UNION STATION REDEVELOPMENT CORPORATION

David S. Ball
President

WRITTEN STATEMENT OF DAVID S. BALL
PRESIDENT, UNION STATION REDEVELOPMENT CORPORATION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND EMERGENCY MANAGEMENT
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
U.S. HOUSE OF REPRESENTATIVES

July 22, 2008

Chairwoman Norton, Ranking Member Graves, and Members of the Subcommittee, I am very pleased to be here this morning on behalf of the Union Station Redevelopment Corporation, also known as USRC, to testify about the management of Union Station, intermodal uses of the station, and other important matters concerning the care and custody of Washington Union Station that have been entrusted to USRC. The testimony also provides important information concerning: (1) the historical background of the station and how the station was redeveloped; (2) the Union Station Redevelopment Act of 1981; (3) the governance of the Union Station Redevelopment Corporation and key elements of the project; and (4) the risk presented by the District of Columbia's possessory interest tax to the continued viability of Union Station.

History of Union Station

Union Station was designed in the Beaux Arts style by Daniel Burnham, one of America's foremost architects in his day and a leading proponent of the "City Beautiful" movement. The station is a National Landmark building and one of the largest rail stations in the world. Preservation of this architectural jewel is a central goal of the Union Station Redevelopment Act of 1981 and is at the heart of the Department of Transportation's efforts on this project.

The Union Station Redevelopment Corporation (USRC) is a nonprofit organization, established in the District of Columbia on April 14, 1983. USRC was formed in order to help the Secretary of Transportation, then Elizabeth Dole, with the complex task of restoring the Union Station complex.

When Union Station first opened during the early 20th century, it was a thriving transportation hub, but with the decline in rail travel; fewer and fewer travelers used the station. In 1964, Union Station was designated as a National Landmark and preserved from the wrecking ball. In the National Visitor Center Facilities Act of 1968, Congress directed that Union Station be converted into a National Visitor Center, with a garage and a replacement train station to be built behind it.

10 G Street NE • Suite 504 • Washington, DC 20002 • (202) 222-0271 • Fax: (202) 222-0280
dball@usrcdc.com

After a troubled and controversial development period marred by cost overruns (*60 Minutes* and *The Washington Post* alleged cost overruns on the order of $180 million), the National Visitor Center opened in 1976. Most of its facilities ceased operation in 1978 (as it was largely unvisited) and it was closed in February of 1981 after extensive water damage resulted in the building being condemned as unfit for human habitation. The building was labeled a safety hazard and passengers now had to walk around the building to get to their trains.

The Union Station Redevelopment Act of 1981

On December 29, 1981, President Reagan signed the Union Station Redevelopment Act of 1981 into law (P.L. 97-125). The law provides:

> "Sec. 112. The Secretary of Transportation shall provide for the rehabilitation and redevelopment of the Union Station complex primarily as a multiple-use transportation terminal serving the Nation's Capital, and secondarily as a commercial complex, in accordance with the following goals:"(a) Preservation of the exterior facade and other historically and architecturally significant features of the Union Station building;"(b) Restoration and operation of a portion of the historic Union Station building as a rail passenger station, together with holding facilities for charter, transit, and intercity buses in the Union Station complex;"(c) ***Commercial development of the Union Station complex that will, to the extent possible, financially support the continued operation and maintenance of such complex***; and"(d) Withdrawal by the Federal Government from any active role in the operation and management of the Union Station complex as soon as practical and at the least possible Federal expense consistent with the goals set forth in subsections (a) through (c) of this section." (Emphasis added.)

Former Chairman of the House Committee on Transportation & Infrastructure and former Secretary of Transportation Norman Y. Mineta was the sponsor and champion of the bill in the House. Without his efforts, there would have been no Redevelopment Act, there would have been no money to complete the parking garage, and there would have been no redevelopment project. The Federal Railroad Administration (FRA) completed the market and engineering studies required by the Act that formed the foundation for the project. Secretary of Transportation and now Senator Elizabeth Hanford Dole secured the needed funding from Amtrak and agreed to work through USRC, in selecting a developer for the project.

USRC was created in response to a suggestion in the Senate Report on the Redevelopment Act to assist the Secretary of Transportation in carrying out the project and to provide a vehicle through which the principal stakeholders in Union Station could work together constructively to carry out this challenging and risky project for the benefit of the City and the Nation. An eminent real estate developer, Keith Kelly, was hired as USRC's first president.

USRC's first task, as charged by a cooperative agreement among FRA, Amtrak, and USRC, was to restore and renovate the historic Union Station. The second task was to identify a retail developer which the Secretary of Transportation was willing to officially designate as the developer for the commercial areas of the building. After the developer's designation was finalized, USRC was to negotiate a sublease with the developer that would provide for the developer to introduce the commercial activities into the station which would generate the revenues needed for the long-term upkeep of the historic building as provided by the Redevelopment Act.

Despite the fact that the station is a quick 5 minute walk from the US Capitol Building many developers feared (circa 1983) that Union Station was **too risky a venture** to undertake. The Station's location at the foot of the northwestern quadrant of Capitol Hill was a desolate underdeveloped section of the City. USRC received only 2 development proposals. However, as evidenced today, Union Station has enjoyed remarkable success since its Grand Opening on September 29, 1988, as America's premier Amtrak station and a unique specialty retail center.

Once USRC selected the developers and architect tasked with the station's restoration, plans were drawn up for what changes were to be made to both the interior and exterior. The exterior would remain almost unchanged, but the plans called for extreme changes to Union Station's interior, ranging from constructing new mezzanines for shops to restoring ornate wall stenciling and historic clocks. Union Station's basement, which had served as a parking lot, would have curving stairways, public tables, and a movie theater. Ground was broken for Union Station in August 1986. By February of 1988, USRC's progress had earned national attention. An article in *The Los Angeles Times* praised USRC for the manner by which it had financed and managed the restoration, for meeting its deadlines, and for not going over budget. On the eve of the reopening, *The Washington Post* stated that it had become "impossible not to be exhilarated by the sight of Union Station" and that the "breathtaking grandeur of Union Station had been brought back."

USRC retained **Harry Weese and Associates** to design the rehabilitation and renovation of Union Station, to assure its structural soundness, bring it up to modern building code standards, restore its historically significant features, make it accessible to the handicapped, and adapt it to the commercial uses proposed by the developer, Union Station Venture, without compromising the quality of the restoration. The restoration won a historic preservation award from President George H. W. Bush, as well as other significant awards.

Union Station Venture (USV) was selected as the developer and created an exciting festive retail center of unique size and scope for Union Station. The station includes over 100 merchants and restaurants, a 40-vendor food court, and nine cinemas, making Union Station one of the places in Washington to shop, dine, and be entertained under one roof with Metro access and easy automobile access to a secure, well-lit garage connected to the station by elevator and escalator. Union Station Venture sold 100% of its interest in the station to the current owner, Ben Ashkenazy, who holds the station through an entity called **USI.** Of course, the ambience of a first-class railroad station adds significantly to the attraction. Ashkenazy now proposes to update the retail presentation significantly to keep the station current and to add a fresh venue of amenities. That is typical of best practice among successful retail developers and it is time. The retail at Union Station has been substantially the same for 20 years. An example is that the cinema, which was a main attraction in 1988, has posted consistent sales declines in the last five years.

The District of Columbia completed the parking garage behind Union Station using $40 million of Interstate Highway funds. The original garage accommodated about 1,400 cars and a large number of buses. Tour buses are welcomed. The garage is well-lit and secure. Elevators and covered escalators connect all parking levels with the station. Because parking demand was straining the capacity of the garage, USRC has expanded the garage to accommodate about 2,194 cars on Levels 1 through 4, over 150 rental cars on the new mezzanine, and 98 buses on the Bus Deck. Shoppers, Amtrak passengers, office workers, and visitors find parking convenient and once more plentiful.

Union Station officially reopened on September 29, 1988 and by 1994 it was drawing more than 7 million visitors annually, making it DC's 2nd most popular tourist attraction behind the Air and Space Museum. By late 1997, USRC had turned Union Station, which had before been labeled a safety hazard, into the most popular tourist attraction in Washington, D.C. Today the station draws over 32 million visitors each year. USRC now focuses on the upkeep of Union Station and the garage. Union Station is constantly being updated, from expanding the garage to changing the configuration of Columbus Plaza in front to make it safer for vehicles and pedestrians. USRC is continually implementing plans for the benefit of the station itself as well as for the public.

The restoration of the Union Station complex was no small feat, and it has won numerous awards, including:

- 1989 ICSC Maxi Award for the Grand Opening of Union Station
- 1989 10th Annual Renovation Award for Adaptive Reuse Commercial Renovation
- 1989 Merit Award, Washington, D.C., Chapter, American Institute if Architects
- 1989 Building Design and Construction Reconstruction Project Award
- 1989 Environmental Design Award, Mayor's Office, Washington, D.C.

- 1990 CHAMPS (Capitol Hill Association of Merchants and Professionals) Daniel Carroll Award for rehabilitation and adaptive reuse of Union Station
- 1991 Retail Advertising Council First Place for "Switzerland at Union Station"
- 1991 Award for Excellence, Urban Land Institute
- 1992 Presidential Design Award, Federal Design Achievement Award
- 1993 Outstanding Project, American Society of Civil Engineers, National Capitol Section
- 1994 Brunel Award International Design Competition Commendation for Transformed or Renovated Large Stations
- 1995 Investors in America Award, Partners for Livable Communities

FRA bought Union Station subject to a first mortgage that had been used to help finance the ill-fated National Visitor Center. The mortgage has long ago been paid off. FRA got possession of Union Station at the beginning of the Union Station Redevelopment Project by taking an assignment from the Department of the Interior of a 25-year lease the National Park Service had entered into with the **private owners** of Union Station (real estate subsidiaries of CSX and the Penn Central estate). The lease provided for creation of the mortgage by those private owners. The lease also gave the Government an option to buy the station subject to the mortgage. Once we had successfully redeveloped Union Station, Congress authorized FRA to exercise the option and buy the station.

Union Station is a great success both as a transportation facility and as a commercial venture. Amtrak's ridership and Metro's rose sharply after Union Station reopened. MARC and VRE have prospered there, as well, to the point that the sheer number of passengers using Union Station at rush hour is severely straining the facility's capacity. The retail that was designed to support the redeveloped station is one of the most successful specialty retail centers in the Nation. Year after year, Union Station is second or third on the list of places visited by the most tourists (the Air & Space Museum is almost always first).

The parking garage is a major contributor to the success of the station because of its ability to accommodate thousands of tour busses each year.

> Senate Rep. 97-269, discussing Section 112 of the Redevelopment Act, states:
>
> ...The Committee does not intend that there should be a bus passenger station, in the normal sense, in the parking garage or anywhere else in the complex. Rather, there should be facilities simply to allow buses to stop briefly to discharge and load passengers. This includes charter, transit, and intercity buses. Because of the visitor-related nature of charter buses, such buses would also be allowed to park in the parking garage for a fee. Local transit (Metro) buses, of course, already use portions of the bus deck of the parking garage.

Revenue from the garage contributes to the financial strength of USRC and this revenue allows USRC to meet its contractual responsibility to maintain the historic elements of the station. The garage accommodates motor coach carriers, both local and out-of-state, WMATA busses, taxi cabs, the DC Circulator, Open Top Busses and several over size carriers and over 150 rental cars. In 2007 USRC completed an expansion of the parking garage by securing a $38 million construction loan from a commercial lending institution to increase capacity from 1,450 to 2,194.

We tally well over $205 million as having been invested in the station. That number consists of the $70 million initial investment by Amtrak, $40 million by the District, $60 million by USV, and $35 million by USRC. When the estimated $20 million worth of retail improvements proposed by USI is included total investment in the station is over $225 million.

Governance

The **Secretary of Transportation** is responsible under the Union Station Redevelopment Act of 1981 for (1) completing market and engineering studies before starting the project; (2) obtaining transfer of the lease of the station from the Department of the Interior; (3) providing for the rehabilitation and redevelopment of Union Station as a train station and a retail center in keeping with four goals: (a) preservation of the exterior facade and other historically and architecturally significant features of the building; (b) restoration and operation of part of the building as an Amtrak station; (c) commercial development to support the continued operation and maintenance of the building; and (d) withdrawal of the Federal Government from active operation and management of Union Station as soon as practicable and at least Federal expense; and (4) selecting a developer. The Secretary has managed the project through the **Federal Railroad Administration**.

Amtrak has provided $70 million to fund the rehabilitation and renovation of Union Station, which is Amtrak's premier station. Amtrak's corporate headquarters are also located in Union Station.

The **Union Station Redevelopment Corporation (USRC)** is a non-profit corporation created to assist the Secretary of Transportation in redeveloping Union Station. **Secretary Peters** is the Chairman of USRC's Board of Directors. **Alexander Kummant**, President of Amtrak, **Mayor Adrian Fenty** of the District of Columbia, **Edmund Cronin**, President of the Washington Real Estate Investment Trust and representing the President of the Federal City Council, and **Federal Railroad Administrator Joseph Boardman** are directors of USRC. I, David Ball, am the President of USRC.

USRC's oversight responsibilities for the entire station complex, as charged by its sublease from FRA and the cooperative agreement among FRA, Amtrak, and USRC, consist of:

- Managing the retail developer's sublease
- Managing the parking garage operator's contract
- Insuring proper maintenance of the unique historical features of Union Station
- Managing all capital improvements in the garage
- Protecting the Federal Government's and other stakeholders' interest in the property

Union Station Venture, a joint venture of the Connecticut state teachers' retirement fund, Williams Jackson Ewing, and Benjamin Thompson & Associates, was the original commercial developer of the project. USV recently sold its interest to a New York developer named **Ben Ashkenazy**, who holds the sublease to the station through an entity called **USI**.

Project Management

USRC is the nonprofit private sector corporation, originally entrusted with the task of ensuring that Union Station became a functioning rail station again, and that it's architectural and historic features be restored. Union Station is now the major intermodal transportation facility in Washington and is ready to increase its intermodal functions. Today, USRC's main goals include maintaining the historic station in the grandeur to which it was restored, ensuring that the station remains economically viable, overseeing and managing all capital improvements in the garage and protecting stakeholders' interest in the complex. USRC, as a non-profit entity, represents the public sector, and has allowed the federal government to remove itself from the railroad station management business as directed by Congress in the Union Station Redevelopment Act of 1981.

USRC has an oversight role in the management of the retail complex as outlined in the Sublease Agreement. The station and garage are owned in fee by the federal government (USDOT); and both are leased to USRC; USRC then subleases the station to USI; who in turn subleases the ticket counter/passenger waiting area along with office space to Amtrak. USI is responsible for all retail leases and the day to day management of the station. USRC does not sublease the garage but instead contracts for the management and operation of the garage. Reference Attachment I an Organizational Chart of the Union Station Complex.

USRC through consultation with the garage operator establishes policies and procedures for the garage. We are currently in discussions with Greyhound about tenancy at the station. Current talks center on a possible Greyhound ticket counter in the Station as a tenant of USI and Greyhound renting bus stalls from USRC. We have had discussions with the Capital Visitors Center (CVC) development team concerning

parking Capitol Hill destined tour buses in the garage and or running a shuttle from the garage to the Capitol to accommodate the many visitors.

The Bus Deck is striped to hold approximately 98+ buses however there are areas of the Bus Deck with restricted vehicle height clearances so that number can go up or down. During the Spring and Fall the deck operates daily at over a 100% capacity and requires hands on management to accommodate the parking of the numerous tour busses that enter and exit the garage. These tour busses share the deck with the DC Circulator, Greyline Tour Busses, FlexCar, Open Top Busses, and over sized carriers that pay a monthly fee to park. As part of the reconfiguration of Columbus Plaza we are obligated to provide WMATA with 10 free bus slips that will allow WMATA busses unencumbered access and egress so that route schedules can be maintained. We are also challenged with future demands whereby Greyhound may require 20 to 30 slips for operation along with the unknown requirements of the CVC. To accommodate these two entities alone will leave some folks fighting for more space.

As the ITC concept unfolds and the proposed Greyhound tenancy starts to take shape along with discussions with the CVC we will have a better handle on how USRC can maximize parking opportunities that provide the greatest benefit to the City.

Community and City Contributions

- Union Station improvements brought both commercial and office development to the area
- Restoration of the Union Station complex increased neighborhood real estate values
- Union Station now accounts for over 5,000 permanent jobs
- USRC is actively involved in both the Capitol Hill Business Improvement District and the North Capitol Neighborhood Development Corporation
- USRC works with the Washington Metropolitan Area Transit Authority to help accommodate bus schedules and routes
- USRC requires its contractors to have at least 30% minority participation
- In 2004 Union Station generated approximately $9,545,918 in sales tax; in 2005 $9,990,712 in sales tax; and in 2006 $10,684,389 was generated in sales tax. We estimate that sales tax for 2007 to be $10,736,621. Union Station as a revenue generator for the District carries its share of tax burdens.

Projects

Past

- $38 million garage expansion
    - Increased capacity from 1,440 car spaces to 2,194 spaces
    - Expansion joints were replaced/repaired
    - Deteriorating and delaminated concrete was replaced
    - Replacement/repair of reinforcing steel and tensioning cables
    - All exposed steel was fire-proofed
    - Entire 4th level of garage received a sealer coating
- Installation of hydraulic elevator providing service from the Bus Deck to the rental car Mezzanine Level

Present

- In discussions with the Capital Visitors Center project management team to develop a strategy for moving busses and people to and from the new center
- Installation of new traffic signal on the H Street Bridge
- Installation of a new elevator and the modernization of another to serve levels 1 through 4 in the garage
- Installation of a handicap accessible lift for access between the Bus Deck of the garage and the Concourse of Union Station
- Continued maintenance of the garage access ramps which were not included in the garage expansion project
- Working with Amtrak to install perimeter bollards at the station to improve security and mitigate any effects from a vehicle carrying explosives
- Columbus Plaza reconfiguration -- USRC, the National Park Services, and the District of Columbia's Department of Transportation are working together to reconfigure the layout of Columbus Plaza, in order to improve pedestrian and vehicle access

Future

- Replacement of all ten garage escalators – the escalators have been running 24 hours per day for the last 20 plus years
- Continued negotiations with Greyhound
- Working with Akridge on the development of Burnham Place
- Redefining USI redevelopment plans for submission to the Commission of Fine Arts

I am also compelled to let you know about threat posed by the District of Columbia's **Possessory Interest Tax (PIT)** to Washington Union Station's continued viability. I have attached my written testimony before the City Council's Committee on Finance and Revenue on this subject. USRC is working with the City Council to reduce the immediate and future negative financial impacts that the PIT is creating on the Station. This PIT, if not reduced or repealed, will reduce USRC's income by $1.5 million for tax year 2008 and will increase each successive year, eliminating the revenue that Congress intended to be used to maintain this National Landmark building

Thank you. I will be pleased to answer any questions you may have.

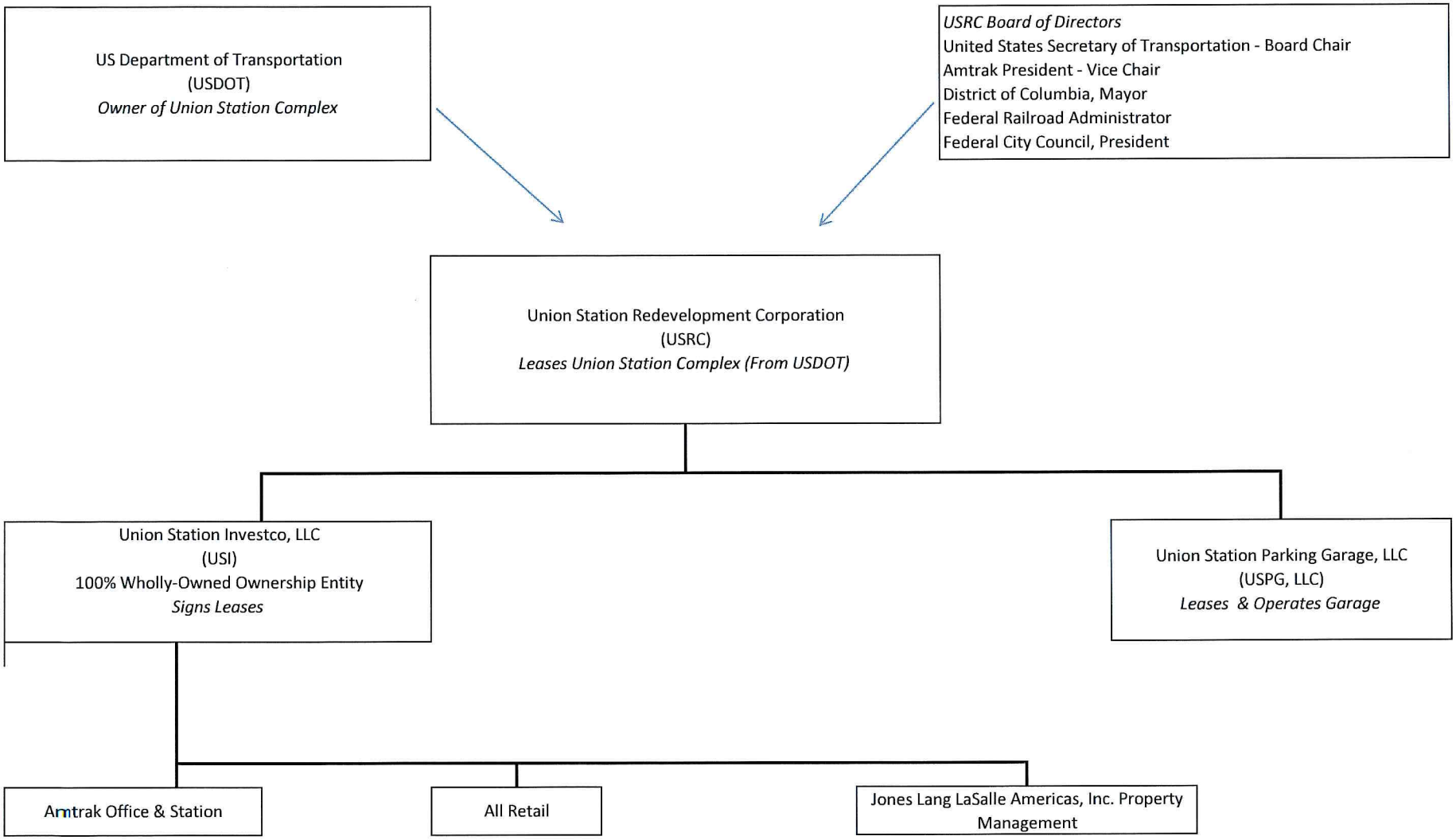
Attachment 1 – Organizational Chart of the Union Station Complex

Attachment 2-- D.S. Ball's Testimony before the Council of the District of Columbia Committee on Finance and Revenue, six pages plus an Attachment A of 3 pages

Attachment 1 -- Organizational Chart of the Union Station Complex

ORGANIZATIONAL CHART OF THE UNION STATION COMPLEX

17-Jul-08



Attachment 1

Attachment 2-- D.S. Ball's Testimony before the Council of the District of Columbia Committee on Finance and Revenue, six pages plus an Attachment A of 3 pages

Attachment 2

To: Council of the District of Columbia
Committee on Finance and Revenue
John A. Wilson Building,
1350 Pennsylvania Avenue, N.W. Washington, D.C. 20004

From: David S. Ball

RE: Bill 17-549, the "District of Columbia Possessory Tax Stabilization Act of 2007" and the Union Station Redevelopment Corporation's Request for Relief from Such Tax

Date: Friday, January 25, 2008

[The contents of this document, with the exception of minor additional comments and Attachment A, has previously been delivered to the City's Chief Financial Officer, Dr. Natwar Gandhi; the City Administrator, Dan Tangherlini; Deputy Mayor for Planning and Economic Development, Neil Albert; and Councilmembers Tommy Wells and Jack Evans]

Union Station Possessory Interest Tax

The possessory interest tax (PIT), as applied to Union Station, will "kill the goose that laid the golden eggs." Something must be done and we need your help. On behalf of the Union Station Redevelopment Corporation we thank you for the opportunity to present this testimony before the Committee on Finance and Revenue.

The Union Station Redevelopment Act of 1981 directed the Secretary of Transportation to redevelop Union Station as a train station and a commercial center and to rely upon private sector capital and entrepreneurism. The Union Station Redevelopment Corporation (USRC) a not-for-profit 501(c) 3 corporation was established by that act and carried out the redevelopment for the Secretary. Literally Congress, through the Act, directed USRC to enter into an agreement with a private developer to make the Station a self sustaining economic entity. USRC now serves as a trustee of this historic building and enforces the lease with the private sector while having the ultimate responsibility for the maintenance of major building systems and the preservation of the historic features of the building. Revenue USRC receives from the retail development is used for the capital maintenance of the building. Congress never intended for this National Landmark building to bear the brunt of a local tax that could undermine the very purpose of the Act. Furthermore the economics of the complex public-private real estate transaction was structured without this tax in view.

As the Sublease between Union Station Investco, LLC (USI), the Union Station leasehold owner, and USRC carries out the very exempt purposes of the legislation, it should be exempt from the PIT. The PIT was intended to capture tax revenue when portions of real property that are otherwise exempt from real property taxes are used for non-exempt purposes. That is not the use here.

Since the Station opened in 1988 USRC has returned 100% of its revenue from the retail development -- $35M -- plus an additional $12MM back into the Station for capital improvements and debt retirement. The additional monies are derived from the operation of the parking garage. It is estimated that a $10MM refurbishment of the physical plant will be required over the next several years.

The Sublease between USRC and USI provides that net profit from the Station is to be shared evenly between USRC and USI. Even with no PIT, USRC only receives about $2MM as its 50% profit participation from the Station. The proposed FY'08 PIT is almost $3MM. USRC will bear a minimum of 50% of the PIT, and USI has now claimed that a proper reading of the Sublease is that USRC bear the entire $3MM, resulting in a net loss to USRC of $1MM. If USI is correct in their reading then a tax obligation of $3MM will be the blow that kills the golden goose. USRC will not be able to fulfill its role of trustee of the building.

Union Station's Contributions to the District of Columbia

In order to continue to attract the large influx of tourists that has made Union Station one of the City's most visited and prized tourist attractions, USI is developing a marketing plan to bring 5 star restaurants to the Station and to re-tenant the existing movie theaters. This could necessitate an additional $15-17MM of private financing over the next 3 to 5 years. Without adequate funds, the Station may be forced to seek second tier tenants. Retail experts will advise that failure of urban shopping centers to continually redevelop themselves and to attract first tier tenants will lead to a center's demise. We only have to look down Pennsylvania Avenue to see prominent examples of this retail life cycle in the Old Post Office at the Pavilion and the Shops at National Place.

Or look down Seventh Street at the recently restore City Museum (Old Main Library) that had to close its newly restored doors to the public after little more than a year of operations because of poor attendance and its economic inability to cover basic operating cost let alone its physical plant upkeep. If one moves further south on Seventh Street the Gallery Place Project that came out of the ground as result of TIF's shows how major projects require some type of tax incentive to be successful. The City is benefitting from the restaurants and night life that Gallery Place and the Verizon Center have helped foster. However, Union Station received no such public funding but we are also an economic generator for the City.

Located between Union Station and Gallery Place is the National Building Museum which has great historic interior space but no economic appeal and as such does not draw the number of visitors that flock to Union Station. It is not an economic generator -- it has no retail and does not generate jobs -- but it is a beautiful building. Union Station is the economic model that makes urban non-TIF projects work. Union Station is more than a beautiful building because of what it means to the City. We seek tax relief so that we can continue to enhance development in Ward 2 that benefits the entire District.

Please note these contributions of Union Station to the District of Columbia:

- In 2004 Union Station generated approximately $9,545,918 in sales tax; in 2005 $9,990,712 in sales tax; and in 2006 $10,684,389 was generated in sales tax. We estimate that sales tax for 2007 to be $10,736,621. Union Station as a revenue generator for the District carries its share of tax burdens.

- Union Station accounts for over 5,000 permanent jobs.

- Union Station currently has 59 minority vendors, many in a Food Court successfully averaging sales of over $1000 per square foot. Again, generating substantial sales tax.

- Contractors engaged in construction at Union Station and the USRC parking garage have historically included over one-third (1/3) minority owned companies.

- USRC has committed to fund $1.6MM to the Columbus Circle reconfiguration project, which is not a part of Union Station.

The Possessory Interest Tax

The PIT, or the Union Station Tax, is far and away disproportionately falling on Union Station. Only approximately 180 possessory interests have been identified by the OTR.

Tax Year	Assessed Value	Union Station PIT	Entire City PIT	Percent of PIT paid by the Station to the PIT paid by all City Taxpayers
2004		$2,732		
2005		$480,543		
2006		$555,335		
2007	$41,828,790	$773,833	$4,288,363	18.045%
2008	$158,083,830	$2,924,551	$7,987,777	36.613%
Increase	$116,255,040	$2,150,718	$3,699,414	58.137

The PIT should not, by its own statutory terms, apply to Union Station. In any event, a portion of the PIT tax is an unlawful tax on the Amtrak lease. See 49 U.S.C. § 24301(k) (2006). Furthermore, the D.C. Code by its terms recognizes that the tax is not to be assessed where prohibited by legal constraints. See D.C. Code § 47-1005.01(c)(2).

The PIT has been disproportionately directed at Union Station. The PIT could destroy Union Station and as a matter of public policy we must not let that happen.

Other Economic Challenges Facing Union Station

The District has a longstanding and significant policy of encouraging retail growth in the City, including through the use of TIFs. After much difficulty in attracting retail users, Gallery Place was recently constructed within walking distance of Union Station using TIF financing. Its retail venues include a state-of-the-art movie theater, Urban Outfitters, Benetton, Washington Sports, Lucky Strikes bowling lanes, Clyde's Restaurant and several other eateries, enhancing a shopping, eating, and entertainment district anchored by Verizon Center and creating a critical retail mass along the Seventh Street corridor.

Since the opening of the theaters at Gallery Place, the cinema at the Station has experienced a substantial decrease in sales. Union Station management recently spent approximately $600,000 to refurbish the theater, but it continues to lose revenue and market share to theaters at Gallery Place and in Georgetown.

Union Station management anticipates that the theaters at Union Station will close in the near future due to loss of revenue, at which time this space will need to be reconfigured for an

alternate use, requiring significant capital from USRC. A preliminary study estimates that we will expend $1 million just to level the floor. Reconfiguration of utilities and mechanical systems are likely to cost in excess of an additional $1 million. Additional refurbishments will bring the total to close to $8 million just to prepare the space for retenanting.

USRC and USI have an escrow agreement that is exclusively for various capital costs and improvements to the Station. Over the last 14 years, USRC has contributed $6.5 million to this escrow fund and USI has contributed $5.5 million, for a total in excess of $12 million. In addition, USRC must cover any shortfall in the account, with estimated contributions in excess of several million dollars in the coming years.

Between 2007 and 2008 USRC/USI will spend over $1.0 million dollars replacing a major sewer line; a forty foot deep manhole; and a high pressure gas line that are located beneath the three traffic lanes between the front of Union Station and Columbus Plaza. Though these traffic lanes appear to be very much public space due to the perpetual use for taxi and Metro bus pickup and drop-off, along with the use by the general public this is a private roadway. The up keep of this publically conceived private road falls on the shoulders of USI and ultimately USRC. We understand our responsibility in maintaining this building and do not seek to shift this responsibility to the City. However, we do seek equitable treatment as it relates to how the Station is taxed compared to other major projects that have benefitted from various tax incentives.

As such the Union Station operation does not require extensive City services, and uses less such services than comparable large shopping malls. The Federally accredited Amtrak Police Department and private security handles the majority of emergency and non-emergency calls. Based on the facts that Union Station is a transportation hub, experiences high pedestrian traffic, is an historic landmark and its location near the Capitol, security costs are considerable (currently $1,200,000 per year paid by USRC exclusively) and have increased substantially in recent years. Note that USI pays separate costs for private security within the Station.

The bottom line is that Union Station has been very good for the District. In addition to enhancing the quality of life for District residents and generating the jobs and tax revenue identified above, it provides the District with (i) a premier tourist destination, retaining significant tourist dollars which easily could go to Virginia and Maryland, (ii) a unique and growing transportation hub, (iii) significant minority business opportunities, as well as (iv) contributions to the District's reconstruction of Columbus Circle and related capital improvements that are not a part of Union Station. A significant portion of Union Station revenues are poured back into the Station and the community. The PIT should not, by its statutory terms, apply to Union Station. In any event, a portion of the PIT tax is an unlawful tax on the Amtrak lease. If Union Station's PIT is not substantially eliminated, it will financially strangle the Station, possibly destroying and certainly diminishing one of the District's premier tourist venues.

The Bill before the Committee on Finance and Revenue seeks to freeze the PIT at the 2007 rate for the next three years. This is a good first step in providing the Station with immediate relief but even at this level, the cost to the Station is detrimental We really believe that the PIT program should be retired. We ask that the Committee give that serious thought. But we wanted you to be aware that the number one victim of this tax initiative is Union Station, which is the very "golden goose" that the District should want to protect above all other possessory interests in the City. This is the law of unintended consequences operating at its worst. Thank you for your consideration in reviewing our situation at Union Station.

Very truly yours,

David S. Ball

Attachment

Attachment A to D.S. Ball's Testimony before the Council of the District of Columbia Committee on Finance and Revenue, 3 pages

ATTACHMENT A

to January 25, 2008 Testimony of David Ball,
President of Union Station Redevelopment Corporation in favor of Proposed
"District of Columbia Possessory Tax Stabilization Act of 2007

The District of Columbia government has used a variety of economic development tools to provide special financial incentives to selected private developers and property owners in the District of Columbia committed to creating and maintaining retail opportunities in eligible areas. One of its most frequently used tools is Tax Increment Financing (or TIF) which, under the District's formulation, relies heavily on sales tax (100 percent available) and less so on property tax (only 25-40 percent available).

For example, the District has provided or will provide Tax Increment Financing in conjunction with the development of the **Southwest Waterfront** (up to $200 million in Tax Increment Financing (TIF) plus Payment-In-Lieu-of-Taxes (PILOT) financing), **Gallery Place** ($75 million in TIF), the **Mandarin Oriental Hotel** ($46 million in TIF), the **International Spy Museum** ($6.9 million in TIF), **Embassy Suites Hotel** ($10 million in TIF), **Capitol Hill Towers** ($10 million in TIF), **Rhode Island Place** ($4 million in TIF), **Washington Gateway** ($10 million in TIF), **DC USA** ($42 million in TIF), **Skyland** ($26 million in TIF), and the **Downtown Retail TIF**. In the aggregate, that's nearly $430 million in TIF funding.

To promote private sector development or revitalization in priority areas, the District has used other selective economic tools benefiting just certain property owners. Under special legislation that amended D.C. Code Section 42, the Council has selectively exempted or deferred from the District's recordation tax up to a maximum of $11 million worth of deeds that convey, grant, or assign title to or a security or economic interest in just two private sector developments: the Gallery Place and the Mandarin Oriental Hotel. The Council granted the former project a recordation tax waiver worth a maximum of $7 million while it granted the latter a deferment of recordation taxes not to exceed $4 million.

As another example, the Council enacted the Supermarket Exemption Act (Act 13-365) on June 26, 2000 which provides supermarket owners with exemptions from certain District taxes. Under this Act, the owner of a qualified supermarket in a priority development area is exempt not only from sales taxes on the purchase of building materials and equipment for construction or substantial rehabilitation of a qualified supermarket; but is also exempt from the payment of license fees and personal property taxes levied on the supermarket for 10 years.

While it is true that under any TIF-financed development future property and sales taxes that will be generated from the project are used to repay the TIF bonds, it is also true that

once earmarked for a TIF project, the subsequent TIF-restricted tax revenues do not go into the District's General Revenue Fund and are not then available to support other general purpose District projects - they are solely used to amortize the TIF bonds. Despite this special benefit accorded to only certain private developers, USRC nonetheless concurs with the underlying intention of Tax Increment Financing and such other special financial treatment – to promote the revitalization of high priority development areas by enabling the private developer to finance otherwise hard-to-finance improvements, infrastructure, or utilities that will serve the private development or to provide the District's match for federal economic development programs.

As senior staff from the Office of the Deputy Mayor for Planning and Economic Development have stated publicly, "used effectively, TIF will help stimulate development and increase job growth substantially District-wide, resulting in increased tax revenues." TIF projects have, in the aggregate, created more than 5,000 new construction and permanent jobs for the District and established new retail, new cultural and entertainment venues, and new tourist destinations. During his tenure as Special Assistant at the Office of the Deputy Mayor for Planning and Economic Development, Michael Jasso has said that one of the goals of the ODMPED "is to figure out the best use of [TIF] to create investment and revitalization."

USRC encourages the Council re-evaluate its use of another statutory tool, the Possessory Interest Tax. As presently applied, it is one that will ultimately prove to be harmful to Union Station Redevelopment Corporation, the Union Station area, and other District businesses and other urban areas in the District in need of revitalization or continuing financial investment solely from the private sector.

Nearly unrecognizable when compared to its former condition, the redeveloped Union Station facility of today is a urban neighborhood hub destination for retail, restaurant and entertainment-based activities. Due to nearly $50 million in capital investment in our facility and with more capital improvements under contemplation, Union Station is now a major destination for locals and tourists alike. Similar to other large-scale TIF projects, Union Station generates substantial revenue for the District from sales taxes. For example, in 2004 Union Station generated approximately $9,545,918 in sales tax; in 2005 $9,990,712 in sales tax; and in 2006 $10,684,389 in sales tax. Union Station as a revenue generator for the District therefore carries its share of tax burdens. In addition, Union Station accounts for over 5,000 permanent jobs (equal to the number of construction and permanent jobs created by all of the District's TIF projects combined to date), and has 59 minority vendors, many in a Food Court successfully averaging sales of over $1000 per square foot, and again, all of which generate substantial sales tax. In addition, contractors engaged in construction at Union Station and the USRC parking garage have historically included over one-third (1/3) minority-owned companies. Last, USRC has committed to fund $1.6 million to the Columbus Circle reconfiguration project, which is not a part of

Union Station. Like the District's other TIF projects, Union Station is a large-scale multi-retail project rather than a lot of different, smaller retail projects at separate sites that don't and can't qualify for economic revitalization tools.

Based on the foregoing data, it is hopefully clear to the Council that Union Station is deserving of economic treatment similar to, or at least no worse than, that accorded Gallery Place, the Mandarin Oriental Hotel, Skyland, and the District's other TIF and specially-supported projects. Such equitable treatment will enable our facility's revitalization to continue unimpeded and will provide sufficient incentive for the private sector to invest further funds in our vitally important capital improvements.

Even if one disregards the above comparisons to TIF and other specially-supported private investments in the District, USRC urges the Council nonetheless to study the effects of stabilizing, reducing, or even eliminating the unintended adverse consequences of its Possessory Interest Tax upon Union Station's retail areas and future private sector funding of further capital improvements. Such an evaluation would clearly be in keeping with the Council's goal of promoting or continuing the investment in or revitalization of certain urban areas.

If the Council undertakes that study, USRC believes that the Council will discover that such stabilization or reduction will, at a very minimal cost to the District's tax revenues, result in even greater tangible and intangible benefits accruing to the District by stimulating the retail development at the District's premier intermodal transportation hub and by permitting USRC and its subtenant to maintain and actively promote its retail areas, as is the intention of the federal legislation that created USRC. Each successful retailer at, and the continued overall resurgence and economic revitalization of, Union Station can only enhance the tax base of the District and its appeal as a dynamic, economically vibrant city.

USRC therefore believes that, as an existing stand-alone urban project or when compared to other TIF and other specially -supported revitalization efforts in the District, Union Station deserves the Council's re-consideration of this Possessory Interest Tax that has had, and will have, a material adverse affect upon Union Station. More specifically, the Council is urged today to study how to refine (or possibly eliminate) a tax structure that unintentionally undermines the Council's general goal of sustained or increased investment in and the continuing revitalization of preferred urban improvements as well as contravening the intent of similar federal legislation designed specifically for Union Station.

End of Attachment A