached to this locale and immovable elsewhere.	Amenity Loss: The jobs of 95 AGC employees. Adverse Impact: Precluding economic development of more beneficial, less intense uses. Loss of mixed-use characteristics of neighborhood and conversion to monolithic university use is inconsistent with mandate of Comprehensive Plan.	(-) \$1.8 See Note 4 below
G	Creation of 437 DC construction jobs over 2 years.	Presumably the same.	Presumably no change.	\$ 0
H	Creation of 323 new DC permanent jobs.	Relocation of School. Jobs already exist.	Amenity Loss: Loss of employment, economic activity, economic development, and contribution to city residential revitalization. Adverse Impact: See F above.	Included in "J". See 1 above.
I	Building pays DC Property Tax.	University exempt from property tax.	Amenity Loss: Loss of DC tax revenue. Adverse Impact: See F above.	Included in "J". See Remark 1 above.
J	Increase of \$2.54 million annually in DC tax revenue.	None.	Amenity Loss: Loss of DC tax revenue. Adverse Impact: See F above.	(-) \$56.11 See Note 1 below
K	None.	\$100,000 per year for 5 years (\$500,000) of free and reduced-cost meals to the poor and homeless, through a foundation whose Board is not independent of GWU.	Dubious community amenity; rather, a non-guaranteed, restricted (by GWU-WECA Agreement) subsidy to a failing, bankrupt, and now closed commercial business (Sholl's Cafeteria), located outside the boundary of ANC-2A.	(+) \$.463 See Note 3 below, and Remark 5 above
L	Retail space (permitted, but not mandated), attached to 2/3 <u>commercial portion of PUD.</u>	Retail space of 3,300 Sq.F (and 1,700 Sq.F in adjacent building) of an unspecified type for 10 years, attached to the <u>student dormitory portion of PUD.</u>	Dubious community amenity; rather, a neighborhood expansion of student-oriented retail. Adverse Impact: Support services for further entrenchment of GWU's student population in space designed originally as market-rate condominium housing for the benefit of the entire community, not just GWU. For the District, there is potential for some Tax revenue.	(+) \$.866 See Note 4 below and Remark 6 above
M	Not applicable	First Source Employment Opportunities and Local, Small or Disadvantaged Business Enterprise Opportunities	Not an <u>amenity</u> , but a <u>requirement</u> (unrelated to PUD) mandated by the terms of \$380 million tax-exempt Industrial Revenue Bonds GWU obtained from the District. GWU had agreed to the employment requirement to compensate the District for granting it a loan subsidy worth \$25.36 million for this \$71 million project alone.	\$ 0 See Remarks 3, 4 above, and Note 5 below
N	Not applicable.	Promise to comply with DC Environmental Policy Act <u>on future</u> campus construction.	Not an <u>amenity</u> , but the <u>law</u> .	\$ 0

	AGC Approved PUD	GWU Proposed PUD	Effect of Change	Impact \$ millions
O	Not applicable.	Educational benefits to community, society, District, and the nation.	Not an amenity but a requirement of the Comprehensive Plan. No impact on society, District, and the nation since: (a) No new school is created, but merely relocating an existing one, and (b) there are hundreds of similar undergraduate, and 22 other graduate schools that do an equal or better job, 4 of them in DC. The only impact is a shift in their respective market shares.	\$ 0
P	Not Applicable.	Contribution to International Affairs by providing a "forum for debate of pressing issues of the day, sharing it with the community and open[ing] its doors to the public for informative events."	See F and O above. A mere change in the School's location is unlikely to increase its stature. Contribution to international affairs is not made by teaching, awarding diplomas, or holding free public affairs on terror and Islam, but through analytical conceptual research and publications that affect thinking and policy. The Elliott School does not issue a single academic or policy journal.	\$ 0
Q	Not applicable	Educational benefits from Center for Excellence in Municipal Management – an "award winning" training program for mid-level DC Government managers – and other unidentified programs.	Nothing whatsoever to do with the mission of the Elliott School. This non-accredited, non-degree certificate training program won no award. It is merely an outreach or extension service contract with the District that has little if any academic substance. Adverse Impact: Relocation of highly-intensive-use night and weekend programs more suitable for Campus Core area near Metro, K Street or Downtown Commercial area than in the midst of residential neighborhood.	Negative, not estimated
R	Residential atmosphere on sidewalks from condo owners and visitors. Low density and low intensity use.	"Positive impact on residential life in the area caused by academic and student dormitory use [which] brings life to the sidewalks and generates pedestrian traffic".	Amenity Loss: Loss of quiet enjoyment of residential apartments due to student dormitory and high-intensity classroom use moved from Campus Core to neighborhood's residential edge, outside Campus Boundary. Adverse Impact: Conversion of residential neighborhood atmosphere, including low-intensity office use, to round-the-clock campus academic and dormitory use: intensity, noise, traffic, and nuisance.	Negative, not estimated.
S	Not applicable.	Providing student housing [which] "community residents have long demanded."	Negative Impact: Misstatement of the community's input. The residents have "demanded" only that GWU obey the law by: <u>reducing</u> its student enrollment in Foggy Bottom /West End, housing its students in university-provided housing <u>inside</u> , not <u>outside</u> , Campus Boundary, and housing its academic programs <u>within</u> its Campus Boundary, in or adjacent to its Campus Core Area. GWU's own students have "demanded" these same actions. Application is undue further expansion of GWU's Campus Boundary, only recently expanded once more.	Negative, not estimated.
			TOTAL LOSS - Public Amenities and Benefits	(-) \$56.58

NOTES

1. The 1993 figure of \$2.54 million increase in annual DC tax revenue, adjusted for the Cost of Living Index(*), amounts to \$3.12 million in 2001 dollars. Over a thirty-year term it amounts to \$93.6 million, with a capitalized Present Value (at 4%) of \$56.11 million.

(*)	1993	2001	Change
January	142.6	175.1	+23%
September	145.1	178.3	+23%

Source: U.S. Bureau of Labor Statistics

2. The 95 AGC employees generated, at a conservative estimate of \$30,000 per employee, an annual direct payroll injection of \$2.85 million, and a contribution of \$3.62 Million to the local gross product (estimated aggregate multiplier of 1.27), and generating about 18 additional jobs (estimated \$200,000 per job creation). Total annual personal income of the combined 113 jobs amounts to \$3.39 million, generating income tax revenue alone (at 9% tax rate) of \$300,000 annually. Assuming, conservatively, that only one third of them live in the District, it means \$100,000 annually in additional income tax revenue alone, \$3 million over the 30 year project life, with a capitalized Present Value of \$1.8 million. Thus, the cost to the District of failure to retain AGC constitutes a loss of 113 jobs, an annual economic loss of at least \$1.2 million (3.62/3) in Gross State Product (GSP), and a present value of \$1.8 million loss in income tax revenue alone.

Source for multipliers: U.S. Department of Commerce, Bureau of Economic Analysis, RIMS II.

3. Capitalized value of \$100,000 per year for five years at 4% amounts to a Present Value of \$463,000.
4. Capitalized value of \$93,440 per year for ten years at 4% amounts to a Present Value of \$757,882.
Capitalized value of \$13,390 per year for ten years at 4% amounts to a Present Value of \$108,605.
Total sum of Present Values is \$866,487.
5. The District subsidy on the \$71 million tax-exempt bonds for GWU PUD is conservatively estimated to be at least \$1.42 million per year (about 2% tax-rate differential). Over a thirty-year term it amounts to \$42.6 million, with a capitalized Present Value (at 4%) of \$25.36 million.